

# Locational Factors and Foreign Market-entry Considerations for Malaysian Contractors

A.-R. Abdul-Aziz and S.S. Wong (School of Housing, Building and Planning, Universiti Sains Malaysia, Penang, Malaysia)

## ABSTRACT

Past studies on contractor internationalisation adopt a uni-model approach. Taking up the call of a few scholars, a study is conducted, this time by integrating several extant models of firm internationalisation. Malaysian international contractors are used to test this approach. Due to space limitation, this paper is focused only on locational factors. It begins by justifying the inclusion of locational factors in a multi-model approach. Then it posits that locational disadvantage is a more intellectually appealing concept than locational advantages. Empirically, it shows that the surveyed contractors evaluate a wide range of factors before making the go/no go decision to enter foreign markets. It also shows that psychic distance was not their major concern. Finally, the locational disadvantages create a market space for international contractors with the tenacity to overcome them, which the sampled population possessed.

Keywords: contractor internationalisation, locational disadvantages, multi-model approach, Malaysia.

## INTRODUCTION

There have been various studies that have looked at the internationalisation of contractors from various countries – Britain (Seymour, 1987), South Korea (Chang, 1987; Crosthwaite, 1998; Awil and Abdul-Aziz, 2002) and Singapore (Cuervo and Low, 2003). All have relied on any one of several extant models of firm internationalisation – Eclectic Paradigm, Diamond Model, Stage Growth – for their studies. The uni-model approach conspires against the portrayal of the internationalisation of construction firms as a complex phenomenon since each of these models (and a few more not applied in the construction context), notwithstanding their respective strengths, is limited in its explanatory powers (Abdul-Aziz et al., 2008). Responding to the call by Coviello and McAuley (1999) and Ricart et al. (2004), an integrative or multi-model approach was adopted to further improve our understanding of the subject matter. Malaysian contractors that have gone overseas were used to test the powers of this approach. Due to space limitations, only the locational aspects of contractor internationalisation can be discussed here.

This paper's contribution does not just lie at the conceptual level. International construction contracting is dynamic. In 1998, 20.9% of the contractors listed in the Engineering News Record Top 225 international contractors were from developing countries (ENR, 1999). Ten years later, the percentage almost doubled to 37.8% (ENR, 2008). Construction from developing countries has therefore made tremendous strides in the international arena. The presentation of the part-findings of the study shows how contractors from one developing country evaluate foreign markets prior to entry.

The paper begins by reviewing the literature. By examining the various extant firm internationalisation models, the inclusion of

locational factors in the proposed multi-model approach is justified. It is suggested that these factors should be conceptualised as locational disadvantages rather than locational advantages. Following on from that, the research method, findings and discussions are presented.

## LITERATURE REVIEW

Of the extant multinational models, only the Stage Growth Theory, Eclectic Paradigm, and more recent Liability of Foreignness (LOF) concept give attention to host market considerations. The Diamond Model (Porter, 1990) and Network Theory (Johanson and Mattson, 1988) apparently do not. This section begins by dwelling on the Stage Growth Theory, followed by the Eclectic Paradigm, Diamond Model and Network Theory. LOF is subsequently considered in further detail when introducing the concept of locational disadvantage.

The Stage Growth Model predicts that companies enter new markets with successively greater psychic distance (Johanson and Vahlne, 1990; Johanson and Wiedersheim-Paul, 1975). Psychic distance refers to language, education, business practice, cultural and even spatial difference between the home and host countries (Johanson and Vahlne, 1977). Psychic distance can be artificially enhanced by visa requirement (Leamer, 1974; Dunning, 1988) and reduced with business interaction between home and host countries (Ferchiou, 1987). The model explains the internationalisation of a firm as an incremental, step-by-step process, from psychically close to more distant locations. A few studies on international contractors have produced varying results on the significance of psychic distance. While Cuervo and Low (2003) and Oz (2001) find that it has a positive impact on Singaporean and Turkish international contractors respectively, Crosthwaite (1998) finds it is only moderately important for British contractors.

For companies to invest abroad, the Eclectic Paradigm states that it must have three advantages: ownership, location and internalisation (Dunning, 1977; 1980; 1981; 1988; 1995; 1998; 2000; 2001). Locational advantages refer to the degree of attractiveness of certain locations over others for the firm to invest in. As hinted above, the Eclectic Paradigm also resorts to the concept of psychic distance to explain country-market choice. Seymour (1987), and more recently Cuervo and Low (2003) and Low and Jiang (2006), adopt the locational advantages concept to generate empirical results pertaining to British and Singaporean contractors respectively.

As mentioned earlier, the Diamond Model (Porter, 1990) and Network Theory (Johanson and Mattson, 1988) make no explicit reference to locational factors. The debate whether locational factors should be included when analysing firm internationalisation has been most intense between Dunning (1993; 1998; 2000) and Porter (1994; 1996; 1998). In one of his publications, Dunning (1998: 60) asserts:

.... in line with the thinking of Michael Porter (1994; 1996), I believe more attention needs to be given to the importance of location per se as a variable affecting the global competitiveness of firms.

While conceding that "economic geography must move from the periphery to the mainstream" (Porter, 1994: 38), Porter later goes on to assert (Porter, 1998: 77):

*In theory, more open global markets and faster transportation and communication should diminish the role of location in competition. After all, anything that can be efficiently sourced from a distance through global markets and corporate networks is available to any company and therefore is essentially nullified as a source of competitive advantage.*

Porter's (1998: 78) contention is that his Diamond model acknowledges the importance of clusters which implicitly caters for locational issues:

*Clusters are not unique, however; they are highly typical – and therein lies a paradox: the enduring competitive advantages in a global economy lie increasingly in local things – knowledge, relationships, motivation – that distant rivals cannot match.*

What can be surmised from Porter's argument is that, even without making changes to the Diamond Model, locational issues are already embedded implicitly.

Even with Network Theory (Johanson and Mattson, 1988), some scholars have begun using the term distance, thus acknowledging the importance of the spatial dimension. Chen (2003) for example notes that Taiwan's electronics firms internationalise by first going to close network distance before moving to more distant areas. Network distance is measured by the difficulty of providing network support from the home base taking into account physical distance, shipping convenience, official barriers to the mobility of goods and services, and the compatibility of the network structures between the home base and the host country. Foster and Karin (1998) have likewise used the network distance concept in their work.

Given the coverage of locational factors by various extant models, explicitly or implicitly, an integrated model approach therefore must not ignore their influence on firm internationalisation. Having established so, we posit that it is intellectually more appealing to use the term 'locational disadvantages' than 'locational advantages' to describe factors that influence a firm's decision to enter foreign markets for the simple reason that there are far greater numbers of features associated with the host countries that deter entry than otherwise (Abdul-Aziz, 1991).

The argument has even been acknowledged by Dunning (1980; 2001), the proponent of the locational advantages concept. Regardless of whether the multinational is resource-seeking, market-seeking, efficiency-seeking, or asset-seeking, Narula and Dunning (1998) concede that the attractions of foreign location are normally confined to one or two factors. Like the present authors, Zaheer (1995) too is less than comfortable with the term locational advantages. Evoking Hymer's (1960) thesis that multinationals face 'foreignness' costs, Zaheer coined the term liability of foreignness (LOF), which has since found favour with several scholars (e.g. Miller and Parkhe, 2002; Chen et al., 2006; Daamen et al., 2007).

Firms going into particular overseas markets, especially for the first time, suffer from a broad range of deterring factors, from spatial distance between home and host countries, unfamiliarity with host country environments, economic nationalism and a lack of legitimacy in the host country to sales restriction impositions by the home country, which can all come under the scope of LOF (Zaheer, 1995; Zaheer and Mosakowski, 1997). Basically, LOF has been defined as all additional costs that a firm operating in an overseas market incurs that a local firm would not incur (Zaheer, 1995). Other scholars have added to the list of sources of LOF (Eden and Miller, 2001). 'Cost' here is the generic term meaning not only various costs but also 'foreignness'; induced hazards and uncertainties that obstruct the generation of earnings (Luo et al., 2002).

As mentioned earlier, only a few locational factors provide attraction to multinationals (Narula and Dunning, 1998). Market-seeking multinationals are drawn to satisfy untapped demand for the products or services in the host country (Narula and Dunning, 1998). Hence the attraction might be market growth (Strassmann, 1970; Wells, 1985; McDougall and Oviatt, 2003; Peck et al., 2005; Zain and Ng, 2006), rapid economic development (Strassmann, 1970; Wells, 1985; Oz, 2001; Coe, 2004; Abdelal and Segal, 2007) and market size (Seymour, 1987; Urata and Kawai, 2000; Andersen and Buvik, 2002; Mayer and Ottaviano, 2008). Efficiency- or asset-seeking multinationals (which are quite similar) seek to utilise sub-national clusters and agglomeration of related activities in the host countries. For resource-seeking, efficiency-seeking and asset-seeking multinationals (Narula and Dunning, 1998), the locational attraction might include good related and supporting industries (Oz, 2001; Cuervo and Low, 2003), technological capability (Hennart, 2000; Cuervo and Low, 2003; Eapen and Hennart, 2005; Rasiah, 2006), level of trained workforce (Urata and Kawai, 2000; Cuervo and Low, 2003; Terjesen and Acs, 2007), ease of funding (Seymour, 1987; Terjesen and Acs, 2007) and infrastructure (Langford, 2000; Khine, 2008). Resource-seeking multinationals seek to exploit scarce resources in the host country (Narula and Dunning, 1998).

Many of the host market features can conspire against the decision to invest in the host country, and for that reason should be termed 'locational disadvantages'. If the cumulative impact of these locational disadvantages outweighs the attraction factors, then the multinational is unlikely to invest in the host country. Locational disadvantages might include industry size (Enright and Roberts, 2001; Awil, 2007), foreign competition (Crosthwaite, 1998) and local competition (Crosthwaite, 1998; Oz, 2001; Borgersen, 2006), cost of doing business (Dunning, 1988; Mpinganjira and Rugimba, 2003; Terjesen and Acs, 2007), capital requirements (Altzinger, 1998; Dung, 1996; Bikker and Wesseling, 2003; Singer, 2004), degree of financial freedom (Solitander, 2005; Quazi, 2007; Kane et al., 2007), exchange rate (Barell and Pain, 1996; Khine, 2008), taxation (Ferchiou, 1987; Galan et al., 1999; Terjesen and Acs, 2007), public sector delivery system and bureaucracy (Barry, 2002; Urata and Kawai, 2000), law and order (Glaister and Atanasova, 1998; Barry, 2002), political scenario (Hillebrandt et al., 1995; Crosthwaite, 1998; Guidotti et al., 2004), degree of market openness (Crosthwaite, 1998; Gunhan and Arditi, 2005) and general host government's policies and behaviour (Chen et al., 2006; Terjesen and Acs, 2007). Some factors may serve to attenuate the locational disadvantages, but on their own are unable to induce foreign investments. These include host government encouragement to multinationals (Glaister and Atanasova, 1998; Cuervo and Low, 2003; Terjesen and Acs, 2007) and financial incentives (Ferchiou, 1987; Galan et al., 1999; Wilkinson et al., 2000).

## RESEARCH METHOD

The study adopts both qualitative and quantitative methods. Data are triangulated to ensure that the drawn conclusions are strong. Yeung (1995) argue that research in international business requires researchers to consider contextual factors in method selection. The adoption of a mixed method is therefore based on pragmatism in order to best meet the research objectives of uncovering as much as possible about the internationalisation of Malaysian contractors (Johnson and Onwuegbuzie, 2004). The mixed method involves the collection and analysis of both quantitative and qualitative data in a single study in which data are collected concurrently or sequentially, are given priority, and involve the integration of data at one or more stages in the process of research. The advantages of using multiple methods include guarding against the inherent methodological bias (Brewer and Hunter, 1989) and providing opportunity for presenting divergent views (Teddle and Tashakkori, 2003). Mixed methods have been criticised for their lack of rigour compared to single method approaches (Tashakkori and Teddle, 2003), however triangulation whereby several sources of data are relied upon helps overcome this weakness (Jicks, 1979).

From the outset, it was decided that getting the cooperation of the Malaysian Construction Industry Development Board (CIDB) was a necessity. CIDB is assigned by a statute to ensure the proper development of the construction industry. Among its responsibilities are the promotion of Malaysian contractors overseas through market-opening initiatives such as trade delegations and match-making with local contractors. CIDB maintains a directory of Malaysian contractors that have gone overseas, in all 74.

Data collection was conducted during three complementary stages. In the first stage, postal questionnaires were sent to all the Malaysian contractors with international experience. Most of the questions in the questionnaire adopted the 5-point Likert scale. A postal questionnaire survey provides greater geographical flexibility and opportunity for the respondent to think about the questions (Cooper and Schindler, 2003). The questionnaires were sent to chief executives or top management of the sample population as they were the best people to answer the questions. The questionnaires were sent out together with a cover letter from the executive of CIDB endorsing the study, thereby lending legitimacy to the study (Sullivan and Bauerschmidt, 1990). The questionnaire was pilot tested by a CIDB senior general manager in charge of construction export promotion. The questions were

based on past related empirical and theoretical studies. Fourteen completed questionnaires were returned, representing a response rate of 18.9%. The small sample population can be construed as a limitation of the study. It is symptomatic of the disinterest of the parties to the Malaysian construction industry to academic research which has been experienced from past studies (Mastura and Abdul-Aziz, 2005, Abdul-Aziz, et al. 2006).

The details about the participating companies are summarised in Table 1. Ten of the surveyed contractors were publicly listed while the rest are private limited. Following the UNDP (2007) definition, the majority (71.4%: more than 50 employees) were large while the remainder (21.4%: 20-50 employees) were medium and (7.2%: 5-19 employees) were small. Only one of the sampled companies had more than ten years international experience, 57.2% had five to ten years international experience while the rest (35.7%) had less than five years. The respondents all held high positions, thus enabling them to provide reliable insights about their companies' internationalisation.

The next stage of data collection involved face-to-face interviews with the seven executives who indicated their consent to be interviewed in the returned questionnaires. Face-to-face interviews allow researchers to ask follow-up questions, obtain instantaneous feedback from the respondent and gather further information by observation (Cooper and Schindler, 2003). Before each interview, the returned questionnaires of the would-be interviewees were scrutinised to come up with follow-up questions. Pre-interview desk research about their companies, which marked the third stage of data collection, was also conducted to help design semi-structured questions. With the consent of the interviewees, the interviews were tape-recorded and later transcribed. The questionnaire survey and interviews took place between March and August 2008.

For the data obtained from the postal questionnaires, a nonparametric test (Friedman test) was used to examine for significant differences in the ranking of variables (Laswad and Oyelere, 1999; Kinnear and Gray, 2004; Kazlauskienė and Rinkevicius, 2006). Statistical analysis was undertaken using the statistical package for social science (SPSS). Content analysis was conducted on secondary sources and the transcribed interviews.

As mentioned in the introduction, due to space limitation, only the findings related to locational factors are presented, discussed and analysed in this paper.

**Table 1:** Surveyed contractor profile

Contractor	Legal status	Year formed	Respondent's position	Number of staff	Specialisation	International experience (Year)
1	public listed	1975	chief operating officer	658	building & civil	10
2	private limited	1994	director	35	sheet piling	3
3	public listed	1967	managing director	200	mechanical & electrical	> 10
4	public listed	1972	head of department	5,000	building & civil	8
5	public listed	1974	chief executive officer	1,000	Water supply	8
6	private limited	1986	general manager	30	building & civil	6
7	public listed	1982	senior general manager	813	building & civil	5
8	public listed	1974	executive director	240	building & civil	2
9	private limited	1993	senior design engineer	15	building & civil	10
10	public listed	1981	assistant manager	1,200	building & civil	7
11	public listed	1996	chief financial officer	40	building & civil	2
12	public listed	1989	executive director	178	building & civil	3
13	private limited	1991	vice president	500	building & civil	4
14	public listed	1965	senior manager	228	building & civil	6

Source: Postal questionnaire survey

## FINDINGS

Table 2 shows the countries that the surveyed Malaysian contractors had entered. They ranged from being contiguous to distant, developing as well as developed.

Table 3 lists the foreign market-entry considerations as ranked by the sampled population. Market growth and rapid economic development are ranked second and third highest. They can be considered as proxies for local construction demand. One interviewee revealed that his company specifically targets emerging economies. The sixth highest factor is market size. It is interesting to note that market growth and rapid economic

development are rated higher than market size as no market, no matter how large it may be, is unattractive without market opportunities. Conversely, large markets with market opportunities can cater for long-term market presence. Following on from that, the market had to be open (ninth highest) for the Malaysian contractors to enter. Size of industry (twelfth highest) is related to competition. In connection to this, foreign (thirteenth highest) rather than local (eighteenth highest) rivals are the concern of the surveyed Malaysian international contractors. One interviewee mentioned that his company avoided competing head-on with contractors from industrialised countries by working in second and third tier cities in China. Host government's encouragement (tenth highest) is a boon, if ever it is available. One interviewee mentions

**Table 2:** Countries penetrated by surveyed Malaysian contractors

Contractor	Country
1	India, Nepal, China, Thailand, UAE, Pakistan, Brunei
2	UAE, Australia, Cambodia, China, Nigeria
3	China, Vietnam, UAE, Qatar, Philippines
4	Singapore, Cambodia, Sudan, Qatar, Yemen, Syria, UK, Denmark, Germany, Sweden
5	Vietnam, Sri Lanka, China
6	South Africa, Maldives, Pakistan
7	India, UAE, Trinidad & Tobago
8	Pakistan
9	UAE, Vietnam, Singapore, Brunei
10	India, Bahrain, Qatar, UAE
11	Thailand, UAE
12	Saudi Arabia
13	Sudan, Pakistan, Libya
14	India

Source: Postal questionnaire survey

**Table 3:** Factors that Malaysian contractors considered when entering foreign countries

Variable	Mean	Rank
Political stability	19.50	1
Market growth	18.75	2
Rapid economic development	18.50	3
Taxation and incentive	18.17	4
Law and order	17.17	5
Market size	16.92	6
Business cost	16.50	7
Financial freedom	16.50	7
Market openness	16.42	9
Host government's encouragement	16.38	10
Ease to get financial funding	15.67	11
Size of the industry	14.92	12
Foreign competition	14.38	13
Government delivery system / bureaucratic efficiency	14.08	14
Government's integrity and transparency	14.08	14
Capital requirement	13.58	16
Exchange rate	13.50	17
Local competition	12.54	18
Related and supporting industries	12.50	19
Infrastructure	12.17	20
Air connection from Malaysia	11.50	21
Technological capability	11.42	22
Geographical distance from Malaysia	9.54	23
Trained workforce	8.63	24
Language and culture similarity	8.58	25
Visa requirement	8.42	26
Degree of business interaction with Malaysia	7.71	27

Source: Postal questionnaire survey

(Chi-Square = 75.71, Asymp. Sig. = 0.000)

that his company was warmly welcomed by the Vietnamese government in search of much-needed foreign investment.

Of most concern to the surveyed Malaysian contractors when going abroad is the political stability of host countries. The same interviewee working for a water supply concession contractor mentions that political stability is particularly crucial as profit can only be recouped over a period of time. Having said that, where others feared to tread, the intrepid would take the calculated risks of operating in these countries in the hope of higher returns. Based on that logic, one surveyed contractor successfully worked in Cambodia and Sudan when they were afflicted with internal strife. The same applied for law and order which is ranked fifth highest. One company went to Nigeria despite the pervasive lawlessness in the country. Thailand and the Philippines can also be unsafe at the worst of times, says one interviewee.

Host government's bureaucracy, and integrity and transparency (both jointly ranked fourteenth highest) which afflicted certain developing countries are less of an issue than political factors. One interviewee comments that Malaysia was worse than in some foreign countries that his company had gone to! Taxation and incentives is the fourth highest ranked factor. Two interviewees advise contractors to properly scrutinise the tax regime of the host country before importing items such as materials, plants and equipment. In a country like India, inter-state disparities could be huge. Conversely countries like the Maldives did not tax building materials imported for construction purpose. Interestingly, business cost and financial freedom are ranked lower (seventh highest) and capital requirement even much lower (sixteenth highest).

Business cost can differ across time: following its accession to the World Trade Organisation, foreign contractors entering China needed at least US\$ 2 million in paid-up capital unlike the early days of market reform when it was wooing foreign investors, explains one interviewee. Capital requirement can be a concern in countries like Libya and Cambodia where the locals have little confidence in their own currencies, explains another interviewee. Even though it can have an impact on profitability, contractors going abroad have to put up with exchange rate fluctuation (seventeenth highest) and it is therefore ranked fairly low. One interviewee points out that exchange rate needs to be given particular attention when preparing or negotiating final bids.

Of the resources in the host countries which can support field operations, access to funding (eleventh highest) is rated highest, followed by related and supporting industries (nineteenth highest), infrastructure (twentieth highest), technological capability (twenty-second highest), and trained workforce (twenty-fourth highest). However, several interviewees point out that the more lacking the host countries are of these resources, the greater the opportunity for the surveyed contractors to make a business impact. For example, the only resource Cambodia has is aggregate and stones; all other construction materials have to be imported, mainly from China. A shortage of skilled labour in the Middle East in particular can be solved by engaging foreign nationals, not necessarily Malaysians.

Factors that either artificially (visa requirement and degree of interaction with Malaysia) or in actuality (geographical and psychic) put distance between Malaysia and the foreign markets are in the bottom five of the list. Although air connection can help bridge distance, its low ranking (twenty-first) is a further indication that the contractors surveyed are not overly concerned with distance. Engaging locals helps to overcome the language and cultural barrier, explained one interviewee.

## DISCUSSION

The discussion examines the empirical findings first before propounding locational disadvantages as a more suitable concept when examining foreign market entry choice.

The data show that when assessing a foreign country, the surveyed Malaysian contractors assessed a whole range of, rather than a few, country-related issues. Based on the literature review, this is to be expected. Venturing overseas is risky (Wang et al., 2004; Gunhan and Arditi, 2005). Construction companies stand to lose a lot of money if they do not assess the host-country characteristics properly. The go/no-go decision must be based on as much information about the country as possible (Han and Diekmann, 2001). SCN Lavalin of Canada, one of the largest construction companies in the world, even has a standard checklist for foreign market assessment purpose (Bebawi, 2008).

The study finds that the surveyed Malaysian contractors venture overseas for the sole purpose of seeking work opportunities abroad. In that sense, they are market-seeking (Narula and Dunning, 1998), which explains why they rate market growth (second ranked) and rapid economic development (third) highly. Past studies on British (Seymour, 1987), Turkish (Oz, 2001) and Singaporean contractors (Cuervo and Low, 2003) also find the same market-seeking trait. Narula and Dunning (1998) make a distinction between market-seeking multinationals and resource-seeking, efficiency-seeking and asset-seeking multinationals. The reality in international construction is that once a construction company secures a project overseas (hence fulfilling its market-seeking tendency), it has to utilise whatever resources and assets are available in the host country as efficiently as possible. And if the resource and assets are inadequate or not to the desired quality, then the contractor has to import them from overseas. The adequacy and quality issue of local resources and assets therefore is not of overriding importance when making market-entry choices. This is reflected in the fairly low ratings for related and supporting industries (nineteenth ranked), infrastructure (twentieth), technological capability (twenty-second), and trained workforce (twenty-fourth). Simply put, in the process of being market-seeking, the surveyed companies have to also be resource-seeking, efficiency-seeking and asset-seeking. The manifestation of these four traits simultaneously (which may not appear in multinationals operating in other economic domains) stems from construction being a location-bound service in that the production-delivery-use chain must be performed on location (Boddewyn et al., 1986). It is this characteristic that can result in manufacturing-biased conceptualisations about multinationals being not entirely suitable to explain the internationalisation of construction companies (Abdul-Aziz, 1995). Also what the findings point to is that the shortages of these needed resources actually created a space for them in the market. It filtered out those international contractors that were able to provide them from those that were not able to.

As indicated in the literature review section, some scholars make great play of psychic distance as being influential in the internationalisation of businesses. The Stage Growth Theory scholars led by Johanson and Vahlne (1990) and Johanson and Wiedersheim-Paul (1975) argue that multinationals enter countries which are psychologically close before venturing further afield. Dunning (1977; 1981; 1988) and Zaheer (1995) also incorporate the psychic distance argument in their Eclectic Paradigm and LOF constructs respectively. As pointed out earlier, several studies on different construction nationality groupings have produced mixed results regarding the association between psychic distance and international diversification (Crosthwaite, 1998; Oz, 2001; Cuervo and Low, 2003). The present study finds that psychic distance

is less of a concern to the sampled population: all the variables that are examined by past scholars to measure psychic distance are at the bottom of the list (see Table 3). Geographical distance (Johanson and Vahlne, 1977; Zaheer, 1995), language and cultural similarity (Johanson and Vahlne, 1977; Zaheer, 1995), visa requirement (Leamer, 1974; Dunning, 1988), and degree of business interaction between host countries and Malaysia (Ferchiou, 1987) are located at the bottom. As the world literally shrinks with globalisation brought about by the internet revolution and 24-hours satellite news, our unfamiliarity with foreign cultures has greatly diminished. And because psychic distance is not a major concern, air connection which helps to bridge geographical distance is also ranked low.

Conceptually, this paper makes the contention that the locational disadvantages concept is more suited than the Eclectic Paradigm's locational advantages argument in portraying the realities of construction contracting when making foreign market entry decisions. The empirical data supports this contention. It has already been established previously that the surveyed Malaysian contractors were primarily market-seeking. The present data supports Narula and Dunning's (1998) own admission that the appeal of foreign locations normally revolves around one or two factors. It is peculiar therefore that the term 'locational advantages' draws attention to the esoteric variables when in fact a far greater number of variables exert countervailing impact on the decision to enter foreign markets. Based on the arguments made in the literature review section and supported from empirical findings, the assertion that locational disadvantage is a more appropriate concept is validated.

Except for factors that can be construed as proxies for construction demand (i.e. market growth, rapid economic development and market size), the rest of the high ranking factors (i.e. political stability, taxation and incentive, law and order, business cost, financial freedom, market openness, foreign competition, government bureaucracy and government integrity) point to the greater attention the sampled companies gave to locational disadvantages. Host government encouragement which is ranked fairly high merely serves to attenuate the difficulties of working in the host market. The interviews indicate that host encouragements prevailed primarily in developing countries greatly in need of foreign investments, usually after undergoing economic or political reforms. In other words, it was precisely because of the lack of allure that these host governments put in place certain incentives.

When the locational factors are analysed in the proposed manner, an interesting observation can be made, and that is that some of the surveyed contractors turn these locational disadvantages into market opportunities. These locational disadvantages could relate to resource limitation (as pointed out earlier), political instability and personal insecurity, or even unsatisfactory public governance. Some of the countries which the contractors have gone to – Libya, Syria, Pakistan, Nigeria, even Thailand and the Philippines – were not exactly politically stable or safe. Countries like India are afflicted with stifling bureaucracy and lack of transparency. Yet, the contractors show willingness to enter those markets drawn by the prospect of making money simply because the more risk averse international contractors avoid them.

## CONCLUSION

This paper's value lies in both its empirical and conceptual contributions. Empirically, the study highlights that the sampled Malaysian contractors considered a wide range of locational factors when considering entering foreign countries. Secondly, that they were market-seeking, which is what most international

contractors are. Thirdly, that psychic distance was of relatively low concern when expanding overseas.

It is at the conceptual level that this paper makes a greater contribution. The review of the various extant models of firm internationalisation shows that locational factors cannot be precluded from an integrated model approach for analysing contractor internationalisation. Furthermore locational factors are better conceptualised as locational disadvantages. This marks a radical departure from the Eclectic Paradigm, but augurs well with the LOF concept. When analysing the data in this manner, another contribution of this paper manifests, and that is the sampled Malaysian contractors commercially exploited the locational disadvantages of host countries by overcoming them when the more risk-averse contractors shun them.

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