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Mediating Effects of Organizational Capabilities on the Relationship between Institutionalization and Customer Value: A Field Research in Construction Sector

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Abstract:

In contemporary world we observe a just globalization of economic, scientific, commercial, and political affairs. With rapid growth of communication technologies the distances become shorter, accessibility increases and satisfaction of the needs eases. Within recent years, developments in construction sector requires the local construction firms to mature themselves and implement faster differentiation to keep up with the competition. Thus, the companies have to keep up with the changes of information age and go through structural changes. For instance, the way jobs are done and the duration of processes have changed. Organizational structures are becoming adapted to team dynamics. In the meantime, customer expectations of service quality are increasing. Management literature indicates there is a link between institutionalization and organizational capabilities. Therefore, in this dissertation the effect of institutionalization factors on customer value is investigated through organizational capabilities. This study was conducted in the city of Istanbul.

In the last part of the dissertation, companies producing public housing and real assets are evaluated by their institutionalization, organizational capability and the effects of aforementioned factors on customer value is shown. The data collected in this respect is analyzed using Factor analysis, Reliability analysis, Independent Sample t-test, Multiple Variance analysis, Sobel and Regression tests.

As a result, it is revealed that there is a relationship between institutionalization and organizational capabilities, as well as the relationship between institutionalization and customer value. Besides, organizational capabilities act as a mediator between institutionalization and customer value. In this respect, institutionalization increases organizational capabilities and those capabilities contribute positively to customer value. Suggestions for the actors of construction and real asset sectors are discussed.

Keywords: *institutionalization, institutionalization process, organizational capabilities, customer value, construction sector, building sector, public housing, real assets*

1. Definition and Importance of Institutionalization

There are differences between the considerations and objectives emphasized in the definitions of institutionalization (Kocel, 2005). Institutionalization can be defined in various forms. For example, James L. Price defined institutionalization as "the extent to which decisions are accepted in the environment and a process that allows organizations to gain value and balance in the industry" (Saglam, 1979).

Institutionalization is the process of transition from being an unorganized organization to a structure that is integrated in a regular, decisive and socially institutional environment to achieve organizational stability, legitimacy, predictability, resource provision and compliance. Institutionalization is the automatic implementation of this structuring and related behavioral patterns in different circumstances and environments by reaching all employees and managers at the same level of perception (Kimberly, 1979; Selznick, 1990; DiMaggio & Powell, 1991; Meyer & Rowan, 1991; Zucker, 1991; Scott, 1987; Holm, 1995; Park & Krishnan, 2003; Lawrence et al., 2001; Oliver, 1991).

Institutionalization is the emergence of regular, decentralized and socially integrated structures from low-level technical activities that could not be organized thoroughly (Selznick, 1990; Oliver, 1991).

2. Concept of Organizational Capabilities

Organizational capabilities can be defined as the ability of a business to differentiate itself and to create and develop advantageous internal processes and structures. Capabilities must also be able to adapt both internal and external changes. However, capabilities that are uniformly dispersed or that do not create value for the customer do not create a strategic superiority over competitors (Lopez et al., 2006).

Organizational capabilities are also known as institutional capabilities. Institutional capabilities are key processes that allow combination of capabilities, systems, assets and values in order to create superior performance that will provide an advantage over competitors and deliver valuable functionalities to customers. For this reason, capabilities are integrated performance routines that combine resources (skills and knowledge, assets and processes, concrete and abstract) to provide superior competitive positions (Campbell & Luchs, 2002).

3. Customer Value Concept

Customer value is the ratio between total benefit and total cost as perceived by customers. Customer value is a consequence of evaluating the benefits and costs associated with the product and service, rather than considering factors such as benefit, quality and price alone (Zeithaml, 1988).

Success is versatile for businesses. Only the customer satisfaction or the customer loyalty do not create a unique, specific value. Customer satisfaction and loyalty are only byproducts of offering a compelling value proposition. Success in the markets is driven by businesses that are firmly tied to the concept of value creation (Treacy & Wiersama, 2001).

Rust, Lemon and Zeithaml (1988) argue that customer value is formed by three key determinants. These are the sum of the customer's perception of value, the brand value of the business, and the customer retention value.

The formation of customer value perceptions depends on three key determinants, which are quality, price and suitability. Quality consists of a physical product as well as service and service-related features (if available) to support the product. The degree of quality is also important since a quality that satisfies the customer and does not reach a higher level will meet the expectations of the customer about the product and solve the problems where necessary. In the case of high quality, the customer's expectations will be exceeded and this will allow the customer to perceive the product different from the competition. The price has always been seen as a significant cost incurred to customers. Businesses should determine the price correctly since they claim to offer value to customers and the price is an important determinant in value appreciation. For this purpose, companies implement certain pricing policies such as low-price and discounted sales according to the characteristics of the market and taking into account the competition.

4. Research Objective and Method

Institutionalization occurs in every sector as well as in the real estate sector. Since the world has become a single market, without commercial borders drifting away gradually, now every business are able to operate anywhere in the world. In this framework, international real estate enterprises and investors started to operate in Turkey and they entered the Turkish real estate market with the joint venture system. On the other hand, foreign financial institutions have started to enter the real estate market, starting gradually through mortgage, and acquired some local banks in Turkey. Especially in the south, real estates are sold to foreigners.

Successful businesses should not only be focused on sales, but also on customer satisfaction after offering service (Kotler & Armstrong, 1993). In addition, changing customer demands must be examined and satisfied. For this purpose, businesses should direct all of their resources to understand different needs of various customers, and allocate these resources to the processes and technologies to offer products or services that meet various needs of the customers (Cavusgil, 1985).

Today, some basic functions of marketing in the construction and real estate sector have been ignored. However, it is essential in the market to create demand and to support this demand with acquisition activities. It should also be considered that it would not be too plausible for consumers to have claims about a product or service they do not know. Real estate properties of such businesses may be very good, but it is impossible for customers to be informed about these properties unless the companies promote those properties. In that case, market orientation requires communication with customers.

The main objective of the research is to examine the institutionalization levels of the construction companies operating in the real estate sector and to determine whether the organizational capabilities possessed by these enterprises affect the customer value.

The sub-objectives of the study within this main objective are as follows:

- Determination of the effect of the relationship elements of the construction enterprises in the course of institutionalization on the customer value,
- Determination of the effect of the relationship elements of the construction enterprises in the course of institutionalization on the customer value through the organizational capabilities.

In this section, whether the relationship elements of the institutionalized construction firms affect customer value by means of organizational skills is investigated. The study is differentiated from other studies since it addresses definition, research and analysis dimensions in the construction and real estate industry, especially in terms of organizational capabilities. In addition, in the literature on institutionalization, it is mainly addressed in technology enterprises, information communication technology intensive enterprises and manufacturing industry enterprises. In this study, construction companies were preferred as a manufacturing type of business. From this point of view, it is emphasized that especially the elements of institutionalization are present and should be present in construction and real estate enterprises.

Within the scope of the research, firstly, senior managers of construction and real estate companies were asked to respond to the questionnaire. This is because senior managers have assumed responsibility for institutionalization and are able to carry out tasks such as coordinating activities, classifying information from previous experiences and creating strategies effectively. In the second part of the research, owners of real estates produced by the construction and real estate companies were asked to respond to the questionnaire. This is because they are the customers and it is important to measure the value perceived by the customers, in order to reach agreement with the customer value as perceived by the company managers and shareholders.

5. Research Model and Hypothesis

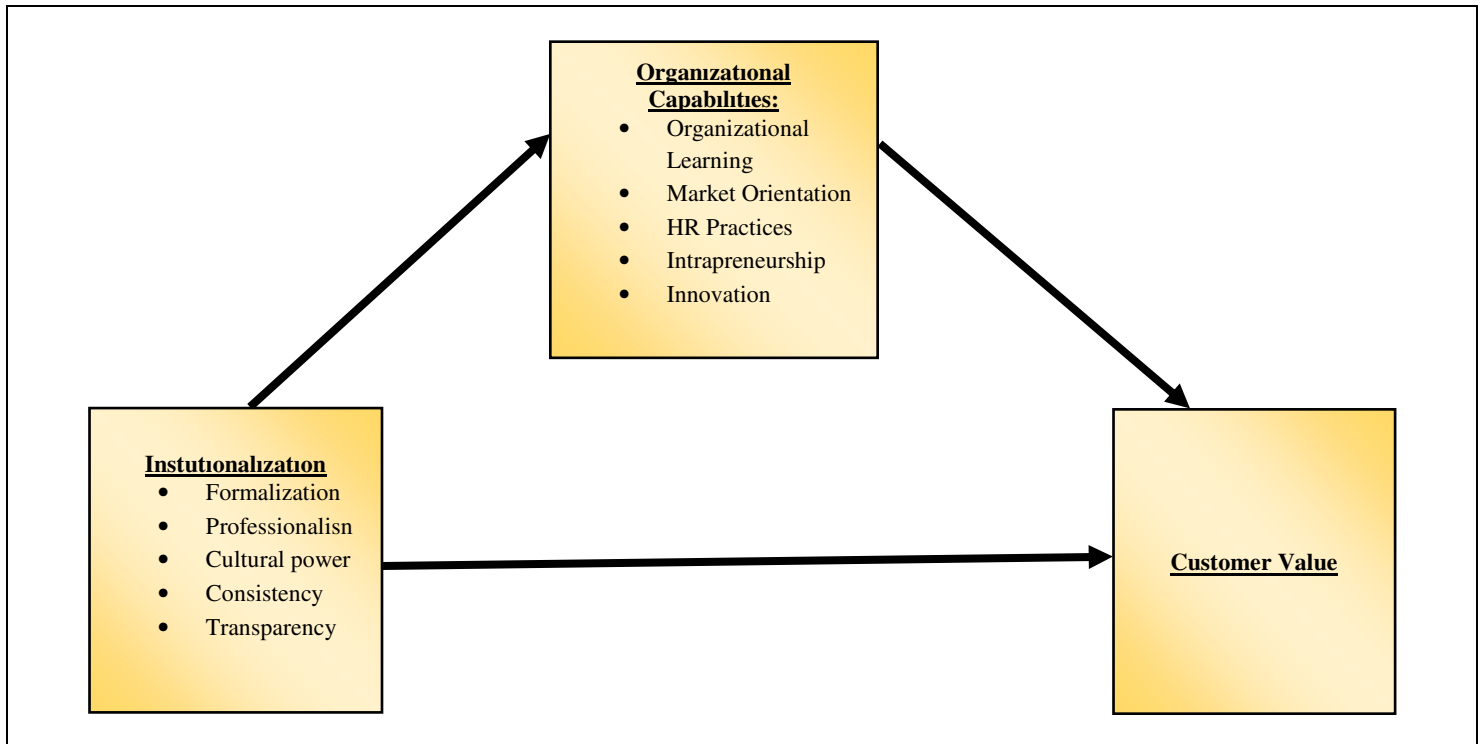


Figure 1: Research Model

There are three groups of variables in the study. The relationships among these variables are shown above to demonstrate the effective direction of the correlation between the variables. The research model was structured as above in order to determine the effect of institutionalization elements on the customer value. However, organizational capabilities are modeled as intermediate variables in this research model to determine the effect of institutionalization elements on customer value.

The research hypothesis states that there is a relationship between the organization capabilities of construction and real estate enterprises and customer value. Accordingly, the main hypothesis of the research is as follows:

H1: *There is a significant and positive correlation between institutionalization elements of the construction and real estate companies, organizational capabilities and customer value.*

In order to test the research hypothesis, the study population consisted of the managers of the construction and real estate companies operating in the province of Istanbul and constructing real estate within the scope of the Housing Development Administration (TOKI) and Real Estate Housing Projects, and the customers who purchased real estate from these companies. The sampling method of the study is the convenience sampling method, which is preferred especially in cases where the number of population units cannot be determined. A total of 92 managers from 12 major construction companies in the province of Istanbul were reached within the framework of the study population. In the study, in order to measure the effect on customers, a total of 366 people living in 26 different collective housing sites in Istanbul province were reached.

6. Results

The data obtained from the construction and real estate companies included in the study were analyzed with the SPSS 20.0 statistical package program. The obtained data were subjected to various analyses in accordance with the objectives of the study and the hypothesis stated above. In the remaining part of the study, the inter-correlations of these factors and their effects were tested in accordance with the established hypothesis. Therefore, in this thesis study, techniques such as correlation analysis and regression analysis were used.

According to the results obtained from the scale prepared to determine the elements about the effects of the level of institutionalization, in terms of perceived organizational capabilities in the construction sector, on the customer value perceived in the construction industry, various questions were asked in the form of 5-point Likert type questionnaire to the managers of the construction and real estate companies and the customers who bought real estate from these companies; and the elements of this relationship were examined by means of factor analysis.

It is also aimed to determine the power and direction of the relationship in the analysis of correlation between the variables determined within the scope of the research. Thus, it is seen that there are significant correlations between demographic variables forming the verbal data of the research and dependent and independent variables.

On the other hand, there are significant and positive correlations between independent variables, intermediate variables and dependent variables. In this case, it is possible to say that there is a significant and positive relationship between the institutional elements

constituting the independent variables of the research and organizational capabilities ($p < 0.05$). It can be said that these correlations are significant in general. On the other hand, it can be said that there is a significant and positive relationship between all these factors and customer values ($p < 0.05$). Finally, it is seen that the relationship between organizational capabilities intermediate variable and customer value is significant ($p < 0.05$) with higher explanatory power.

	Organizational Learning	Market Orientation	Inrapreneurship	HR Prcatices	Innovation	<i>Instituonalization</i>	<i>Customer Value</i>
Organizational Learning	1						
Market Orientation	,854**	1					
Inrapreneurship	,846**	,885**	1				
HR Practices	,861**	,842**	,895**	1			
Innovation	,887**	,954**	,954**	,931**	1		
<i>Instituonalization</i>	,873**	,891**	,852**	,887**	,926**	1	
<i>Customer Value</i>	,698**	,750**	,702**	,707**	,722**	,714**	1

Table 1: Pearson Correlation Coefficients between Research Variables

It is seen that there is a significant relationship between dependent variables and independent variables in each of the regression analysis performed in the next step to test the hypothesis of the research (p values < 0.01 and < 0.05). Considering the r values (Pearson correlation coefficients) in the table, it is concluded that the significant correlations are positive, good and excellent grade. In other words, there are significant relationships between variables indicating that regression analysis can be performed.

Due to the higher level of correlation coefficients, the autocorrelation between the variables was investigated. In this regard, Durbin-Watson number was found to be between 1.2 and 1.8. According to this result, it can be said that there is no autocorrelation among variables. Considering another assumption that equal variance in prediction errors, there was no correlation between absolute errors and independent variables in this study.

In order to test the hypothesis of the research, the scales belonging to the three main variables that constitute the model were first factorized. Thus, the institutionalization elements scale and its independent variable, organizational capabilities scale and its intermediate variable, and customer value scale and its dependent variable were obtained. The research hypothesis was then tested progressively with the help of regression analysis.

It can be said that the innovation dimension of the organizational capabilities is important in the interaction between the institutionalization and customer values; and that the evaluations about the effects of the institutionalization elements of the enterprises on the customer value are determined by the innovation dimension of the organizational capabilities.

As a result, it was demonstrated within the scope of the study that there is an interaction between the elements of institutionalization and organizational capabilities as well as between the elements of institutionalization and customer value. Moreover, the hypothesis that suggests there is a significant and positive correlation between institutionalization elements, organizational capabilities and customer value was accepted.

Thus, it can be suggested that there is an interaction between the elements of institutionalization and customer value as well as between the elements of institutionalization and organizational capabilities and that there is a significant and positive correlation between these three variables.

Consequently, the hypothesis "There is a significant and positive correlation between institutionalization elements of the construction and real estate companies, organizational capabilities and customer value" was accepted.

7. Conclusion and Recommendations

This study was carried out to investigate the means of institutionalization for companies, the organizational capabilities and effects of these on customer value. In summary, this study seeks answers to the following questions:

- How businesses become institutionalized?
- What are the factors that constitute the institutionalization?
- What are the organizational capabilities of businesses?
- What is the relationship between institutionalization and organizational capabilities?
- How does institutionalization affect customer value?
- How does organizational capabilities affect customer value?

In the study, a significant and positive correlation was found between institutionalization elements of the construction and real estate companies, organizational capabilities and customer value. Analysis shows that institutionalization and organizational capabilities are related. In addition, it was determined that these two variables have significant correlations with customer value. Both institutionalization and organizational capabilities seem to explain the change in customer value significantly. While enterprises

increase their organizational capabilities by institutionalization, their high-level organizational capabilities also facilitate their institutionalization. In Turkey, even the large companies with higher number of employees have not yet been institutionalized.

This study is the first research conducted about the effect of the elements of institutionalization in the construction and real estate sector on the customer value through the organizational capabilities. In the literature these issues have been addressed separately, but in this study the subject matter is discussed as a whole. In addition, determining the intermediary effect of the interactions between research variables is also seen as a distinct characteristic of the study.

The study has some methodological limitations regarding the sector and the subject. First of all, due to the economic and time limitations, the survey responses were collected from the participants working in 12 construction companies operating in Housing Development Administration (TOKI) and Real Estate Housing projects in Istanbul and the real estate owners in 26 different collective housing sites produced by these companies. It has not been tested whether those respondents gave wrong answers. Another limitation of the study is that it was conducted on businesses that are under one roof, which should have certain standards in their specific sector. In addition, the perceptions of those who respond to the questions may be different due to their different duties in each business. Although the concepts studied are specific to the sector, cultural differences may have caused the results to vary. Another limitation is that results of the research cannot be generalized due to the low number of samples. It is believed that the results represent only a certain region since the research was carried out on projects developed in Istanbul. For this reason, effects of some features, such as city culture, on the variables cannot be observed. From this perspective, the study may produce different results in different sectors or in companies operating in different regions of the same sector.

8. References

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