

ENABLERS FOR MALAYSIAN CONTRACTORS TO INTERNATIONALISE CONSTRUCTION SERVICES

Mahanim Hanid, Sr Dr. Zulkiflee Abdul Samad and Dr. Hafez Salleh

Centre for Project and Facilities Management (CPFM), Faculty of the Built Environment,
University of Malaya, Malaysia.

Corresponding author:

mahanim@um.edu.my¹, zulkiflee1969@yahoo.com² and hafez@um.edu.my³

Abstract

Construction industry is a complex environment, unpredictable and full of uncertainties. The economic woes that take place in the late nineties have indeed dampened Malaysian construction industry. Projects are scarce and in order to survive, many construction companies seek for other alternative in order to remain in this industry. Thus, many took a brave step and venture upon overseas market. Due to this, research is carried out in order to identify problems that triggered Malaysian contractors to move into overseas market. Apart from that problems encountered in the foreign countries in which the construction companies are operating too are identified. With these objectives in mind, case studies are conducted in India and the Middle East to better understand the situation. Two notable Malaysian contractors companies point of view are taken into account regarding the case studies in which these companies are operating their projects there respectively. The findings from these interviews reveal the success factors of overseas ventures basically lies in the strategic marketing done by each construction companies. This is vital as it determines the company's long term objectives.

Keywords: internationalisation, enablers, construction industry, marketing.

Introduction

Construction industry is a way forward to modernisation. It is a mark to show the development of a country and also to define its economic value in such a way. Thus, the importance of the construction industry is recognised as it brings the overall national output. The magnitude of this industry must be well acknowledged as most forms of economic activities require some form of building and this might be for agricultural, warehouses, office buildings, or even residential purposes.

But, when things are looking great in the Malaysian construction industry, in the year 1997/1998, the economic woes have dampened demand in the domestic market. Construction companies are in desperate measures to survive and in Malaysia itself at that time, projects are scarce. Overseas forays by engineering and construction companies have been mainly driven by increased competition brought about fiscal cuts in public infrastructure projects. In order to keep on going and to make a living, these construction companies took a brave step and take up on overseas projects.

Different parts of the world experience economic prosperity and recession at various times and at different stages of their development. Markets that do not show any

potential now may not always do so and there can be some promising markets in the future that are not yet established as an area of great construction ability and growth. For example, due to the enormous wealth generated in the oil producing areas of the Middle East, overseas construction orders have tended to reflect the state of the oil market.

Opportunities created by foreign countries for infrastructure project, appear to have triggered the process of internationalisation of Malaysian construction firms. There are various stimuli that contribute to the internationalisation of a firm but basically there are two types that have been identified – the internal and external variables. The latter variables appear to be prominent in explaining Malaysian firms' expansion abroad (Ramayah, T. *et al.*, n.d).

Objectives of Research

This research is conducted to achieve certain objectives. There are as follows:

- i. To identify the problems faced in the Malaysian construction industry that triggered the internationalisation of local contractors.
- ii. To identify the key challenges faced by Malaysian contractors operating in foreign market.
- iii. To identify the characteristics of Malaysian contractors that enables them to secure contracts outside their home countries.

An Overview of the Construction Industry

Construction in the historical days was an activity in which all members of the community participated. People of all age participate from the planning to the production stage and they were able to integrate their values to reflect their culture. Buildings at that time were made from basic materials which could be found nearby homes such as timber and mud. As time goes by, the construction of buildings is more complex, and it has become one of the major industries, evolving from uncoordinated activities to an organised industry (Ngowi *et al.*, 2004).

The construction industry is defined in various ways, depending on an individual's point of view. Construction is generally used to describe the activity of the creation of physical infrastructure, superstructure and related facilities (Wells, 1985). According to Nam and Tatum (1988), construction is referred to as all types of activities associated with the erection and repair of immobile structures and facilities. Industry on the contrary is a group of related economic activities classified according to the type of goods or services supplied (Abdullah, F., 2004).

Abdullah F. (2004) thus conclude that the definition of construction industry is the sector of an economy which constructs, alters, repairs and demolishes buildings, civil engineering works and other similar structures. The construction industry also includes the assembly and installation on site of pre-fabricated components and buildings engineering services.

Where the construction industry is concern, it is also worth mentioning the development process as both of them are actually two sides of a coin. Development is considered as the successful transformation of the structure of an economy. Economic structural transformation is defined as a set of changes in the composition of demand, trade, production and factor use needed to sustain economic growth (Kuznets, 1966). The basis for this transformation is the shift of resources from agricultural to industry. An efficient transformation would lead to accelerated economic growth (Abdullah, F., 2004).

Economic progress and development are closely identified with industrialisation (Auty, 1995). There is no actual definition of industrialisation. It is manifested as being mechanisation, and added that it is also characterised by the technology of construction and not the product (Blachère, 1988; Sarja and Hannus, 1995). But all in all, industrialisation leads to the need for housing, infrastructure and other basic amenities. Malaysia views industrialisation as the nation's priority to progress into a developed and industrialised nation by the year 2020 (Jomo, 1990). Hence, the construction industry plays an important role in the development process.

Following this, the construction industry needs to satisfy the expansion and changes in construction demand as development progresses. The local construction industry was confronted with a large volume of demand and was faced with the burden of expanding to keep pace with the momentum generated by development programmes (Ofori, 1990). The way to accomplish this demand is if it has the required resources and capacity needed to support the shortages. By ignoring this, it will results in the delay implementation of projects and hamper overall national development.

Research Methodology

Research methodology is important in the planning stage of producing the end product of a research. The right usage of methodology will ensure that time and effort shall not be wasted. Basically, there are two types of research method which is the quantitative and the qualitative. Quantitative method is a method of measurement where data in terms of frequencies, or mean and standard deviations, become necessary for descriptive studies whereas qualitative method may describe events, or offer solutions as in the case study that follows (Sekaran, 2000).

This research is conducted to identify the prerequisites of local construction firms in Malaysia to internationalize their services in the foreign market. In order to clarify the research topic, a general data collection is gathered so that the significance of the problem and the merit of the research can be identified before the literature review can be developed. This will ensure that the objectives can be achieved at the end of the research and at the same time produce a reliable resource and valid insights for the practicality of local construction firms to enter foreign market.

Next, a literature review is done to establish potential topics and learn what methods are being used by other researcher that has similar background of research. Interestingly, literature review may reveal other topics for further discussion that are remain to be answered, for the purpose of this paper. Relevant studies have been done to clarify the research scope. Sources of research findings include books, scholarly journals, internet surfing, dissertation done by others as reference and some from newspaper clippings

that concerns related topics. By using this information that the literature review are able to be built on. The thorough review is kept developed and evaluated along the process of the preparation of this dissertation.

Case study is an empirical inquiry that investigates a phenomenon within its real-life context. Case study excels at bringing us to an understanding of a complex issue and can extend experience or add strength to what is already known through previous research. It may include single and multiple case studies, quantitative evidence, relies on multiple sources of evidence and benefits from prior development of theoretical propositions. Case study emphasizes detailed contextual analysis of a limited number of events or conditions and their relationship. For this research, the case study chosen will be focus more on India and the Middle East as both countries are filled with Malaysian contractors that mainly undertake projects there.

When doing interview session, it is critical to find knowledgeable people to be interviewed. These persons are those who know the situation or issues better. They may be at the construction site itself or might work in a government office or company that often deals with such situation. A framework of the interview is develop and this should include questions that will help to understand their opinions, those that will give facts that might not be available from an article, and those that gives the interviewee's point of view.

For this research, the interviewees are from respective and distinguished construction companies where they have the experience and expertise in handling projects and challenges that arise while attending to the countries where the case studies are conducted. Telephone interview is one of structured interviews, those conducted when it is known at the outset what information is needed (Sekaran, 2000). The purpose for the phone interviews is basically to gain first-hand information from pioneering contractors regarding the objectives of this research. The same question will be asked from these two different contractors in relation to the number of case studies.

Before that is a brief introduction to the case studies. Case study 1 is on IJM Corporation Berhad which is operating in India. Their major projects in India are mainly on the construction of roads taken with Mumbai Pune Expressway. Case study 2 is on Eversendai Corporation Sdn Bhd. Their most significant project in the Middle East is the Burj al Arab hotel in Dubai.

Findings and Discussion

The findings are according to the following objectives.

Finding 1: Reasons for Venturing Overseas

It is obviously that both countries are of different backgrounds. But one thing is certain; both countries are offering an abundant of opportunities to attract foreign investors towards its countries. As both countries are emerging into a new industrialised country, it is wise for Malaysian contractors to tap on these opportunities given.

India and the Middle East indeed have contributed a lot to our local construction players but these markets have had its time. Our local players are looking for new market to venture upon especially in the Central Asia, Africa and Eastern Europe.

Both IJM and Eversendai are well-known construction companies. Both started out as an ordinary construction companies before they diversified their services. Major projects handled by these contractors reflected their financial capabilities as both are public listed companies. It shows that these companies are very well-established.

Malaysian contractors should make local presence by entering into a joint venture with reputable Host Country companies as this would give them fast access to Host Country's market. In securing projects, it is vital to give competitive pricing. Even if the prices are higher than the competitors, it must make sure that they can offer value addition and greater physiological satisfaction to the clients which are comparable or superior to their nearest competitor. Why would a company offer the same services just as other 100 contractors in the same country.

The reason on why IJM is looking for markets outside home is due to the reason that they fail to acquire local projects. Even though they made quite a reputation in Malaysia, this fact is very surprising. At the same time, India was offering opportunities which will be sustained for the next 10 to 15 years. The Indian economy had been booming for the past few years. Liberalised foreign policies had unleashed the entrepreneurial spirit of its people and many multi-national firms are attracted to invest in India's market.

India currently lacks the infrastructure and until recently, infrastructure development and maintenance was the responsibility of the public sector. However, to achieve greater efficiency and accountability in these sectors, the government has introduced reforms to encourage private participation and competition in infrastructure services. These reform measures have triggered immense opportunities for private investment in India. IJM seeks for this opportunity and they adopt the strategy to move into India as a contractor and from there, trying to find opportunities to start developing land.

On the other hand, the local economic woes have indeed put an impact to Eversendai. The main reason for overseas ventures is the stagnant local construction market. Nothing may trigger the internationalisation of the Eversendai other than the attempts to secure projects locally have been unsuccessful. The opportunities offered by the Middle East are something what this company is searching for.

By having close coordination among government statutory bodies is the right direction to ensure that Malaysian builders are able to tap overseas market. In a way, it will help to shorten the learning curve of local firms in adapting to business practices in foreign countries. It will also assist promising local construction companies in seizing opportunities to venture abroad. But there are exceptions to this rule. There are even contractors who have not registered with CIDB, managed to find their way into overseas market on their own.

Eversendai, having experienced the problems firsthand feels that there is a need for these organisations to look out for smaller companies that are lacking the presence and reputation of bigger companies.

Table 1 : The Differences of Reasons for Venturing Abroad

Construction Company	IJM Corporation Berhad	Eversendai Corporation Sdn Bhd
Reasons for Venturing Abroad	<ul style="list-style-type: none"> - Failed attempts in acquiring local projects - Opportunities offered by India - Liberalised foreign policies - Reform introduces by Indian government 	<ul style="list-style-type: none"> - Local economic woes - Opportunities offered by the Middle East

Finding 2: The Challenges Encountered

Once the fundamentals of a company are in place in the local construction industry, the company will be established for enterprising local builders with the suitable capacity, capability and competency to venture abroad and compete in the competitive global market. They will become the wealth generator for the nation's economy. However, it is certainly not an easy task to perform well in the global market.

Take India, for example. Both Malaysia and India share the similarities in terms of contractual requirement and legal laws, but actually there is more than meets the eye. First and foremost, the cultural differences in both countries are so different than ours and it takes great caution to behave and act in the Host Countries as what are common for Malaysians would be considered as disrespectful towards their culture. The policy conducted by IJM in which they employed Indian workers to work on mega Malaysian projects is indeed an effective way to better understands the Indian culture.

The same goes to the Middle East. The cultural mindsets are totally different and it shows from the way they are being very meticulous in the screening process of awarding contracts even after winning the contracts, they are still very particular about it. The most important thing to bear in mind is to read the contracts very carefully, and a hired a lawyer if necessary to assist in interpreting the contracts because according to the representative from Eversendai, some contractors may be carried away, blinded by the vast amount of contracts that are about to be sign, without even considering the risk of price escalation due to market events.

This brings to the issue of price escalation. According to the IJM's representative, the price escalation will definitely affect the profit margins but this is the reality in property development. Thus, IJM are going for cost compression and are carrying out more projects in order to bring in savings in other forms. Since the escalation of prices is mostly from the external factors, IJM are carrying out significant market research to stay profitable.

The construction boom experienced by both countries had caused the price escalation and the tight supply of materials. This may lead to the large increase in the building

costs and may change the actual amount agreed beforehand. It is common in the industry for a project to take years to complete and inflation rates are in excess.

Furthermore, the unknown conditions that lays ahead in these countries makes it appropriate for construction companies to do a market research in order for them to be prepared for what may lies in front of them. Construction companies need to be prepared for the bottlenecks of existing Indian roads and infrastructure conditions. As in the Middle East, construction companies should study the local market as well as introduce a wider range of products. In the long run, it determines the success of the companies.

Regarding this, an important issue is identified. The key challenges that are expressed by the construction industry players are securing timely and adequate financing. Here comes the size of a company because certain financial institutions have restrained lending to certain players due to poor credit rating, incomplete loan application information, etc.

Other challenges ranging from political changes and war conflicts are unavoidable and beyond the control of the contractor. The effect of this on the construction business will results in delay and according to the IJM representative the liquidated ascertained damages (LAD) imposed on delays are quite high. Bureaucracy adds time and cost to projects as there are no single agency, and had to deal with many parties.

Table 2 : The Differences of Challenges Encountered

Construction Company	IJM Corporation Berhad	Eversendai Corporation Sdn Bhd
Challenges Encountered	<ul style="list-style-type: none"> - Harsh environment - Political changes - Changes in the tax system - Material shortage - Corruption and bureaucratic inefficiency - Price escalation - Cultural issues 	<ul style="list-style-type: none"> - Meticulous screening process - Price and material escalation - Restricted financial abilities - Communication problem with Host Country's bank - War conflicts - Cultural issues

Finding 3: The Success Factors

The success factors of construction companies actually lie in the strategic marketing planning that they have for their companies. This is due to the competition that is getting more intense each passing day. In addition, most construction players are trying to stand out more than the others in order to win more projects.

Technological advancement may also contribute to the success of overseas foray. In many parts of the developing world, information technology has opened up a new dimension of market. The constraints of geographical borders have been reduced and many Malaysian companies are on the cutting edge and are already venturing into these niche areas.

Another thing that was commented on is the timely payment to sub-contractors and suppliers. Payment is the bread and butter of the construction industry. By paying on time would enhance the relationship between contracting parties and avoid unwanted outcomes such as bankruptcy.

Being dependable is what these two companies have in common. Entry into overseas market proves that nothing is impossible and the thing that needs to be highlighted here is the ability to adapt and change according to the requirements of the respective country.

By developing a good relationship with clients and banks also contribute to the success factor of overseas forays. As a result, words of good reputation are spread by mouth and at end of the day, people will be requesting for another round of service.

Ascertain the level of funding and financing offered by financial institutions is another success factor to be considered. By conducting market research to understand the characteristics of a particular market, observe the local environment and culture, understanding local rules and regulations and concentrating on the company's area of expertise are among why these companies are being so successful nowadays.

Table 3 : The Differences of Success Factors

Construction Company	IJM Corporation Berhad	Eversendai Corporation Sdn Bhd
Success Factors	<ul style="list-style-type: none"> - Undertaking projects on its own - Supported by large Equipment base - Strategic policies - Delivering quality products - Timely completion - Built up confidence with clients and banks. - Impressive track record 	<ul style="list-style-type: none"> - Undertaking project's on its own - Good relationship with banks and clients - Building up own facilities - Good reputation - Good relationship between sub-contractors and suppliers - A timely payment - Ensures client satisfaction

Conclusion

This research has been carried out within the scope of stimuli that encourages Malaysian contractors to venture into overseas market as the set objectives. Throughout the research, literature review had been carried out to have a clearer understanding on the whole concept. Data was collected, analysed and the objectives of this research had been achieved.

The first objective is to identify the problems faced in the Malaysian construction industry that triggered the internationalisation of local contractors. This objective could be achieved by referring to the interview analysis in the previous chapter. The interview of

two distinguished Malaysian companies revealed that the main problems lie in the economic woes that have dampened our local industries and also the opportunity that were offered by foreign market. Thus, the first objective had been achieved as it relate with the literature review.

The second objective is to identify the key challenges faced by Malaysian contractors operating in foreign market. Based on the interviews, the key challenges that have been identified are the cultural barriers, price escalation, timely securing and the adequacy of financing. The challenges identified from the literature review was tested and proved from the findings thus the second objective is achieved.

The third objective of this research is to identify the characteristics of Malaysian contractors that enable them to secure contracts outside their home countries. There are no two construction companies that use the same strategy in venturing overseas market and the interviews done prove this statement. Other than that, timely payment, being dependable, establishing good relationship with banks and clients, technological advancement, and doing background research beforehand are among the key essentials to become successful in international market. Thus, the third objective is achieved.

Recommendation

While conducting this research, some limitations have been identified. First and foremost, the vital information that is needed in this research is gained from the top managers of each construction companies. But the top managers are having very tight schedule and it hinders the researcher from getting first-hand information from them. The researcher would have to settle to the information gain by interviewing the representatives of each construction companies though they have less accuracy of information when compared to the top managers.

From this research, it is recommended that in order for Malaysian contractors to go international, the stimuli that encourage the internationalisation of Malaysian contractors are really important as it determines the company's long term objectives. Further studies could be carried out in terms of the impact of government policy on the long-term involvement of Malaysian contractors in related countries.

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