

Entry Strategies for Malaysian Construction Related Companies Going Abroad

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Abstract: The effect of internationalization has driven many Malaysian contractors to make significant inroad and grasp the opportunities that are available in global market. Construction Industry Development Board (CIDB) which enacted as a professional body have made an innovative approach to promote the emerging of Malaysian contractors going abroad. The main objective of this paper is to explain the current position of Malaysian contractors in international market. This paper developed based on content analysis which the data content have been captured from CIDB database. The results indicate that there were 652 projects which the valued at RM92.138 mil have been awarded to 109 Malaysian contractor in 49 countries worldwide since 2000 to 2010. This paper also review the market entry modes used by Malaysian contractor to enter into new foreign market concluding that pure construction entry modes become the most preferred types of procurement project by Malaysian contractors to venture in overseas market. However as the time passes by, the concept of concession/BOT/PFI as an entry modes currently become popular among several Malaysian construction companies as to secure the project for the long term. The findings of this study can aid Malaysian contractors when selecting their entry modes for international construction market.

Key words: Entry modes, Pure construction, Concession, Malaysian construction company.

INTRODUCTION

Going international can be viewed as a process of foreign market entry decisions through which a firm moves from operating solely in its domestic place to international markets. Globalization has provided an enormous demand and opportunities of the development worldwide. Excellent performance of Malaysian contractor in many Malaysia's mega projects has nurtured the competencies and capabilities of their expertise. However, the very competitive and saturated of domestic market has driven many Malaysian contractors to make significant inroad into global market as a means to effectively capitalize on special expertise. Internationalization channels the flow of information and resource allocation, bringing people, organizations and countries closer (Wong, 2007). But, a construction who moves towards a global marketplace will be facing a higher risk than the domestic markets. Understanding the international market entry strategies is crucial to achieve sustainable business growth in abroad.

This paper attempted to examine the current position of Malaysian contractor in international market. Furthermore, this paper will identify the entry modes that have been undertaken by Malaysian contractor to venture in overseas. Chen and Messner (2005) suggested that contractors must identify their international market entry strategies as to sustain in the risky and competitive global market.

This paper developed based on content analysis which the data content have been captured from Construction Industry Development Board's (CIDB) database which started such compilation in the year 2000. CIDB is a Malaysian government agency under the purview of the Ministry of Works which enacted as a professional body to promote, stimulate and assist of development Malaysian construction industries.

A. Current Position of Malaysian Contractors in International Market:

Globalization brought many of Malaysian contractors to expand the business into international market since late 70s. However, the first official recording by CIDB of such effort was in 1986. International contracts awarded to Malaysian contractor have greatly increased from 25 projects in 2000 up to 652 projects in 2010. Table 1 below shows the total number of projects undertaken by Malaysian contractor in overseas by years. Since 2000 until 2010, there were 652 projects which the values about RM92.138 mil have been awarded to Malaysian contractor with 556 projects (RM 51.733 mil) already completed and out of 96 projects (RM40mil) are currently on going projects. So far, there are 109 Malaysian contractors bid on projects in international market. Particularly, 49 countries worldwide mainly developing countries are being as a host of international construction project due to availability of construction market demand.

Malaysian government through CIDB has taken an initiatives to encourage Malaysian contractors to export of Malaysia construction and consulting services into abroad. Malaysian companies have made their presence felt mainly in Middle East, South Asia, Asean and Africa region. In fact, some Malaysian companies have involved with the projects in other countries specifically Bosnia, China, Mongolia, Papua New Guinea and Hong Kong construction market. Figure 1 shows the percentage of total projects undertaken by Malaysian

construction companies by region. It is apparent that Middle East region become the most preferred region by Malaysian companies to undertake the project with 41% of contract values followed by South Asia region with 21% of contract values. Presently, some Malaysian contractors are targeting Saudi Arabia, UAE, Qatar and Libya as prospective markets as the demand was particularly buoyant in the market of the Middle East and Asia region. The remaining market of overseas project comes from Asean (14%), Africa (13%) and others (11%).

Table 1: Total Number and Values Project In Overseas.

Status of project	Nos.	Value (RM Mil)	Value (USD Mil)
Completed	556	51,733	14,781
Current	96	40,404	11,544
Total	652	92,138	26,325

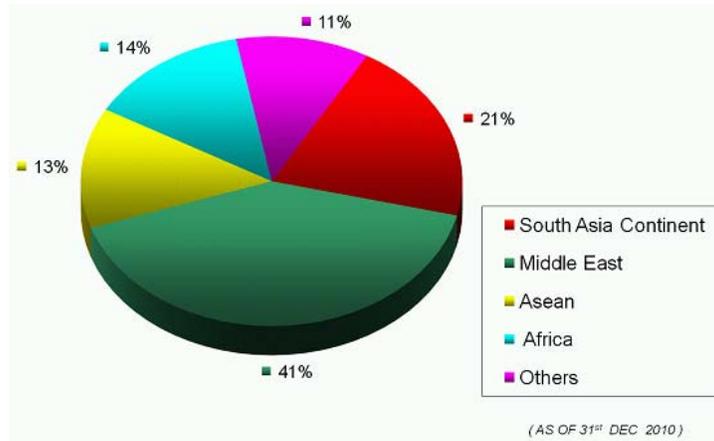


Fig. 1: Percentage of total projects undertaken by region.

Table 2 and 3 shows the completed and current overseas project by region . Until year 2010, Middle East region stated the biggest project values for Malaysian construction companies with 103 completed projects valued at RM21.4mil and 26 projects valued at RM16.4mil is still under construction. The Asean region is the third biggest market after Middle East region and South Asia region for Malaysian companies with 219 completed project valued at RM6.3 mil and 21 on going projects valued at RM6.1 mil. Eventhough the number of total completed project was high, however, the completed project values that has been transacting by Malaysian construction companies in Asean region are 30% lower than that executed in the first biggest market, Middle East region.

Table 2: Completed overseas project by region.

Region	No. of projects	Project value (RM million)	Project value (USD million)
ASEAN	219	6,325.84	1,807.38
Middle East	103	21,362.94	6,103.70
Africa	36	5,651.16	1,614.62
South Asia	95	10,608.63	3,031.04
Others	103	7,785.23	2,224.35
Total	556	51,733.80	14,781.09

Table 3: On going overseas project by region.

Region	No. of projects	Project value (RM million)	Project value (USD million)
ASEAN	21	6,087.28	1,739.22
Middle East	26	16,378.80	4,679.66
Africa	6	7,033.40	2,009.54
South Asia	31	8,257.52	2,359.29
Others	12	2,647.54	756.44
Total	96	40,404.54	11,544.15

India is still the largest market for Malaysian construction companies with the value of project amounting RM 17.7 mil as depicted in Figure 2. The most of contracting activities in India that had been done by Malaysian companies are based on the highway, road and power plant. It is followed by developing countries from Middle East region specifically Saudi Arabia, UAE, Qatar and Bahrain who urge for the development of infrastructure and commercial building construction. With a lot of opportunities available in international

market, the bigger construction companies are tapping the overseas market and reaping the fruits of the move. Construction groups like Gamuda Bhd, Road Builder Holdings (M) Bhd, UEM Construction Sdn Bhd, IJM Corporation and Bina Puri Holdings Bhd had exported their expertise in highway and bridge construction especially to India, Cambodia, Thailand, Papua New Guinea, Maldives and the Middle East. Concessionaire such as Puncak Niaga Bhd, Ranhill Water Technology and Salcon Engineering had extended their practice in water treatment plant mostly in China and Thailand.

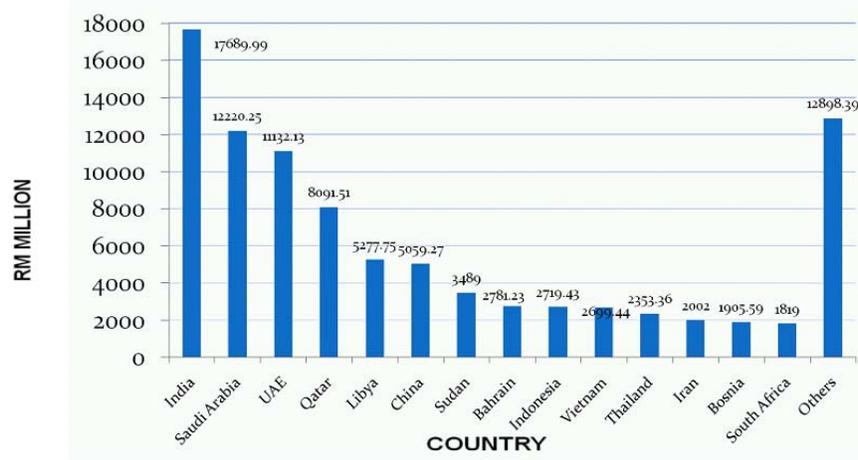


Fig. 2: Overseas project awarded to Malaysian contractors by country (1986-2010).

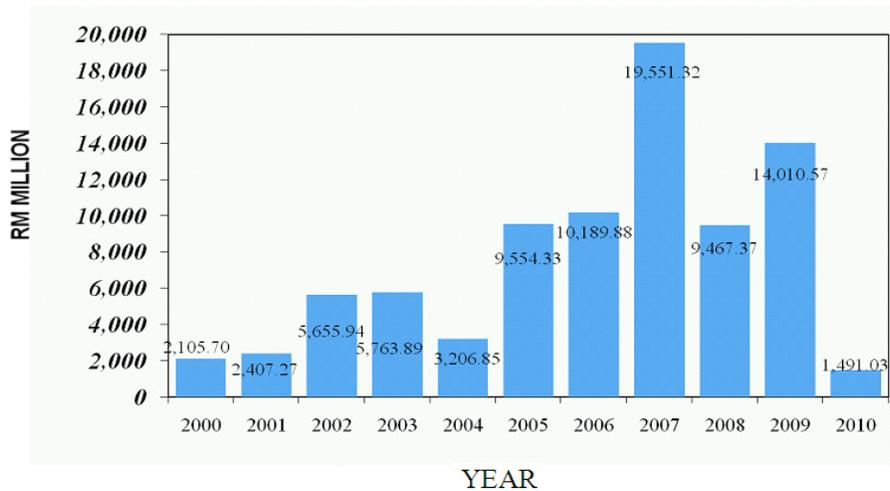


Fig. 3: Overseas project awarded to Malaysian contractors by value (2000-2010).

Figure 3 shows the graph of overseas project awarded to Malaysian Contractors from years 2000 up into 2010. There are steady increment of project value that gained by Malaysian construction company from 2000 valued at RM 2.1 mil to RM10.2 mil in 2006. While in 2007, the value of project are almost double the value in 2006 which increase to RM 19.6 mil. According to Crosthwaite and Connaughton (2006) ,Saudi Arabia, Qatar and the UAE will see the largest growth in construction activity through 2007, which is likely to be related to oil and gas production and also residential, health, education and commercial construction. However, in 2010, the value of projects that has been transacting by Malaysian construction companies sharply decline into RM1.5 mil.

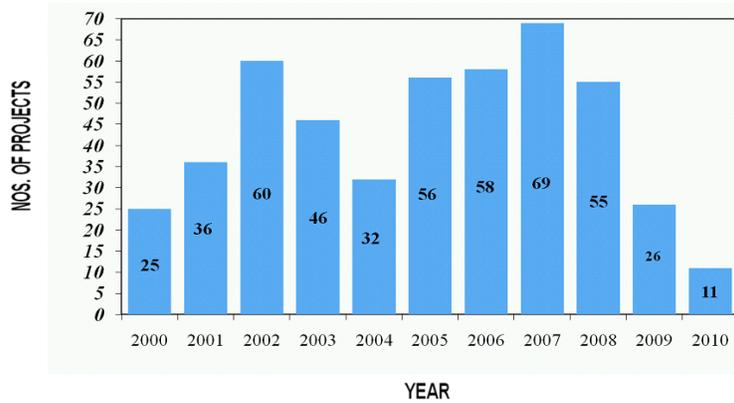


Fig. 4: Overseas project awarded to Malaysian contractors by number of projects (2000-2010).

The number of projects that have been procured by Malaysian contractor in international market are depicted in Figure 4. The similar trend with the value of projects have been awarded to Malaysian contractor recorded in this graph which shows the increment number of project at 25 projects in 2000 and increase into 69 projects in 2007. However, the number of projects that have been undertaken by Malaysian contractor in overseas for 2010 fell into only 11 projects. This is a new phenomenon which happened to Malaysian construction companies in international market since the first performance recorded by CIDB in 1986. There are some influential factors that must be a reason for Malaysian contractor to be demotivated for expanding their business in international construction market.

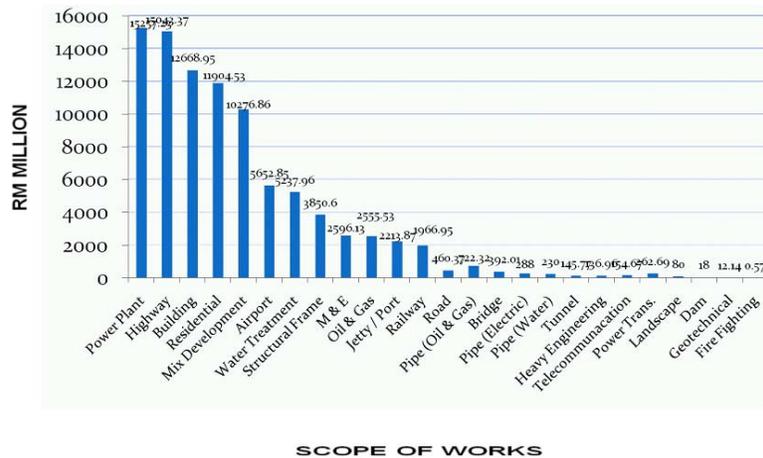


Fig. 5: Overseas project awarded to Malaysian contractors by scope.

The main contracting activities of Malaysian contractor involved in international market are depicted in Figure 5. Entirely, construction projects awarded to Malaysian construction companies according to sectors are from infrastructure, mix development, building, power plant, water treatment, heavy engineering, M&E, oil and gas and specialist job. Power plant project recorded as the highest contract values at RM 153 mil for overseas project that have been awarded to Malaysian contractors between 1986 to 2010 due to the complexity of nature of work. The second biggest contracting activities is construction of highway valued at RM150.4 mil followed by building work valued at RM126mil and residential value at RM119mil. Based on Figure 6 and 7, Malaysian contractor had made their excellent track record in construction of highway by completing the project with the highest value of RM12.74mil. The second highest contracting activities that had been completed by Malaysian contractor in overseas from 1986 to 2010 was power plant at value of RM9.8 mil and building work at value of RM9.6 mil. However, for the current project, the highest contracting activities is residential development with the contract value of RM 9.9mil. The construction of power plant is the third highest current contracting activities after mix development with a value of RM 5.4mil.

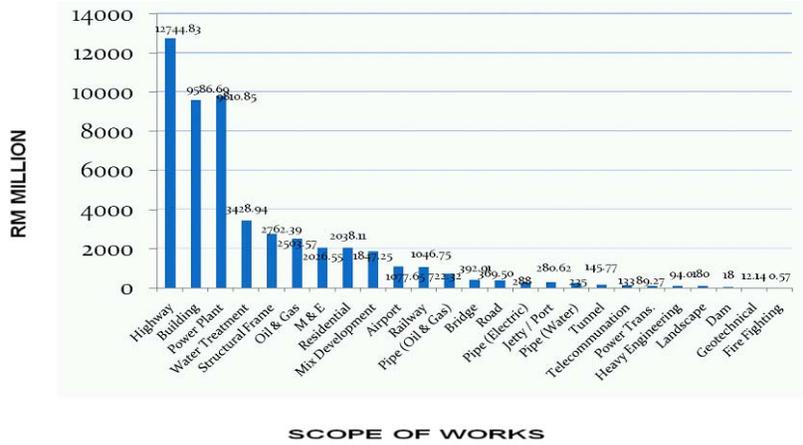


Fig. 6: Completed overseas project awarded to Malaysian contractors by scope.

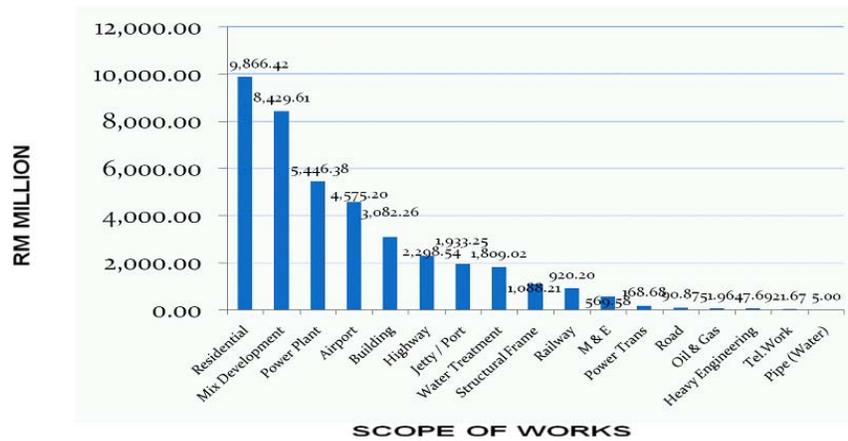


Fig. 7: Current overseas project awarded to Malaysian contractors by scope.

B. Entry Modes Have Been Undertaken by Malaysian Contractors in International Market:

The trend of globalization has been rising throughout the world. However, a construction firms who moves towards a global marketplace will be facing a higher risk and the degree of competitive rivalry are higher than domestic markets. Chen and Messner (2011) stated that it is important to choose the right entry modes for the selected international market and they had came out with a proposals of how to enter selected foreign market by classified entry modes into two types, either using permanent or mobile entry decision. Root (1987) and Chen and Orr (2009) defined entry modes as an institutional arrangement that assist the entry of company’s services, technology, human skills, management, financial or other commitment to venture into foreign market. Ahmed et al. (2002) had studied the influence of international risk on the foreign market entry mode decision made by Malaysian firms and they had classified international entry modes into three groups which are non equity/indirect exporting mode, joint venture modes and wholly owned subsidiary modes.

This paper was conducted to examine the types of entry modes that have been undertaken by Malaysian contractor to venture in international market. In this study, the basic types of entry modes have been classified into two groups as either pure construction or concession. For Malaysian firms, it can take the form of acquiring local firm who are solely or forging joint venture with the host company for the purpose of carrying out specific projects in international market which known as pure construction. This firm must undergo various stages as a preliminary bidding process to venture in foreign’s country market. Malaysian contractors usually acquire this great opportunities to bid the project in selected developing member countries which registered under foreign funded project mainly with Islamic Development Bank (IDB), World Bank and Asian Development Bank (ADB) where the countries have play an important role in collaborated with foreign contractors to work on foreign direct investments (FDI). In contrast, concession is defined as a project based on a concession granted to a consortium where the concessionaire makes financial arrangement to build the facilities of the project, operate the project during the concession period to generate revenues for debt repayment and investments recovery with a certain level of profit and transfer facilities of the project in operational condition. (Zhang,

2005). Concession is also known as Private Finance Initiative (PFI) or Built Operate Transfer (BOT) in procurement of construction projects. Normally, this type of entry modes take the form of an invitation from a local government based on a company's reputation on speciality projects. Zhang and Kumaraswamy (2001) defined the term concession or Built-Operate-Transfer (BOT) in different acronyms which are Buy-Build-Operate (BBO), Build-Own-Operate (BOO), Build-Lease-Transfer (BLT), Build-Own-Operate-Maintenance (BOOM), Build-Own-Operate-Transfer (BOOT), Build-Transfer-Operate (BTO), Design-Build-Finance-Operate (DBFO), Design-Build-Operate-Maintenance (DBOM), Develop-Operate-Transfer (DOT), Rehabilitate-Own-Operate (ROO), Rehabilitate-Operate-Transfer (ROT) and Transfer-Own-Transfer (TOT).

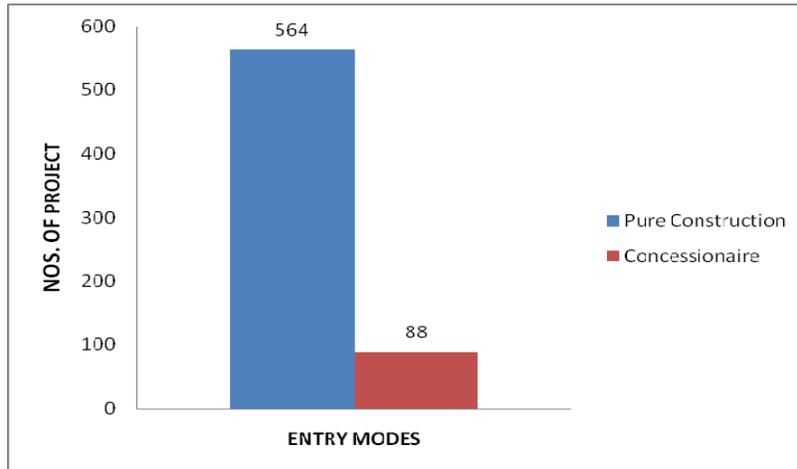


Fig. 8: Types of entry modes have been undertaken by Malaysian contractor in international market (2000-2010).

Figure 8 above shows the types of entry modes have been undertaken by Malaysian contractor who are doing the business in international market. Pure construction become the most preferred types of procurement project by Malaysian contractors with 564 total number of project while concessionary delivery had recorded at 88 projects. This shows that Malaysian contractor entering the overseas market by doing a preliminary tendering to gain the project. Typically, they are establishing representative offices or branches in overseas. Furthermore, Malaysian contractors have increasingly used the localized sole venture company. Big construction company likes IJM Cooperation Bhd, Gamuda Bhd, MRCB Bhd, UEM Builders Bhd and Bina Puri Holdings Bhd determined to venture the overseas project by using this type of entry modes. The main contracting activities of Malaysian contractors involved in construction of residential, building commercial and structural frame. Based on CIDB data, a few joint venture were reported involved cooperation between Malaysian contractors in order to minimize competition among themselves despite enhancing the financial and expertise capacity. For example, joint ventures between Gamuda Bhd and WCT Engineering to construct New Doha International Airport worth at RM2.631 mil. In contrast, concessionaire likes Salcon Engineering, HG Power Transmission Sdn Bhd and Ranhill Water Technology had made an agreement with host national government to capitalize their expertise in executing the project by using PFI or BOT. For example, construction, operation and maintenance of the phase 1 water treatment plant in Haining City, Zhejiang province, China with the capital cost of RM90 mil for the 30 year concession. The project was an arrangement between Salcon Zhejiang (HK) Ltd. and Hining City Government. Normally, the financial package had been handled through arrangement with governments, either has been arranged under host national government or backed into contractor's home government.

Figure 9 and 10 show types of entry modes of completed and current project that have been undertaken by Malaysian contractor in international market. It is apparent that 494 projects have been completed by Malaysian contractor in overseas market by using pure construction while 62 projects completed by using concession. However, for on going project in overseas, there are 70 current projects are using pure construction and 26 projects adapt concession as an entry modes in international market. Thus, it can be deduced that as the time passes by, the concept of concession has been accepted by several Malaysian contractors with currently about 1 in 3 on going projects is by using concession compared to the number of completed project about 1 in 8 projects. However a strong financial capability of the concessionaire is essential prior to the successful development of BOT/PFI type project. Therefore, it is crucial for Malaysian contractors to assess each of entry modes before deciding to venture into new foreign market.

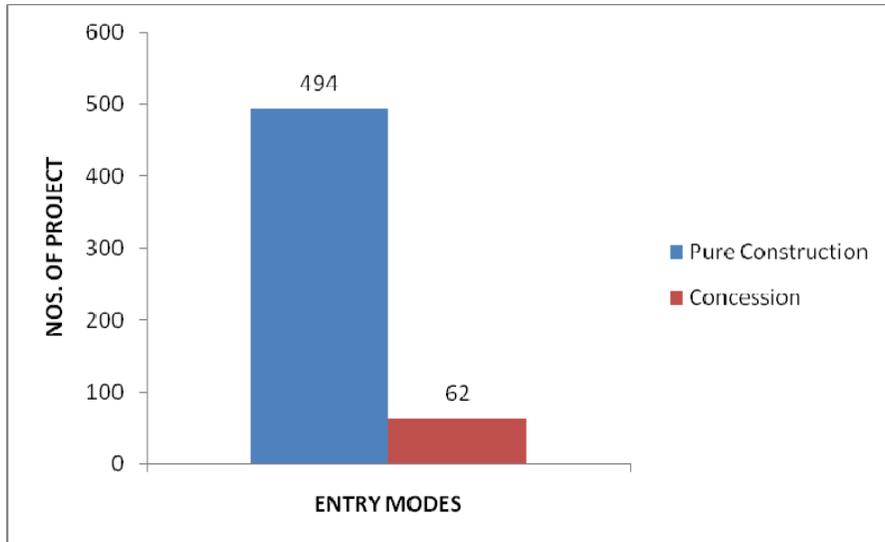


Fig. 9: Types of of entry modes for completed projects that have been undertaken by Malaysian contractor in international market.

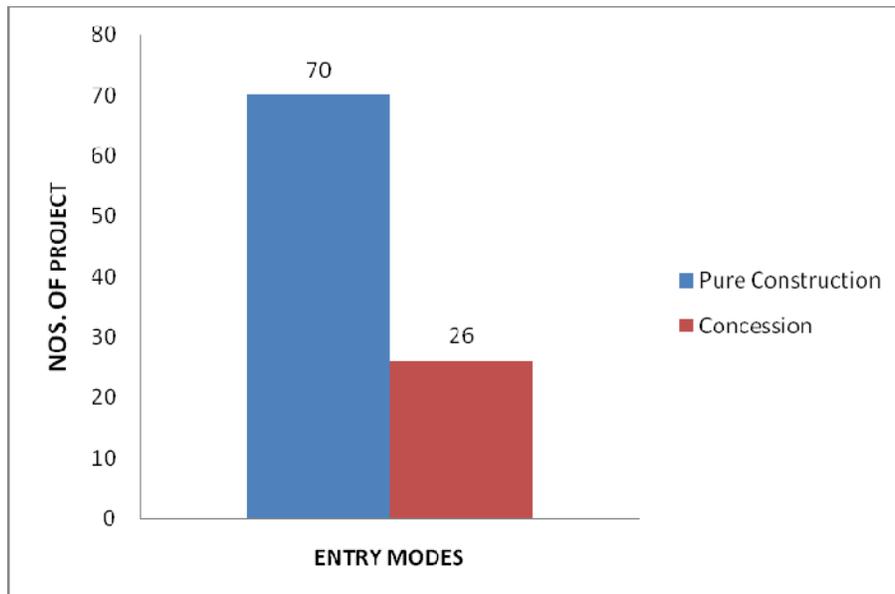


Fig. 10: Types of of entry modes for current projects that have been undertaken by Malaysian contractor in international market

Conclusion:

The study presented in this paper surveyed the current position of Malaysian contractor in international market and surveyed the entry strategies adopted by them to venture in international market. Foreign market entry mode choice is seen as one of the most important strategic decisions for a Malaysian contractor seeking to internationalize its operation. The results indicate that there were 652 projects which the valued at RM92.138 mil have been awarded to 109 Malaysian contractor in 49 countries worldwide since 2000 to 2010. This paper also review the market entry modes used by Malaysian contractor to enter into new foreign market concluding that pure construction entry modes become the most preferred types of procurent project by Malaysian contractors to venture in overseas market. However as the time passes by, the concept of concession/BOT/PFI as an entry modes currently become popular among several Malaysian construction companies as to secure the project for the long term. The findings of this study can aid Malaysian contractors when selecting their entry modes for international construction market.

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