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## **INTERNATIONAL MARKETS: MALAYSIAN CONSTRUCTION CONTRACTORS AND THE STAGE THEORY**

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### **INTRODUCTION**

The construction industry plays a major and vital role in transforming the aspirations and the needs of people into reality by physically implementing various development projects. The construction industry in Malaysia consists of over 40,000 companies, employs 800,000 people and is served by around 140 supporting industries (CIDB, 2000). The industry has experienced a rise and fall over the last twenty years. While the growth in construction was 17.3% in 1995 it contracted by 23% during the Asian financial crisis of 1997–98 (MBAM, 2001), resulting in loss of employment, bankruptcies and idle resources. The priming of the economy undertaken by the Malaysian government since 1998, though increasing investment in construction, has not been able to bring back the period of high growth.

Most contractor firms tend to concentrate on the home market and only when the home market contracts is there any pressure to diversify into other markets. Unfortunately by this time the firm is lacking in resources and it takes a few months to a few years to develop a sound business plan for working overseas. This project-centric nature of business has driven both resources and attention towards projects at hand to the detriment of systematic, focused business development activities (Katsanis and Katsanis, 2001). By operating offshore, companies are able to offset seasonal and/or cyclical fluctuations in their domestic market demand and are able to diversify their market portfolio, products or services as well as improving their competitive position (El-Higzi, 2001). The need is to provide an alternative approach, from knee-jerk reactions to proactive strategies, by contracting firms in Malaysia.

The objective of this research is twofold; firstly, locating the factors that motivate Malaysian construction contractors to undertake work overseas, and secondly, tracing the position of Malaysian construction firms

to Cavusgil's (1980) export stages so as to match assistance to the progress they have achieved. Internationalisation of Malaysian contractors has been chosen as a subject because of the need to provide opportunities for Malaysian contractors to stabilise their operations. This study is a follow up to a previous study by Rashid (1994a).

### **DEFINITION OF INTERNATIONALISATION**

As this paper is concerned with internationalisation of construction contractors it is necessary to define internationalisation. It is the process of leveraging domestic competencies into foreign markets and transferring competitive advantages based on such factors as superior technology and products. In a very simple sense, then internationalisation stems from the domestic operation (Hendry 1996). All activities the firm undertakes, from the initial moment that the firm considers seeking work overseas to the moment that the firm exports its services abroad, are included in this process. Internationalisation in this paper refers to the process of construction firms leaving their home markets in search of opportunities abroad.

### **LITERATURE REVIEW**

Increasingly the place to do business is in the global marketplace. Recent trends have ushered in an era of unprecedented export opportunities. Increasing competition at home from both local and global companies, falling barriers to international trade and improved international communication and information networks have pressed many companies to compete in the international markets (Wolff and Pett, 2000).

Since the 1960s many developing countries have begun the transition from import substitution to more outward-looking development strategies. This has involved export support programs aimed at diversification of the composition of exports away from traditional products towards increased involvement in non-traditional exports (Haar and Orbiz-

Buonafina, 1995). In the case of Malaysia this consisted of shifting attention to manufacturing exports in 1970s and 1980s and recently to the export of services.

Factors that push firms into exporting can be divided into two categories: one internal to the organisation and the second coming from the environment in which the firm is operating (Ghauri, 2000). The first category factors include the ambitions and goals of the individuals and the organisation as regards to resources, capabilities and strategies. The second category relates to environments at home and in the foreign market such as tax regulations, legal requirements, financial considerations, and the type of industry, investigation costs and potential profit possibilities.

Dunning (1993: 249) developed a paradigm for exporting services, which explained the globalisation of firms and markets. According to Dunning the reasons why firms wish to engage in foreign-based activities are:

- to acquire inputs for further processing activities
- to supply foreign markets with goods and services more beneficial than by alternative means; sequential investment

- to acquire assets or some kind of competitive advantage rather than to exploit the use of an existing competitive advantage.

In the construction services sector contractors undertaking work overseas have been studied by Quak (1989), Crosthwaite (1998), Neo (1975) and Kaynak and Dalgic (1992). A comparison of the various studies and the factors that pushed firms towards internationalisation are shown in Table 1

What is clear from these studies is that, although the reasons may be different for different countries and for different periods over time, there were three basic reasons: to expand businesses, to diversify risks and to gainfully employ available resources.

Internationalisation is a complex, multidimensional construct, which comprises elements of different strategies. (Kutscher and Baurle, 1997). Among the determinants that push a firm towards internationalisation is size. Larger size is a source of differential advantage enhancing performance in export marketing. Many studies have confirmed that size is a factor in exporting, including those by Calof (1933 and 1994), Samiee and Walters (1990), Katsikeas and Leonidou (1996), Dalli (1995) and Moini (1995).

**Table 1: Factors that push a firm towards internationalisation**

Study	Neo (1975)	Quak (1989)	Kaynak and Dalgic (1992)	Crosthwaite (1998)
Period of study	Early 1970s	Late 1980s	1990	1990–1996
Country of study	UK	Singapore	Turkey	UK
No. of firms	22	24	Not reported	10
Main factors in Internationalisation	Expansion of firm Top management vision Protect shareholder interests Efficient utilisation of available resources	Business expansion Spreading of risks Generating economies of scale Competitive advantage resulting from specialist expertise or technology	Market contraction at home Utilisation of resources Entrepreneurship Booming market in the Middle East	Long term profitability Maintain shareholder return Diversify risk

Sources: in the table

The size of the firm is important in that it determines the ability of the firm to tap into a large resource pool to assemble the services required by clients (Sillars and Kangari 1997). Cavusgil (1984) identified firm size as a concomitant variable (associated with export activity) rather than a causative factor. In the construction industry size, apart from superior technology, is a prime factor as only firms of specific capability and appropriate resources will be able to compete in the international arena.

In the internationalisation process managers play an important role, apart from that played by market forces, as it is managers who decide whether to internationalise or not, the path to be followed and the means to be used. A domestic market where many

firms operate internationally will speed up learning about internationalisation prospects and strategies for all firms operating in that market (Hendry 1996). If the market in which the firm operates is competitive then there is an increased pressure on the firm to internationalise (Naidu and Rao, 1993). Companies in export-intensive industries (measured by the percentage of domestic competitors engaged in exporting) are more likely to have progressed in the internationalisation process.

In studying the business environment seven factors that motivate and act as determinants of internationalisation have been considered. Table 2 is a compilation of the factors and the studies from which they were derived.

**Table 2: Factors that motivate firms to internationalise**

Factor	Studies from which they were derived
Growth in the long term	Burpitt and Rondinelli (1998) Burpitt and Rondinelli (2000)
Stabilisation of markets	Kaynak and Dalgic (1992) Naidu and Prasad (1994) Bennett, Flanagan and Norman (1987)
Top management vision	Reuber and Fischer (1997) Cavusgil (1984) Dichtl et al. (1984) Holzmuller and Kasper (1990)
Specialist expertise and technology	Ghuri (2000) Strassmann (1988) Namiki (1988) Beamish, Craig and McLellan (1993) Burton and Schlegelmilch (1987)
Size	Calof (1993) Calof (1994) Seymour (1987) Samiee and Walters (1990) Katsikeas et al. (1996) Dalli (1995)
Globalisation (competition)	Bartlett and Ghoshal (2000) Naidu and Prasad (1994) Raftery et al. (1998) Ofori and Betts (1992) UNCTD (1999)
Government support	Quak (1991) Gray (1997) UNCTD (2000) Naidu and Rao (1993)

## Stage theory

Once they have decided on exporting firms have many paths open to them as to how to approach the intended market. The known approaches of internationalisation are the stage model, the contingency model, the interaction model and the social construction model (Sorenson, 1997). Among these the most developed stream is the stage theory of internationalisation. The stage theory of internationalisation is accomplished in a sequential process. Most of the literature on internationalisation supports the stage theory of internationalisation (Kasikeas and Leonidou, 1996). The majority of firms approach international business involvement in an experimental manner committing resources for newer management tasks incrementally (Cavusgil, 1984).

Among the pioneers of the stage theory, Johanson and Vahlne (1977) reasoned that the complexity of internationalisation makes it a series of incremental decisions rather than one big leap of faith. The firm's expansion radiates from the home market in a systematic fashion; the operations of the firm are extended first to those markets that best fit the cognitive and resource character of the company, and ultimately those of the poorest fit. Culture plays an important role in this and firms are inclined to initially 'test the waters' of countries sharing the same culture, language or regulating laws (Fisher

and Ranasinghe, 2001). As the international experience of the firm develops, so will the size and the complexity of these operations (Millington and Bayliss, 1990). Cavusgil (1984) attributes the sequential character of the internationalisation process to the greater perceived risks associated with international business.

Each stage of internationalisation involves an increased commitment to international activities, with movement between stages driven by changes in management attitude towards export risks, costs and benefits (Calof, 1994). One can infer that incremental success builds confidence, leading to more extensive export activity, and hence to greater internationalisation. Gankema et al. (2000) in their model gave a time frame of two years for the transition from one stage of the export process to the next. Reuber and Fischer (1997) believe that firms with internationally experienced management team can internationalise much faster than other firms.

According to Cavusgil's (1980) model, export involvement is operationalised by export/sales ratio, which is thought to reflect the extent of a firm's dependence on foreign markets. In this study we will be considering the stage model of Cavusgil (1980) (Table 3) as our model for the evaluation of the progress of Malaysian contractors.

**Table 3: Stages in exporting**

Stage	Description
Stage 1: Domestic marketing	The firm is only interested in the domestic market and does not export at all. The export/sales ratio is 0
Stage 2: Pre-export	The firm searches for information and evaluates the feasibility of exporting activities. The export/sales ratio is at or near 0
Stage 3: Experimental involvement	The firm starts exporting on a small basis. Physical and cultural distances are limited. The involvement of an experimental exporter is usually marginal and intermittent. The export/sales ratio varies from 0–9%
Stage 4: Active involvement	There is systematic effort to increase sales through export to multiple countries. A suitable organisational structure is in place to support these activities. The export/sales ratio is 10–39%
Stage 5: Committed involvement	The firm depends heavily on foreign markets. Managers are continuously faced with choices for allocation of limited resource to either domestic or foreign markets. The export/sales ratio is 40% or more

Source: Cavusgil (1980)

As shown in Figure 1 there have been four stages which the firms in the construction industry have gone through in their quest for markets overseas.

Before going any further it is important to understand what constitutes international construction and who the international contractors are. The international market in which the contractors operate is different from the home market in that the level of risk is higher, the project sizes are larger and the level of demand corresponds to the project specifics (Seymour, 1987). International trade in construction services involves participation in a relatively limited number of large projects, the nature of which (e.g. energy, transportation, infrastructure, urban construction) fluctuates overtime (UNCTD 2000). Strassman and Wells (1988) nominate three distinct types of structures that are built by construction firms across the world — small and simple, large but conventional, and technologically complex and novel. Retail stores, highways and petrochemical plants illustrate these three types. International entry for construction services begins with those types of activities with which the

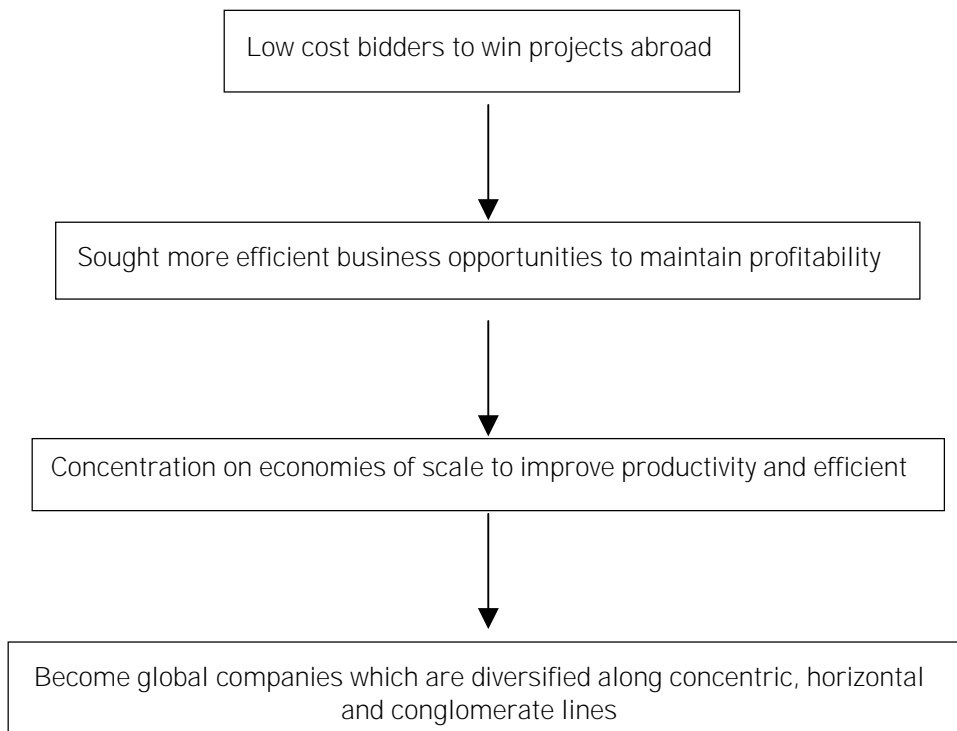
firm is familiar and in which it has the most complete set of resources.

**RESEARCH METHODOLOGY**

In selecting the contractors for this survey only Malaysian contractors were considered. Contractors were selected from two sources. The Construction Business Development Division of the CIDB provided its publication entitled "Going global — A strategic partnership of global builders" — this booklet contains a list of Malaysian contractors and consultants interested in undertaking work overseas. Consultants and those contractors whose primary business interests were not in construction were excluded from the sample.

The second source considered was the contractor organisations listed in the main and second board of the Kuala Lumpur Stock Exchange (KLSE). This was done because only contractors of a certain size have the necessary number of employees, access to finance, and good equipment and technical expertise available in-house (Seymour, 1987; Quak, 1991, along with the studies concerning the size factor cited in Table 3).

**Figure 1: The various stages that Turkish contractors passed in their progress towards international contractors**



Source Kaynak and Dalgic (1992)

The questionnaire was divided into two parts: one on the motives and experiences of the contractors, and the second on ways to encourage potential contractors to export. The data collection was done using a self-administered mail questionnaire in the first phase as this afforded geographical flexibility and large sample size (Tan, 1995). The second phase dealt with interviewing representatives of construction contractors. A three page questionnaire was prepared and sent to the 68 selected contractors early in June 2001. An added benefit of sharing the research findings of this study was communicated to the contractors. Following the suggestion of Roth and BeVier (1998) a pre-paid envelope was sent with the questionnaire in order to increase the number of responses.

Fifteen completed questionnaires were returned. Only six respondents had export experience while nine were non-exporters. Though the response rate was only 22% it was encouraging considering that historically contractors are reluctant to share information for various reasons including the possibility of compromising business secrets, or lack of time or resources. Katsanis and Katsanis (2001) had difficulty in obtaining access to industry players due to intense competition between players and fear of revealing key indicators. Ofori and Chan (2001) and Dulaimi and Tan (2001) in their study of

Singaporean contractors also had low response rates. Generally a response rate of 20%–40% is considered normal in mail surveys (Tan, 1995).

## RESEARCH FINDINGS

A majority of Malaysian contractors undertook overseas work related to civil engineering projects. Civil engineering is one of the types of work that suits foreign contractors are suitable, as the scope of the work is generally large (Seymour, 1987; Strassman and Wells, 1988) and may need some sort of financing by the foreign contractor (Table 4). A contributing reason is the expertise of Malaysian contractors in civil engineering works due to their experiences with the same type of work undertaken previously in Malaysia.

South East Asia ranked first among the regions where contractors undertook work (Table 5). This is not unexpected as contractors are mostly comfortable doing work in neighbouring countries. In Quak's (1991) study of Singaporean contractors 80% of contractors gave South East Asia and North Asia as their primary areas of work. This is supported by the stage theory of incremental internationalisation of firms. The second most active region in terms of number of contractors undertaking work was South Asia, followed by Africa and Europe.

Table 4: Type work undertaken overseas

Type of work undertaken overseas	Number of positive responses		Rank
	Mainly	Occasionally	
Civil engineering	1	3	1
Building	2	0	2
Specialist (M&E, steel erection)	1	0	3
Petrochemical and processing plants	1	0	3

The most common mechanism for securing work overseas is that of joint ventures and alliances. Alliance formation is one way to provide construction services by combining the strengths of firms that provide complementary services (Sillars and Kangari, 1997). This high percentage indicates that the contractors prefer to have local expertise when undertaking work overseas. To initiate, organise and execute work abroad, a construction firm will often associate itself with other firms from both the home country and

foreign countries in order to win contracts in the international arena.

The profile of Malaysian contractors who export their services is reflected in their status in the execution of the contracts. Half the contractors nominated 'responsibility as main contractor' as their main work overseas (Table 7). This suggests that Malaysian contractors are of reasonable size and are capable of bidding for work independently.

**Table 5: Parts of the world where contractors undertake work**

Parts of the world that Malaysian contractors undertake work	Rank	Number of positive responses
East and South East Asia	1	5
South Asia	2	2
Africa and Europe	2	2
Middle East	3	1
Australia and Oceania	-	-
North and South America	-	-

**Table 6: Mechanism of securing contracts overseas**

Mechanism of securing overseas work	Number of positive responses		Rank
	Mainly	Occasionally	
Joint ventures/alliances	2	2	1
International tenders	1	2	2
World Bank/ADB	2	0	3

### Factors for internationalisation

The next part of the study was aimed at identifying the factors that motivated the exporting contractors towards internationalisation. Table 2 lists seven factors for internationalisation that were developed from previous studies.

The collated results of the motivation factors for internationalisation are given in Table 8. The highest mean of the seven factors was for the long-term profitability of the contractors; this has also been given as the highest mean by the previous studies by Rashid (1994b), Crosthwaite (1998) and Seymour (1987). The long-term profitability of the firm is connected with the survival of the firm. This can be attributed to the strategic plans that the firm has mapped over a period of time and in which internationalisation of the

firm is just one of the areas that the firm is exploring.

The second most important factor is a tie between three factors: stabilisation of markets, natural progress due to size, and globalisation (competition). Construction differs from other industries by virtue of its divergent private and public demand patterns. Private sector construction tends to be highly cyclical in nature (UNCTC, 1990) while public sector construction tends to be much more stable. Firms based in countries with limited domestic markets understandably are more drawn into international markets than are firms that have large home markets or firms in booming economies (UNCTC 1990).

**Table 7: Contractor's role overseas**

Work execution capacity	Rank	Number of contractors
Main contractor	1	3
Specialist sub-contractor	2	2
Turn-key contractor	2	2
Project management	3	1
Sub-contractor	-	-

**Table 8: Motivating factors for internationalisation**

Internationalisation factors	Rank	Number of responses				Mean
		Very important	Important	Moderately important	Not important	
Long-term profitability	1	3	3	-	-	3.5
Stabilisation of markets	2	2	3	1	-	3.17
Natural progress due to size	2	2	3	1	-	3.17
Globalisation	2	2	3	1	-	3.17
Top management vision	3	1	4	1	-	3
Specialist expertise technology	3	1	4	1	-	3
Government incentives*	4	2	-	3	-	2.8

\* Only five contractors replied to this question

Very important = 4, Important = 3, Moderately important = 2, Not important = 1



Natural progress due to size is concerned with the firm's strategy in utilising its resources efficiently. When firms grow over a period of time they come to a cross-road where the firm has to decide on the possible paths to sustain their growth. Among the options available is that of to internationalising the firm — this has the added benefit of using the resources (human, capital, equipment and expertise) available to the firm efficiently.

Globalisation (with a mean of 3.17) in its present form will be a determinant in shaping the strategies of the contractors. Contractors will find it increasingly difficult to remain in their home markets and hope to benefit from home country growth. The creation of the WTO and GATS (General Agreement on Trade and Services) has made it imperative that contractors be aware of the opportunities and threats that they will face over a period of time. An important point noted by Ghoshal and Bartlett (2000) is that "in today's global markets, you don't have to go abroad to experience international competition. Sooner or later the world comes to you". In the long-term the differences between home and overseas markets will be blurred and it will be advantageous to take the initiative now, for tomorrow might be too late.

The joint third position holders were top management vision and special expertise. The views of the top management in shaping firms' programs has been noted as a factor in the motivation towards internationalisation in previous studies by Dichtl et al. (1984), Holzmuller and Kasper (1990), Reuber and Fischer (1997) and Cavusgil (1984). Management that is interested in gaining a foothold for the firm in the international market is interested in expanding its areas of operation.

Provision of specialist expertise and technology motivates the firm in competing for the niche area of expertise within the construction services for which it has the resources (personnel and equipment). This experience of Malaysian contractors in working with foreign contractors exposed them to new technologies and work methods

during the period of high economic growth of 1990–1997.

Governmental incentive to export was given as having the least impact as motivation for exporting by contractors, however, government incentives to export can make or break the export of services. Both South Korea and Japan have been known to aggressively promote their construction industry.

Provision of technological services at competitive prices was the main factor in contractors winning contracts in the international market (Table 9). By pursuing differentiation through technological superiority of products and services, firms can compete in the international market (Namiki, 1988). This is due to the fact that Malaysian contractors are capable of providing services comparable to those of developed world contractors but at prices that are a fraction of what developed world contractors charge. The next most important factors that contractors attribute to their winning contracts overseas are size of the firm and reputation of the firm. Size of firm, and a consequent ability to tap into a large resource pool, has been identified previously by Sillars and Kangari (1997) as a factor in the firms doing work overseas.

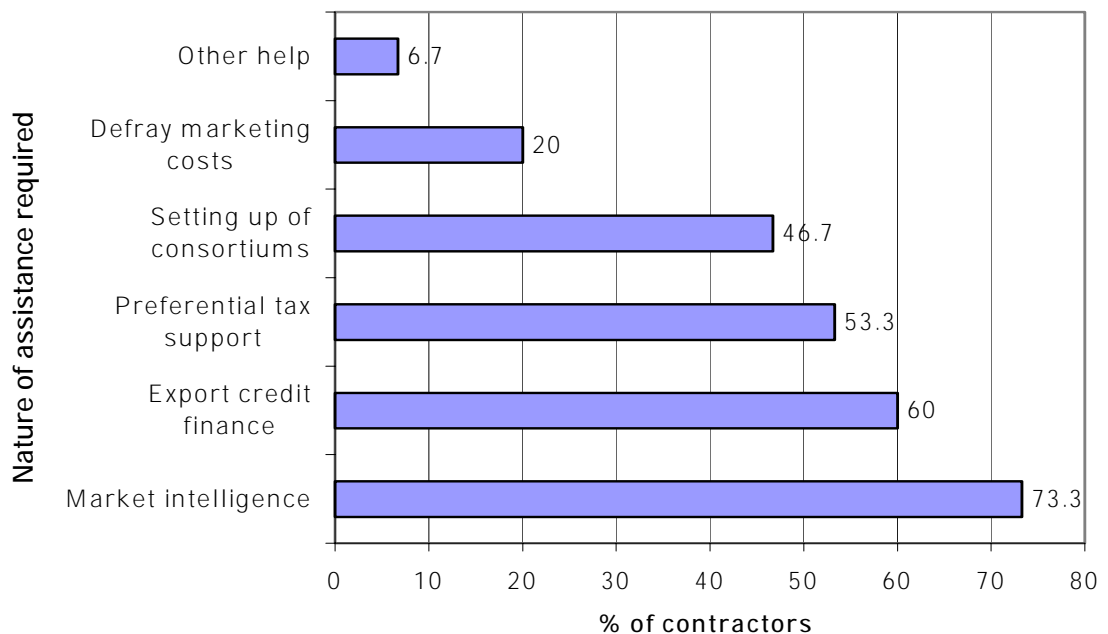
### **Assistance in exporting (results of exporters and non-exporters)**

In this section data from non-exporters has been included, making the number of respondents in this case 15. The contractor organisations' need of assistance from the government/governmental organisations was queried. Respondents cited provision of market intelligence as the most important assistance that the government can provide to both exporters and potential exporters (Figure 2). Market intelligence provision can help the contractor organisations find opportunities that are available internationally. Provision of market intelligence has also been cited by Quak (1991) as an assistance that the government can provide to encourage exporting. This information will help guide the firm towards making informed decisions about the opportunities available overseas.

Table 9: Factors that enable contractors winning contracts overseas

Important factors enabling contractors winning contract's overseas	Rank	Number of positive responses
Technology at competitive rates	1	4
Size of firm	2	3
Reputation of firm	2	3
Project management expertise	3	2
Specialist expertise	3	2
Strong equipment support	3	2
International experience	4	1
Others	4	1

Figure 2: Assistance needed to enable contractors to export



## DISCUSSION

Increasing the number of contractors that can export services will involve disseminating information that is focused towards the contractor organisations and then following it up by organising visits to potential markets that have been identified based on the stage theory of firms. Initially this will involve identifying neighbouring countries with which the home market shares culture and language

as that will reduce the natural inhibitions associated with exporting. As shown in Table 8, emphasising the long-term possibilities of overseas market can help attract the firms towards internationalisation. Different firms will have different needs, so it is necessary to know the stage a firm has reached in internationalisation; as Moini (1998) noted, matching assistance to the stage of exporting that firms have reached has a positive

impact on making firms respond to such assistance. While large contractors will need market intelligence, smaller contractors need to be introduced to the opportunities overseas through seminars and forums dedicated to this subject.

Pooling of resources can help in reducing the initial risks involved while introducing markets to the contractors. This may be in the form of alliances among the contractors themselves or of consortia set up by the CIDB. Also the contractors, as they climb up the ladder of internationalisation, can then tender independently once they have learnt the ropes of the international construction market.

## CONCLUSION

Entering new markets is one of the strategies that can help contractors diversify their operations abroad and so overcome reduced demand at home. Contractors are motivated by the need to maintain long-term profitability of the firm. Other factors that were held to be important are the need to stabilise markets, accommodating the increasing size of the enterprise, and globalisation (i.e. increased integration of markets). Most firms had a proactive approach to seeking markets for their services. A majority of firms passed through stages in exporting of their services by initially exporting to neighbouring countries and then, as the firm goes up the "the learning curve", to other countries.

Potential exporters were concerned mainly with creating necessary conditions for them to seek opportunities abroad. Among the conditions that will help them in this regard are having knowledge of projects as they are announced overseas, the market complexities, and access to funds in the form of export credit finance that can offset the initial amount spent in overcoming the "learning curve". Local Malaysian contractors can gain an advantage by having a larger number of them bid for projects by forming alliances among themselves. Increased participation by local firms also demands that foreign firms take a local partner so as to achieve some synergy in their operations.

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