

STRATEGIC ALLIANCES IN THE CONSTRUCTION SECTOR FROM ROMANIA

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ABSTRACT

Strategic alliances in the construction sector in Romania have taken so far following forms: strategic alliances between foreign companies on the Romanian market; strategic alliances between Romanian and foreign companies, strategic alliances between Romanian companies, strategic alliances between public authorities and foreign or Romanian companies. Formation and performance of strategic alliances in the construction sector in Romania is influenced by the following factors: extent to which the alliance partners adhere to common goals, project execution experience in partnerships, joint project teams quality, trust between partners, risk allocation, equity, how to settle disputes.

The most important effects of strategic alliance formation for the construction sector in Romania are: reduction of project costs, increased participation of Romanian companies to contract award procedures for execution of works, the superior competitive position of strategic alliances formed by foreign construction companies in relation to strategic alliances formed by the Romanian companies and the chance to internationalize activities for Romanian companies.

KEYWORDS : *alliance ,construction, sector, strategic.*

JEL CLASSIFICATION : *L19, L74*

1. INTRODUCTION

A strategic alliance involves partnership between two companies to meet customer requirements and needs in order to achieve the greatest possible competitive advantage. Strategic alliance may have different goals and objectives: maintaining market share, market share, profit margins increase for certain categories of products, works and services, increased sales volumes for certain products. Strategic alliance can be considered „a cooperative arrangement between two or more organisations that forms part of their overall strategy, and contributes to achieving their major goals and objectives” (Kwok and Hamson, 1997) or „voluntary arrangement between firms involving exchange, sharing or co-development of products, technologies or services” (Ngowi, 2007)

Making a strategic alliance always has a defined time horizon that aims at achieving common objectives, which no association between the parties would be difficult to achieve. Globalization, lifting customs barriers, increased competition have tended companies to form strategic alliances. This has become evident in recent decades in the automotive industry. In the construction sector strategic alliances are the result of the desire of firms to have more chances in procedures for awarding public works. On one hand, reducing demand for construction projects in developing countries due to market saturation or due to implementation of most general interest investment objectives led to increased interest of great construction companies from these countries to investment projects undertaken by emerging countries or even the third world countries. It is not surprising that many investment projects of poor countries have as the main contractor major construction companies. Advantages for execution of projects by large companies from developed

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countries are obvious beneficiaries point of view: similar relevant experience, technical know-how and management related, financial capacity to assume the contractual terms, the possibility of cofinancing of construction works. Most often these companies prefer to associate with local performers who know the market better and have the advantage of low labor costs.

For companies from low development countries interest formation of strategic alliances is the need to internationalize their activities, if possible competitive advantage posed by low wages they offer their workers against wage costs of major contractors. This strategy of competitive advantage related to labor costs was used by construction companies in Turkey or China in their efforts to contract work across national borders. These strategies, however, are facing the globalization of the labor market which leaves large construction contractors can recruit labor directly without recourse to subcontractors. On the other hand, firms in developing countries feel the need to seek strategic alliances either between themselves or with large international contractors in order to survive in local markets that operate.

Meeting of the major construction companies need to be present in emerging markets and entrepreneurs need of developing countries to maintain active local markets and the internationalization of activities is the land for forming strategic alliances in construction.

2. PARTICULARITIES OF STRATEGIC ALLIANCES IN CONSTRUCTION SECTOR FROM ROMANIA

In Romania formation of strategic alliances in construction came after 2000 once the resumption of investment in new objectives or upgrade existing ones. The investment process led to internal sources state budget and local budgets, as a result of higher revenues and hence investment spending, and that external pre-accession funds and, after 2007, the Structural Funds. Once Romania joins the European Union began to be present on the local market a number of large construction companies in Member States began to collaborate with existing local companies for the construction of certain objectives. This was the starting point for strategic alliances formation in construction sector from Romania.

In our view, strategic alliances in the construction sector in Romania have taken so far following forms: strategic alliances between foreign companies on the Romanian market; strategic alliances between Romanian and foreign companies, strategic alliances between Romanian companies, strategic alliances between public authorities and foreign or Romanian companies..

a. Strategic alliances between foreign firms to undertake specific construction objectives. Most often these strategic alliances in the local market is reflecting global alliances between companies participating. They had as main objective to obtain the award of public procurement contracts for large investment objectives or joint execution of investment projects (for partnerships between developers and construction companies). In the first case the alliance is the result of the partnership agreement for participation in the procedure for awarding a public works contract. Such strategic alliances are presented in Table 1.

Such strategic alliances are aimed at investment project will be done will be renewed if the interests of the parties involved will require future. Typically this is happening as evidenced by the presence of Italian consortium Scavi Tirrena SpA - Societa Italiana per Condotti d'Acqua SpA - Cossi Construzioni SpA in several major investment projects in Romania (see table 1).

Table 1. Strategic alliances between foreign firms to undertake specific construction objectives

No.	Investment project	Consortium of contractors	Project value(euro)
1.	A2 highway Cernavoda - Medgidia (52 km)	Astaldi - Max Boegl Romania	375.000.000,00
2.	A 3 highway Bucuresti - Moara Vlasiei	Pizzarotti – Tirrena Scavi	200.000.000,00
3.	Design and execution Timisoara-Lugoj highway km 54 +000 - km 79 625	Tirrena Scavi SpA – Societa Italiana per Condotte d’Acqua SpA – Cossi Costruzioni SpA	99.031.401,88
4.	Design and execution highway Lugoj-Deva km 0 + 000 – km 27 + 400	Tirrena Scavi SpA – Societa Italiana per Condotte d’Acqua SpA – Cossi Costruzioni SpA	151.342.425,00

b. Strategic alliances between foreign firms and Romanian companies for execution of investment projects – who are most often the result of wanting Romanian companies have partnered with foreign construction companies that can meet the requirements to qualify for the award of public works contracts, especially for large investment objectives. Conditions are concerned especially regarding experience in carrying out similar works, technical equipment and economic criteria (total income, turnover, etc.) that can not be met by the Romanian construction companies. Such strategic alliances are presented in Table 2.

Table 2.Strategic alliances between foreign firms and Romanian companies to undertake specific investment objectives

No.	Investment project	Consortium of contractors	Project value(euro)
1.	Design and execution Nadlac – Arad highway and link road km 0+000 – 22+218	Romstrade – Monteadriano Engenharia e Construcao – Donep Construct	85.102.107,54
2.	Design and execution Timisoara-Lugoj highway km 44+500 - km 54+000	Spedition UMB SRL – Tehnostrade SRL – Carena SpA Impresa di Costruzioni	46.748.769,50
3.	Design and execution Orastie-Sibiu highway km 65+965 – km 82+070	Astaldi SpA – Euroconstruct Trading '98 SRL – Astalrom SA	107.742.117,75

Interest is generated by Romanian companies access to certain technologies that could lead to foreign companies shorten project execution or cost reductions for certain categories of works. Foreign companies are interested in partnering with the Romanian for several reasons:

- advantage of lower labor costs;
- better knowledge of the local market of building materials (which gives better accuracy of cost estimates);
- connections they have with local and central authorities which reduces time of litigation solving;
- specialization of Romanian companies in certain types of works.

Strategic alliances which are founded on Romanian firms specialization in certain types of work is a way to access the global construction market, on the model of the companies from Turkey or China.

c. *Strategic alliances between Romanian companies to execute various items of construction or construction of certain works* – which are generated by partners need to compensate for their own problems:

- need to meet the qualifications for participation in procedures for the award of public works;
- one of the partners wish to use specialization or experience of others in carrying out certain types of work;
- willingness of beneficiaries to form a consortium of two partners.

Examples of strategic alliances are presented in the following table.

Table 3. Strategic alliances between Romanian companies to execute construction projects

No.	Investment project	Consortium of contractors	Project value(euro)
1.	Design and execution Orastie-Sibiu highway km 24+110 – km 43+855	Straco Grup SRL - Studio Corona SRL Civil Engineering	83.951.157,56
2.	Design and execution of modernization and rehabilitation of county roads in Cluj County for the period 2011 - 2015	SAMUS CONSTRUCTII SA- SC CONSTRUCT PEROM - SC VIAPROCONS SRL	32.240.026,00
3.	Technical project preparation phases of design and execution, technical support and execution for modernization investment objective of Bucharest ring road between 7 and DN A1-A2 2, Region DN2 (km 12 +300) - A2 (km 23 750)	SC Tehnologica Radion SRL - SC Consitrans SRL - SC PRO Cons XXI SRL	41.997.352,67

As can be seen from the above table the value of projects executed strategic alliances formed by Romanian companies is much smaller than those made by consortia of foreign companies.

d. *Strategic alliances between public authorities and foreign and Romanian construction companies* - which are generated by the need for public authorities to jointly implement certain projects based on public-private partnerships, especially due to lack of funds for major investments. Such a strategic alliance may be spread over 15-20 years and last stage operating as a target for investment made in public - private partnership.

It should be noted that in Romania, forming strategic alliances in the construction sector does not respect the stages mentioned in the literature. Ilknur Akiner and Ibrahim Yitmen(2012) believes that there are four major stages: planning, training, implementation and completion of strategic alliance. In Romania strategic alliance planning is reduced to searching and finding the most potritvit partner to achieve a particular construction project execution. Rarely strategic alliances are created as a result of a planning process aimed at targets in excess of the time horizon of one construction project. Most frequently such alliances are agreements between subsidiaries of foreign companies from the same country (see association Scavi Tirrena SpA - Societa Italiana per Condotti d'Acqua SpA - Cossi Costruzioni SpA some infrastructure projects) . Since the Romanian construction companies do not have a strategic planning process with long-term goals they can not achieve strategic alliances such terms, but only temporarily, with short-term objectives.

Lack of long term vision are the main cause of the temporary nature of strategic alliances between Romanian companies in the construction sector. They have not reached that level of maturity enabling harmonization of interests to achieve common goals.

3. FACTORS INFLUENCING THE FORMATION OF STRATEGIC ALLIANCES IN CONSTRUCTION

In literature there have been several attempts over the years to define what are the main factors that determine the formation and sustainability in building strategic alliances. Thus, Elliot (1998) believes that the main determinants of performance are competitive alliances confidence between the parties, flexibility, adaptability, and the spirit of cooperation and Abrahams and Cullen (1998) showed that the most important factors influencing the performance of competitive alliances are alliance structure, facilitating knowledge sharing and use of best people for the project.

Green and Lenard (1999) considered that the most relevant elements in the success of strategic alliances are purpose, common goals of partners, trust between the parties and the dispute resolution process. Cheng and Li (2002) have looked at the performance of competitive alliances through the following elements: adequate resources, partnerships and communication experience.

In our opinion formation and performance of strategic alliances in the construction sector in Romania is influenced by the following factors: the extent to which the alliance partners adhere to common goals, project execution experience in partnerships, joint project teams quality, trust between partners, allocation of risks, equity, ways of resolving disputes.

- a. *The extent to which the alliance partners adhere to common goals* has an impact on how they will perceive their involvement in achieving these goals and in resolving any disputes they are involved. How the alliance partners adhere to common goals depends on their bargaining power when agreements were formalized the alliance. If their involvement in negotiating alliance partners as equals they will show a greater commitment to the common goals of its assumption. If bargaining power is disproportionate alliance partners are likely partners fail to enforce desires to formulate common objectives to be less involved in achieving the common goals of the alliance and show less commitment from partners. If the common objectives of the alliance are a reflection of the main strategic objectives of the partners and the alliance is the result of natural needs and expectations of those involved their commitment to the alliance will be stronger. Common objectives in this case will prevail on possible disputes and litigation between the partners in the alliance. This is the recommended approach "win - win" in formulating objectives Alliance. An alliance in which both partners are more likely to gain has a long-term sustainability compared to an alliance in which one partner has a dominant position.
- b. *Partnerships for project execution experience* - primarily effect on confidence that the strategic alliance partnerships and on adherence to common goals. If the partners have previously participated in successful strategic alliances are likely to show high availability for the conclusion of new agreements and strategic alliances. If the partners have previously had setbacks in the development of strategic alliances is likely to show a high availability not to conclude new ones, even if there is more confidence in new partners. It is therefore very important that common objectives are not only related to the execution of a single project. On the other hand, a cooperation agreement for the implementation of one project may be a good starting point for a strategic alliance. Construction projects require a great effort to coordinate their implementation participants and the general contractor has authority based on contractual foundations. Experience involves operational partnerships ways of communication and reporting project progress can then be used by companies involved in strategic alliances.
- c. *Joint project teams quality* - affect project objectives involving strategic alliance and thus common objectives undertaken by partners. Particularly important is how the teams are selected joint projects and concessions that are willing to make them partners in this regard. For the selection of project team members have used common criteria such as competence previously demonstrated in achieving large projects, experience in similar projects, roles that are able to play within the team members. Should not matter organization from which the members of the project team are. A solution often practiced today is the selection of project

team members outside organizations involved in its implementation. This has the advantage that they will be attached to the project first and then the organizations from which. Therefore, „within the activity of managing the human resources function within the organization, all aspects and the corresponding behaviours of this one, must be periodically audited and assessed” (Manolescu Aurel and Marin Irinel, 2009).

- d. *Trust between partners* – is one of the fundamental elements to achieve common goals and success strategic alliance between construction companies. Trust is subject to the prior experience of cooperation and joint agreements for projects, information on their future partners about each other as well as previous experience running projects in partnership. Trust between partners is built on progress in joint projects and involves relationships based on transparency and constant communication.
- e. *Risk allocation* – is one way to respond to risks facing any project. Risk allocation is the process by which the responsibility to control each risk identified one or more parties to the project. Risk allocation is the process by which the responsibility to control each risk identified one or more parties to the project. This can include risk monitoring and preventing its materialization and compensation risk premium for the risks identified and assumed by each party. Generally accepted rule in allocating risk is that risk is allocated, the party can support and better control. Allocation of risks already identified, assessed and analyzed project does not lead to a complete lack of risk. First, the severity may increase risks already allocated over the expected level and counterparty which have been assigned can not manage effectively if it would actually materialize. Secondly there are certainly risks that were not identified or properly assessed the initiation of the project and therefore were not assigned to any of the parties to achieve it. In the second case risks should be reallocated.
Construction project risk allocation should aim for the lowest possible total cost over its lifetime. But it is difficult to determine the overall cost to the decisions of "ex-ante" in terms of risk allocation. In practice, the rational behavior of any organization involved in building a project requires accepting risk if they receive compensation for or an additional award. Given a choice between implementing two projects, which can get equal pay, an entrepreneur will choose the execution of which they consider less risky
- f. *Equity* - involves sharing the benefits of strategic alliance participants according to their share common goals, whether they are contained in a formal document or not. Disadvantage one of the partners in a strategic alliance has the effect of its withdrawal from the alliance or even decreasing commitment to common goals. The principle of equity must be taken into account at the time of initiation of strategic alliance.
- g. *How to settle disputes* – are ways in which misunderstandings between partners can be addressed and overcome. Construction projects due to their unique nature generates many problems that arise in various stages of completion. If the strategic alliance arrangements are conflict resolution in joint project teams these moments can be overcome without creating major difficulties in project execution.

The way they are managed depends on the above factors in building successful strategic alliances and pursue projects they are involved.

4. EFFECTS OF STRATEGIC ALLIANCES IN THE CONSTRUCTION SECTOR IN ROMANIA

For the construction sector in Romania formation of strategic alliances between companies in the field had a number of important effects:

- a. *Reducing the cost of execution for several investment projects*, especially through the use of new technologies and equipment have reduced consumption of materials and labor for various categories of works. These were added to the advantage of low labor costs Romanian companies. An example is the execution of contracts undertaken by consortia of

contractors by winning auctions compared to the estimated value of procurement. Examples of such situations are presented in the following table.

Table4. Reducing the cost of execution against the estimated value of procurement for construction projects carried out by consortia of contractors

No.	Project	Consortium of contractors	Project cost reduction at the estimated value of the contract to purchase (%)
1.	Design and execution Timisoara-Lugoj highway km 54 +000 - km 79+ 625	Tirrena Scavi SpA – Societa Italiana per Condotte d’Acqua SpA – Cossi Costruzioni SpA,	27,17%
2.	Design and execution Lugoj-Deva highway km 0 + 000 – km 27 + 400	Tirrena Scavi SpA – Societa Italiana per Condotte d’Acqua SpA – Cossi Costruzioni SpA	39,13%
3.	Design and execution Nadlac – Arad highway and link road km 0+000 – 22+218	Romstrade – Monteadriano Engenharia e Construcao – Donep Construct	21,35%
4.	Design and execution Timisoara-Lugoj highway km 44+500 - km 54+000	Spedition UMB SRL – Tehnostrade SRL – Carena SpA Impresa di Costruzioni	21,08%
5.	Design and execution Orastie-Sibiu highway km 65+965 – km 82+070	Astaldi SpA – Euroconstruct Trading '98 SRL – Astalrom SA	25,74%
	Design and execution Orastie-Sibiu highway km 24+110 – km 43+855	Straco Grup SRL - Studio Corona SRL Civil Engineering	46,64%

As shown in the table above project cost reductions to the estimated value of procurement are significant: between 21.08% and 46.64%.

- b. *Amplification presence of Romanian companies to contract award procedures for public works* by increasing capacity to meet the technical and financial criteria.
- c. *Competitive position consortia of foreign contractors have in front of the Romanian partners*, especially with the ability to self-financed works by receiving advances. This situation leads, in most cases, the impossibility consortia with Romanian partners to participate in tenders for public works and subcontractors to assume the role of consortia consisting of foreign companies.
- d. *Strategic alliances between foreign firms and Romanian companies is an opportunity for the latter to internationalize* and enter other markets than the Romanian profile.

5. CONCLUSIONS

Strategic alliances in the construction sector in Romania is the typical model of the internationally recognized correlation appearing in foreign companies need to find partners for the implementation of local projects with Romanian companies need to receive technical and financial capacity of foreign firms. The success of strategic alliances in construction is influenced by factors such as the extent to which the alliance partners adhere to common goals, project execution experience in partnerships, joint project teams quality, trust between partners, risk allocation, equity, how to solve disputes.

The most important effects of strategic alliance formation for the construction sector in Romania are : reduction of project costs, increased participation of Romanian companies to contract award procedures for execution of works, the superior competitive position of strategic alliances formed by foreign construction companies in relation to strategic alliances formed by the Romanian companies and the chance to internationalize activities for Romanian companies.

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