

Assessment of Malaysian Construction Companies’ Capabilities to Venture into International Market using SWOT Analysis

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Abstract

A tremendous demand of development worldwide has gained interest of Malaysian construction firms to venture into the international construction domain. Identifying and analyzing major determinants of both internal and external factors are crucial in order to ease the complexity of entering in global construction business. The main objective of this paper is to evaluate the relative importance in identifying the strengths, weaknesses, opportunities and threats (SWOT’s) related to the international construction market. Responses were received from thirty one (31) Class A and Grade 7 construction firms to establish the SWOT’s framework that includes the elements influencing internationalization. The results indicate that specialist expertise, technology capability and good track record are the most influential strength factor for a company to effectively compete in a global market. However, shortage of financial, material and labor resources contributed into weaknesses in exploring international market. The findings also indicate that technological innovation and beneficiary international agreements provide huge opportunities in overseas market. Whilst, corruption is a threat due to unfamiliar and difficulty in dealing with the moral problem and environment within the host country. Overall, this study offers a valuable reference of practices that interested Malaysian construction companies can make use of this finding as strategies and preparation before moving internationally.

Keywords

Capabilities, Malaysian Construction Companies, SWOT Analysis

1. 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. Several Malaysian contractors proved to be excellent performing in Malaysia's mega projects which has developed the competencies and capabilities of their expertise. However, saturated and diminishing opportunities in the domestic market has driven many Malaysian contractors to make significant inroad into global market as a means to effectively capitalize on special expertise and have greater control over its own development. As the demand was particularly buoyant in the international market especially in developing countries, attracting several Malaysian contractors to expand their business into abroad.

Globalization brought many of Malaysian contractors to expand the business into international market since late 70s. According to the official statistic from Malaysia Construction Industry Development Board's (CIDB) by 2010, international contracts awarded to Malaysian contractor have greatly increased from 25 projects in 2000 up to 652 projects which the values about RM92.138 mil in 2010. So far, there are 109 Malaysian contractors bid on projects in international market. Particularly, 49 countries worldwide mainly developing countries in Middle East and South Asia are being as the hosts of international construction project due to availability of construction market demand.

Internationalization channels the flow of information and resource allocation, bringing people, organizations and countries closer (Wong, 2007). But, a construction firms that moves towards a global marketplace will be facing a higher risk than the domestic market. Globalization creates business environments which impose the political, financial, cultural and legal risk. (Gunhan and Arditi, 2005). Therefore, identifying and analyzing major determinants of both internal and external factors is a crucial in order to ease the complexity of entering in global construction business. According to Dikmen and Birgonul (2004), determination of strengths and weaknesses and matching international market opportunities with firm strengths is a critical strategic decision that requires extensive environmental scanning. The main objective of this paper is to evaluate the relative importance for identifying the strengths, weaknesses, opportunities and threats (SWOT's) of Malaysian contractors in international construction market.

2. Previous Study

Han *et al.* (2010) had studied about the critical issues and successful strategies obtained by global contractors to sustain their growth in international construction, concluding that the uncertainty and aggressive changes of global construction can caused serious threat into international construction player.

According to Ling and Gui (2009), foreign contractors should grab the opportunities in Chinese market by offering their strength in distinguished product and services in order to supplement the local Chinese contractor who was behind in design and technical capability, project management skills, financial capacity and lack of experience in international project.

However, the nature and complexity of international business environment is uncertainties and different from each countries. Vietnamese firms are lagging behind foreign firms in financial capacity, experience in complex projects, knowledge in advanced design and construction technology (Ling *et. al* 2009). Chen and Orr (2009) stated that the needs for good infrastructure, availability of financing sources and natural resources are among the top opportunities in Africa market where Chinese contractor seeks of. Therefore, the complex variables that can affect the performance of construction companies in global market need to be considered in order to reduce the risk associated in international market. (Gunhan and Arditi, 2005).

Based on the previous studies, foreign construction firms have taken different strategies in order to penetrate into foreign market due to external and internal barriers. Therefore, there exists an urgent need for viable strategic planning for Malaysian construction firms who interested in the international construction market.

3. Methodology

This paper primarily to find out from the cross-section of experienced Malaysian construction firms in international market Grade 7, Class A from all over Malaysia on their the opinions in identifying the factors involved in internationalization process of Malaysian companies based on the internal and external readiness of companies who experienced in international construction market.

3.1 Sample Selection

Stratified random for forms of sampling is used in this research. Only 95 construction firms with Class A and Grade 7 and experienced in international projects are selected from the list provided by Construction Industry Development Board CIDB. The construction firms were from all over Malaysia (including Sabah and Sarawak) that conducting the main contracting undertakings of the firms of one or more contracting activities in buildings, infrastructures, branches of engineering, mechanical and electrical, power transmission and plant and oil and gas are chosen to participate for this study.

3.2 Data Collection

In this research, the method adopted is by using the survey questionnaire. The choice of methodology is practical subject to cost and time constraints. The time available for the completion of field survey approximately less than three months. The content of the questionnaire was mainly developed based on the literature review and the objectives of the research. The questions were divided into two portions:

Part 1 General- Applicable to firms who are already experienced in construction activities in international market. The questions touch on their contracting experience, types of contracting activities, and market selection in penetrating the foreign construction market.

Part 2 Factors - The questions are intended to find out their opinion on the critical success factors involved in penetrating international market in term of the company strength and weakness, awareness regarding the opportunities and threats available in international market.

3.3 Respondents

There are 31 responses received, giving a success rate of 33 percent. From the 31 responses used in the analysis, all of them were from the construction firms who had oversea experience in the international market in various countries. There were 64 non responses from the total sample. 6 questionnaires are returned back, indicating that the firms have moved or no longer involve in any overseas contracts.

The results of this study are adopted from the literature of the subject as well as from the opinions and thoughts from 33% of the response rate. Despite the fact that the response rate is very small, this result can be considered as acceptable due to the complexity and limitations of using the quantitative methods. This result also can be well thought-out due to all seventeen respondents were experienced or successful in international construction market namely Malaysian Resource Corporation Berhad (MRCB), UEM Builders Berhad, Gamuda Engineering Berhad, Sunway Construction Berhad, IJM Construction Sdn Bhd, Bumi Highway Sdn Bhd and Bina Puri Sdn. Bhd. All this construction firms are experts in their contracting business and regard the local construction as their operating field, which is reflected in the high scoring in the domestic construction market index. Thus, the effectiveness and the probability of successful of this study can be significant or more convincing especially for local construction firms that aim to position themselves in the global construction market.

4. Data Analysis

4.1 Analysis and Discussions

To facilitate further analysis, the respondents' level of agreement with each statement of factors related to the internal and external factors that associated in international construction were aggregated and analyzed as converted weighted scores.

4.1.1 Key Factors Related to Strengths of Malaysian Construction Company Associated to International Construction

Table 1 shows the mean responses of key factors related to strengths of Malaysian construction company associated to international construction market. Overall, factors that contribute into highest relative index value above 0.8 will be explained in this paper since the result indicates that it's contributing into the importance of SWOT's elements of Malaysian contractors in international market.

Table 1: Mean Responses of Agreement for Factors Related to the Strength of Malaysian Construction Company in International Construction Market

Factor	Element	Relative Index Value	Mean Response
S8	Track record	0.871	Agree towards Strongly Agree
S1	Specialist expertise	0.843	Agree towards Strongly Agree
S7	International network	0.836	Agree towards Strongly Agree
S4	Technology capability	0.829	Agree towards Strongly Agree

a) Track Record

In examining relative importance that relates with the strengths of Construction Company associated to international construction, it is found that track record is the most influential strength when implementing overseas project with the highest relative index value of 0.871. In general, most of the Malaysian constructions companies who are ventured in overseas were believed to have a good track record since they managed to complete local and overseas projects successfully. Through involvement and participation in these projects, Malaysian companies have gained useful experience, knowledge, skills, technology and expertise. According to Gunhan and Arditi (2005), track record is the most important for the specialist and big scale project management where it has demonstrated the previous performance of past successes creates goodwill and provides motivational factor for entry strategies.

b) Special Expertise

From construction firms point of view, the second factors that mostly influenced the firm capabilities in international market are special expertise (0.843). Most of construction companies believe that in order to penetrate overseas market or to be different to other companies abroad, they must have a comprehensive or specific technical and management skills. Ngowi *et al.* (2005) stated that for a company to enter international market, it must have acquired some important expertise and capabilities. Expertise in term of technology can enhance or strengthen their capability when conducting international construction projects.

c) International Network

Ability to develop global networks, establish strong relationship between overseas companies and able to incorporate with local entities can strengthen up company strength in establishing connection in foreign countries. Most of the companies found that a strong relationship with oversea partner in establishing connection in foreign countries is important in order to develop the strength of the company in overseas with the relative index value of 0.836. According to Halpin and Huang (1995), most of the companies tend to seek an advice and guide through the international network to ensure information availability and compatibility. Gunhan and Arditi (2005) stressed on the importance to have international marketing network to enable contractors secure their position; get an accurate information of forthcoming project, buyers, potential competitors regarding the overseas market.

d) Technological Capability

Nowadays Malaysian construction companies have to be prepared in construction industries because technological development and innovation in the industry are rapidly increased. Malaysian contractors found that technological advantage in dealing with technically sophisticated project will give an extra strength to the company (0.829). The development and innovation will increase the productivity a project where there are new materials, techniques in construction and latest equipments in enhancing a project.

4.1.2 Key Factors Related to Weaknesses of Malaysian Construction Company Associated to International Construction

The empirical result (Table 2) shows that the factors related to the weaknesses of Malaysian Construction Company in dealing with global construction market are shortage of financial resources and shortage of labour and material resources.

Table2: Mean Responses of Agreement for Factors Related to the Weaknesses of Malaysian Construction Company in International Construction Market

Factor	Element	Relative Index Value	Mean Response
T2	Shortage of financial resources	0.871	Agree towards Strongly Agree
T1	Shortage of labour & material resources	0.800	Agree towards Strongly Agree

a) Shortage of Financial Resources

Majority of Malaysian construction companies believe that failure in providing sufficient financial resources can significantly affect the company's entry strategic in penetrating foreign market. Inadequate and insufficient financial supply from local and foreign government and also banks is one of the reasons why most of Malaysian construction companies in overseas fail to compete into foreign competition. It is found that shortage of financial resources is the most influential threats when conducting overseas project with relative index value of 0.871. Lacking in term of company's asset liquidity and capital structure are believed to be interrelated to the shortage of financial resources (Yee and Cheah, 2006). In general, most of the construction projects are valuable in price and complex undertaking. Shortage of financial can lead to the shortage of material resources. The cost of labor, material, equipment and financing are critical to project delivery. Because of that, it is necessary for all construction companies to understand the

importance of the financial and get ready with a financial strategy before participating in international market. Nowadays, several Malaysian contractors have secured their job in overseas by executing the project using concession as an entry modes where currently about 1 in 3 on going projects are using concession. 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. This is one way to ease the financial burden that have been faced by Malaysian construction companies in bidding the international project.

b) Shortage of Labor & Material Resources

In term of resources, most of construction companies reveal that shortage of resources in term of labor, material and equipment for the projects become one of the weaknesses in international construction with the relative index value of 0.8. Failure to establish relationship with favorable suppliers within the host country contributed to the shortage of resources and can be detriment to companies in term of cost. Inability for foreign companies to provide innovative employee attraction and retention packages, can lead to the shortage of labor especially for the local employees.

4.1.3 Key Factors Related to Opportunities of Malaysian Construction Company Associated to International Construction

Table 3 shows the mean responses of agreement on the respondents' opinion on the opportunities for Malaysian Construction Company in the international construction market.

Table 3: Mean Responses of Agreement for Factors Related to the Opportunities of Malaysian Construction Company in International Construction Market

Factor	Element	Relative Index Value	Mean Response
O3	Technological advancement	0.829	Agree towards Strongly Agree
O6	Beneficiary international agreements	0.814	Agree towards Strongly Agree

a) Technological Advancement

In general, the promising factor related to the opportunities of construction company in international construction is technological innovation with the relative index value of 0.829. It is noticeable that when venturing abroad, construction companies may establish or learn about the technological innovation for overseas construction activities. By applying information technology, Malaysian contractors either integrate with local partner or as the contributive partners in order to increase their capability in technological aspect and hence provide an opportunity to access to new service areas. However, for continuous improvement in technology innovation, Malaysian construction companies must be aware of emerging technology, be more participative in technology development and committed to research and development (R&D).

b) Beneficiary International Agreements

During the last decade, the world has eye witnessed to the dramatic expansion of opportunities for construction companies in international market (Han and Diekmann, 2001). One of the critical changes that lead to the vast opportunities is the establishment of international agreements such as General Agreement on Tariffs and Trade (GATT) and development of regional Free Trade Blocs. Malaysian construction companies respond their decision with the relative index value of 0.814 that these international agreements have provided them huge opportunities in overseas market in term of elimination

of discrimination against foreign countries and open their construction procurement markets. Besides that these agreements also are likely to increase the construction trade and realign the construction industry by encouraging the formation of alliances and joint ventures (Gross, 1991).

4.1.4 Key Factors Related to Threats of Malaysian Construction Company Associated to International Construction

Table 4 below shows mean responses of agreement by respondents on the factors related to threats in international construction market.

Table 4: Mean Responses of Agreement for Factors Related to the Threats of Malaysian Construction Company in International Construction Market

Factor	Element	Relative Index Value	Mean Response
T3	Bribery in the host country	0.827	Agree towards Strongly Agree
T2	Interest rate increase	0.814	Agree towards Strongly Agree
T1	Lack of awareness	0.812	Agree towards Strongly Agree

a) Bribery in the Host Country

The analysis on the feedback showed that majority of the respondents agreed that the bribery in the host country became the most important factor regards to threats available at international construction with relative index value of 0.827. Unfamiliar and difficulty in dealing with the moral problem and environment within the host country can affect their business. Habib and Zurawicki (2002) stated that foreign companies are unwilling to deal with the planning and operational pitfalls related to an environment within the host country with a different corruption level. In addition, Zhao et.al (2009) pointed out that corruption and bribery particularly in developing countries were common due to instability of political risk. Malaysian construction companies should take an aggressive attitude and fight corruption for their own long-term interest in overseas market.

b) Interest Rate Increase

Another factor that has drawn attention to Malaysian companies was high commission rate of bonds by the local banks with the relative index value of 0.814. Some of the companies agreed that they were having difficulties in paying high commission rates by the local banks. This was due to the high transaction costs involving loan documentation and collection cost. This is because of the loans made to small businesses were small and short term period. Increases of interest rates are usually caused by the increase of instability or risks in construction environment. Participation in international projects can be considered as a high risk business and in order to venture abroad, construction companies need to have a high capital base in order to obtain bank finance.

c) Lack of Awareness

Results showed that there are obviously threats of lack of awareness faced by Malaysian contractors with the relative index value of 0.812. Lack of awareness on the opportunities in the host country is in terms of culture and foreign language. Other threats such as unfamiliarity with the foreign market systems in term of currency and sophistication of the services, unable to establish relationship with the oversea contractors can affect the dealing and negotiating process with foreign companies and authorities. Zhao et. al (2009)

stressed that it is crucial to understand the cultural, regulatory and legal system of foreign market's work in order to acquire a strong knowledge and adequate information regarding local host country's system.

5. Conclusions

The study presented in this paper surveyed the relative importance in term of the strengths, weaknesses, opportunities and threat (SWOT) of Malaysian construction firms in the international market. Empirical result on the relative importance of SWOT's perspective, the findings indicate that track record, specialist expertise, international network and technology capability are the most important strengths: shortage of financial and material resources are the most considerable weaknesses associated to international construction; bribery, interest rate increase and lack of awareness are the most important threats relative to international market: opening up new market, technological advancement and beneficiary international agreements are the most significant opportunities available in international works. Finally, this study is of relevance to Malaysian construction firms as it systematically highlights the internal and external factors that will affect their performance in international market. Hence, this findings offer valuable reference of practices that interested Malaysian construction companies can make use as strategies and preparation before moving internationally.

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