

STRATEGIC FRAMEWORK FOR SINGAPORE CONTRACTORS FORMING JOINT VENTURES IN DEVELOPING COUNTRIES: A PRELIMINARY STUDY

Y.T. Wong ¹, David A.S. Chew ², and Charles Y.J.Cheah ³

¹ MEng Candidate, School of Civil and Environmental Engineering Nanyang Technological University, Singapore

² Associate Professor, School of Civil and Environmental Engineering, Nanyang Technological University, Singapore

³ Assistant Professor, School of Civil and Environmental Engineering, Nanyang Technological University, Singapore

Correspondence to q040037@ntu.edu.sg

ABSTRACT : Given the intense competition and slowdown in domestic demands, there is greater pressure on Singapore contractors to seek overseas markets for revenue and growth. This impetus, coupled with emerging economic reforms in the regional developing countries, has invariably created numerous opportunities for Singapore contractors. However, mixed results were reported on their overseas performance so far. Consequently, this paper aims to formulate a framework that would assist Singapore contractors to successfully export their services into developing countries. The proposed framework comprises ten critical success factors (CSFs), which are identified from in-depth interviews with eight Singapore contractors. These ten success factors are subsequently classified under three different stages, namely initial, entry and operational stages. Preliminary results show that Singapore contractors are most focused on the entry stage, with the highest number of CSFs.

Key words : Joint venture, China, Singapore contractor, Strategic framework

1. INTRODUCTION

Since the 1997 Asian economy crisis, Singapore domestic construction industry has yet to achieve positive growth. The situation was further aggravated with the SARS outbreak and the threats of terrorism. For the past few years, Singapore domestic construction demand remained lukewarm at around S\$11 billion per annum. On the contrary, Singapore construction companies secured more jobs in overseas markets. Total construction export value increases more than eight-fold from S\$0.3 billion in 2000 to S\$2.5 billion in 2004 [1]. However, most of the successful Singapore companies in overseas are Government-Linked Companies (GLCs). Although Singapore construction small and medium enterprises (SMEs) represented over 90% in number of the whole Singapore construction industry, their contribution has been disproportionately low. This is despite the fact that the number of exporting firms has increased slightly from 51 in 2003 to 53 in 2004 [1]. Apparently, Singapore contractors, especially the SMEs, are having difficulty venturing abroad and establishing themselves overseas. Given their small size and limited resources, joint ventures appear to be the most viable strategy to internationalize their operation [2].

The objective of this paper is to formulate a framework which incorporates critical factors that could assist Singapore contractors in successfully implementing their joint ventures overseas.

2. CRITICAL SUCCESS FACTORS FOR JOINT VENTURES

Joint venture (JV) is increasingly popular as the entry strategy because of the perceived benefits it brings to host countries through know-how transfer, job creation and capital flow. Additionally, this approach is highly regarded as the best instrument by developing countries to achieve national developmental objectives and prevent foreign domination over their economy.

In light of this, many companies in developed countries have chosen JV as their entry strategy into developing countries [3, 4]. More importantly, studies have revealed that joint venture investments in developing countries are more successful than foreign investments made through other means [5].

The key to success in the joint venture approach appears to be the right choice of partner [1, 6, 7]. Specifically for SMEs, assistance is required to help them locate and select the suitable partner. While joint venture experiences of SMEs are found not that dissimilar to that of large corporations, studies have concluded that success factors revolve around the inherent and complementary strengths of partners [1].

Furthermore, Sillars and Kangari [8] concludes that factors such as project-related asset position, legitimacy, and cultural match observed at the joint venture inception can be used to predict success and provide guidance to project and partner selection.

However, very few research results can be found relevant

to the Singapore context. Prior studies have focused on large corporations' performance of joint ventures in developing countries whereas SMEs' performance in joint ventures has received relatively little attention. Additionally, few researchers have studied joint ventures from the perspective of contractors. Faced with these limitations, this research aims at providing Singapore construction SMEs a strategic framework to successfully manage their JVs in the developing countries.

3. RESEARCH METHODOLOGY

This study has adopted the case study approach with semi-structured interviews to investigate the critical success factors for Singapore construction SMEs in overseas joint ventures. The interview questionnaires comprise two main sections, namely internal stakeholders (such as partner, employees, parent company) and external stakeholders (such as client, local government, suppliers and etc.). It examines both internal and external stakeholders of a JV in order to determine the critical success factors for a successful JV in developing countries.

The data obtained from the interviews are analyzed qualitatively. The success factors for each case would be first summarized and tabulated. Subsequently, these eight cases (contractors) would be cross-compared to determine the key success factors. The credibility of data analysis in this paper was further improved by the use of quotations from the case participants to add qualitative insights into the issues being studied. However, due to space constraints, only those distinctive comments from interviewees would be cited to illustrate the point of concern. Each comment is presented in italics, and it is attributed to the interviewee identified with the company indicated in brackets.

Characteristics of Interviewed Companies

Eight contractors were successfully interviewed for the data collection in this paper. In order to protect the confidentiality and privacy of the interviewed companies, all the eight companies are anonymously named as A to H, as shown in Table 1. As indicated, the company characteristics are given (marked with a cross) to afford readers a basic understanding of their profiles.

All the eight interviewees hailed from the top management who were responsible for their company's overseas ventures. The eight companies consist of seven SMEs and one large corporation. They came from various construction sectors including civil engineering, building, environmental engineering, and electrical and mechanical engineering. Other than their contracting business, Companies A, C, D and H had diversified their services into related fields, whereas Company G had diversified into both related and non-related fields (Table 1). As indicated in Table 2, the majority of the companies have projects in East Asia, followed by South Asia and South-east Asia. This is not surprising as countries in these regions are developing and generating huge construction demands for infrastructures, residential and industrial buildings.

Table 1. Characteristics of Companies A to H

Company	SMEs	Large Contractor	Diversified into Related Field	Diversified into Non-related Field	Respondent's Designation
A	x		x		Director
B	x				Contract manager
C	x		x		Director
D	x		x		Director
E	x				Business manager
F	x				Director
G	x		x	x	Deputy GM
H		x	x		Director
Total	7	1	5	1	

Table 2. Presence of Companies A to H in Asia

Company	East Asia	South Asia	South East Asia
A	x	x	x
B	x		x
C	x	x	x
D	x		
E		x	
F	x	x	x
G	x	x	x
H	x	x	x
Total	7	6	6

Although these eight companies interviewed had overseas operations, their level of overseas exposure differed. Table 3 classifies them into either veteran or amateur companies, based on their years of overseas experiences attained.

Table 3. Classification of Companies A to H

	Veteran Companies				Amateur Companies			
	A	C	G	H	B	D	E	F
Years of overseas experiences	<15	<15	10	16	<5	<5	<5	<5

Half of the companies (B, D, E & F) are amateur companies with less than 5 years overseas experiences whereas the remaining half (A, C, G & H) are veteran companies which have at least 10 years of overseas experiences. The interview results on critical success factors required to successfully manage their overseas joint ventures will be discussed next.

4. RESULTS

Table 4 shows the results of the interviews on the critical success factors (CSFs) for Singapore contractors in overseas ventures (marked with a cross).

Table 4. Critical Success Factors

CSFs	Veteran companies				Amateur companies				Total
	A	C	G	H	B	D	E	F	
Localization & training	X	X	X	X	X	X	X		7
Clear objectives & commitment	X		X	X	X	X	X		6
Good connection	X	X	X		X		X	X	6
Right partner		X	X	X	X	X		X	6
Beyond contractor role	X	X	X	X			X	X	6
Diversification	X	X	X	X		X			5
Be selective		X	X	X		X		X	4
Government support	X	X	X				X	X	5
Culture appreciation	X			X	X	X	X		5
Singapore brand			X	X	X		X		4
Total	7	7	9	8	6	6	7	5	

As indicated, veteran companies have at least 7 critical factors out of the 10 listed in Table 4. In contrast, amateur companies have less than 7 critical success factors with the exception of Company E. There are a few reasons to explain this, but the two most prominent reasons are their supportive project owner and clear commitment from their top management to develop their overseas presence. “*We know our goals and we are progressively working closer to them*” (E). Although financial data are not available to compare their overseas performance, in general, the veteran players are deemed to possess more critical success factors as they had accumulated more experiences and greater exposures.

5. DISCUSSION

The ten CSFs are further grouped into three stages, namely initial, entry and operational, for further discussion. Figure 1 shows the proposed strategic framework of these three stages. These stages are discussed next.

Initial Stage

Factor #1: Clear objectives & commitment

Regardless of whether big or small companies, the interviewees invariably agreed that they need to have clear objectives and commitment to succeed overseas. It is important for them to know why they are going overseas and which direction they are heading for. “*Before any Singapore contractors venture overseas, they must first carry out self-assessment to determine if overseas construction is suitable in relation to their technology base, financial affordability, skill levels and etc*” (H). The following are some of the assessment questions they must ask themselves before venturing overseas:

- Do they have the construction services and solutions that will serve the target market in such a way that local (host) contractors cannot provide? It is pointless to provide similar services as the locals.
- Are they competitive enough to serve the overseas markets compared to local contractors?
- Do they have sufficient resources to stake out in the long term?
- Can they afford to take the risks?
- Of all the alternatives available, is overseas venture the best choice for growth and revenue?

Only those with answer “Yes” for all the questions above are likely to succeed overseas. This could be easily explained as, firstly, their strength meets the needs in overseas markets; secondly, they have the required resources; thirdly, their risk assessment shows a clear sign of going ahead; fourthly, they know their direction for corporate growth. With such clear understanding of objectives and commitment, it is unlikely that Singapore construction SMEs could not succeed overseas.

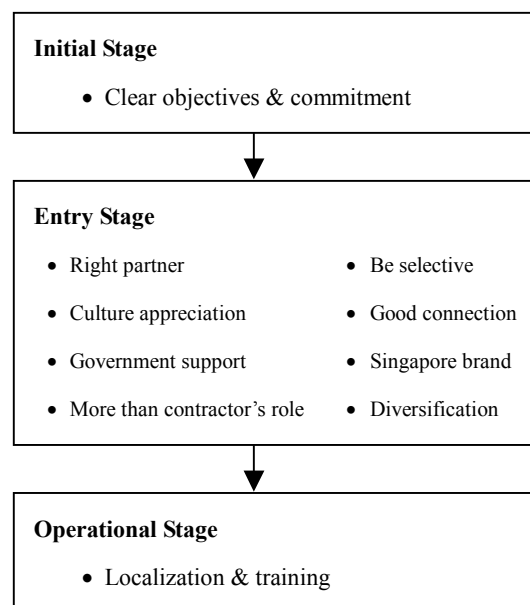


Figure 1. Proposed Strategic Framework

Entry Stage

Factor #2: Right partner

Owing to their small size and the new environment overseas, partnering becomes a popular means for Singapore contractors to pursue overseas expansion. They could either form a joint venture or a consortium. The main rationale is to combine resources and share the risks. In such circumstances, partner choice becomes important. The choice of the joint venture partner was further echoed by Kirby and Kaiser [1] as the key to SME’s success in international joint ventures.

Investigating the causes to the problems encountered by Company D, it can be inferred that there is a lack of due diligence at the outset to find out about its state-owned partner. The joint venture was neither happy nor successful. Though Chinese state-owned enterprises can apply for central funding for project execution, the complexity of

application can be time consuming and project schedule can be delayed significantly. *“The difference between partnering with Chinese state-owned enterprises and private companies must first be comprehended and treated with care”* (D).

“Since we have previous working experiences with our Chinese subcontractors, we find it easy to cooperate with them in our China venture; we save a lot of time in trust building than developing relationship from scratch” (B). Indeed, this kind of partnership is highly recommended because the risk is significantly smaller as previous working experiences have ironed out differences between one another. Hence, Singapore construction SMEs should make good use of previous working experiences for their overseas ventures in future.

Factor #3: Be selective

Out of the eight interviewees, five of them unanimously highlighted that the need for being cautious and conscientious in selecting partner, project, and client is critical to their performance overseas. Partner choice has been discussed earlier and thus would not be repeated here. Project and client selection will be discussed next.

Project selection

Out of the five interviewees who chose to be selective, four (D, F, G and H) belong to public-listed companies. It can be easily understood why they have to be extra careful in project and client selection. They need to account for shareholders and public interest as well as the movement in share prices. *“Our board of directors required at least 22% rate of return in order to approve the investment plan”* (G). When asked by its shareholders on the fruitless results in overseas markets, Company F replied that *“Opportunity avails but at high risk which requires huge investment; owing to our size and lack of overseas experience, we have to be extra careful in project selection and more importantly we could not afford to lose”*.

Company H further added that: *“We would only involve in project bidding with less than five competitors and for projects which we can value add”*. This clearly explains their strategy to compete in a small group for which their chances of success are higher. Moreover, their capability to customize solutions for clients has allowed them to command a premium in services.

Client selection

Trustworthiness and creditworthiness of clients are two most important aspects to consider in client selection. Preliminary work has to be carried out with due diligence to find out reliable method for credit payment by clients. *“We don't really trust solvent guarantee especially in developing countries; instead, we demand letter of credit (LC) from international bank to safeguard our interest in overseas operation”* (G). This is understandable because the company can be easily trapped in financial difficulty in developing countries where laws and regulations are not fully developed. Extra caution and conscientiousness are required to protect the investor's interest.

Factor #4: Culture appreciation

Five interviewees opined that Singaporean contractors who wished to partner with local contractors must learn to understand and blend with the local culture. Owing to different background and value systems, Singaporean managers should not force the local people to accept the Singapore style of working. Instead, they should integrate the local culture into their company operation systems and procedures. However, they noted that it takes time to change their preconception and mindset.

For China ventures, most of the respondents found that “face” value is very important. The Chinese do not like to be confronted in front of people. They prefer indirect ways such as going through third party to convey the message. On the contrary, as related by Company E, people in Sri Lanka prefer to talk face to face rather than through phone or third party. They perceived it as a kind of respect for one another. As such, understanding cultural differences is very important so as to prevent any unnecessary offence or conflict against the local people.

For joint ventures with local partners, Singapore contractors have to show their commitment in order to earn the local's trust. Sincerity and patience are required to manage and maintain the relationship and thus the joint venture. It might involve a lot of give-and-take during the venture and neither party should seek dominant control over the other. Fairness and a win-win concept should be highly emphasized whenever possible.

In general, regardless of working in whichever country, there is a necessity to adapt to the local culture and work practices. There are no short cuts to this end. Singapore contractors should be humble and learn to adapt, respect and work within the local constraints. Whenever possible, Singaporeans should live with the local environment and experience to understand the locals better.

Factor# 5: Good connection

Connection, also termed as network or “guanxi”, is an instrumental tool to facilitate both overseas and domestic business. Some of the benefits of good connection are highlighted by the respondents and discussed below.

High efficiency and cost effectiveness

It is more cost effective and time efficient to engage the right person/subcontractor for the job overseas, in particular for the tasks that require government's approval. *“You just have to know that particular person to do the specified job”* (B). This is also true in Singapore market where there are government-appointed contractors for certain specific work. Hence, it is advantageous to keep and maintain such connection.

Business opportunity

To certain extent, good connection also means business opportunity. *“Good connection and extensive networks allow us to seize opportunity in time”* (E). Though this may be at times perceived as hanky-panky business, it is however the reality of the business world. Those capable of accessing insider information would enjoy first-mover advantage, thus

having higher chances of success. Equally true are the repeat customers whom the contractors have well-maintained connection and relationships with. *“Through the good connection, we enjoyed a few piggy rides with the same clients”* (C & B).

Information sourcing

One of the main objectives to maintain and develop connections is to source for information. *“Having worked with one of the biggest Indian M&E contractors in Singapore, we were able to source for practical information about the market condition, legal and tax structure and potential opportunity in India”* (G). Undeniably, good connections provide opportunity for construction SMEs to source for market information, allowing them to be well prepared for the new markets.

Factor #6: Government support

Government plays a vital role in promoting construction export. Most of the interviewees hoped that the government would formulate incentives and financial schemes that specifically target construction companies going overseas. Also, they hoped the government can give a mandate to Government-linked and Temasek-linked Companies to assist and bring along Singapore construction SMEs in developing overseas markets. Though construction contribution to the Singapore GDP is quite low, nonetheless it assumes a disproportionate importance in the economy as it supports a large number of players ranging from materials’ suppliers to civil engineering consultants and specialist contractors. Hence, the government’s support is crucial for overseas construction business.

Factor #7: Singapore brand

Renowned for its business integrity, efficiency and great transparency, Singapore contractors benefited from such intangible values in project bidding. They are highly valued and regarded with great expectation on their performances. *“Vietnamese SOEs are readily available to cooperate with Singapore contractors to develop their residential estate because they believed that Singapore participation can spur the selling price for residential properties and generate higher occupancy and sales growth”* (G).

While overseas clients are more confident and comfortable working with Singaporeans, they usually have high expectation on their product quality and services delivered. Apparently, the Singapore brand is an added value to Singapore contractors who can capitalize on this as an advantage for project tendering. Singapore contractors should be committed to deliver their best overseas so that the goodwill of the brand can be further maintained and sustained.

“The Singapore brand is an added advantage especially in dealing with international clients who demanded high quality product and sourcing” (E & B). This is especially crucial when Singapore contractors compete against the indigenous counterparts. Given their established international network and previous experiences of dealing with international clients, Singapore contractors can easily

understand and meet the client’s requirements.

In brief, the Singapore branding is highly recognized in developing countries. This added advantage has made the inroads to developing countries’ markets much easier. Hence, Singapore companies should continue to uphold the dignity and integrity of the Singapore brand overseas.

Factor #8: More than a contractor role

According to Company F, most of the developing countries’ needs are no more than these two factors – money and expertise/specialty skills. Firstly, they do not need any general contractors to provide construction of buildings or civil engineering works. Their indigenous contractors can do equally well. Instead, they are lack of money to develop their infrastructure facilities, industrial parks, and residential housing. This is why their government touted aggressively for foreign investments. Secondly, they are looking for foreign investors with sophisticated technology or expertise. They want technology transfer so as to upgrade their existing skills and catch up with the world economy. Singapore construction SMEs neither possess any of the two factors, said Company F. *“While roadwork construction isn’t technology intensive, we don’t have enough money to invest in BOT project which we find it very risky to operate, manage and maintain”*. This is understandable because roadwork project is rather politically sensitive and it might not be easy for them to negotiate for toll fee increment if the inflation is high during the concession period. Apparently, this explains why Company F has yet to secure any deal overseas so far. They are unable to add value to their general services such as financing.

On the contrary, being a large contractor, Company H has strong financial muscle and possesses a variety of in-house expertise. They are capable of providing total solution for their clients from concept inception till project completion. Furthermore, they have established a strong brand name as they started their overseas ventures since the late 80s. They have successfully developed their presence overseas and the future prospects look promising.

In brief, general contractors who cannot add value to their existing services would find it hard to sustain their overseas markets. As discussed earlier, before venturing overseas, they should carry out self assessment to determine what they can offer and whether the services offered are competitive enough to sustain in the long haul (Factor 1). Specialist companies or multi-disciplinary companies, on the contrary, are envisaged to have lower entrance barrier and relative ease to secure job due to their specialty or comprehensive service nature.

Factor #9: Diversification

Five out of eight interviewees agreed that diversification has become the growth and survival strategy for Singapore contractors overseas. Pure construction service is not sustainable in overseas markets. Company G provided a practical case to exemplify the advantage of having a diversified company portfolio. In 2003, Company G’s construction, engineering and property development services were seriously affected by SARS, the Iraqi War and

terrorism in the region. However, the company group profit level was not affected and was cushioned by increased earnings from the group's earlier investment in electronics sector via a joint venture entity. This has clearly demonstrated that diversification spreads the investment risks and could counterbalance any income deficit in other sectors.

Company D's managing director added that his trading business in China is indeed more profitable and easier to manage compared to its core business of waste and water treatment plants. "*We find it easier and less risky to do trading than to undertake project works in China, and more importantly, the prospect for trading looks very promising*" (D).

Operational Stage

Factor #10: Localization & training

All interviewees who have overseas projects (except Company F who is yet to secure any overseas project) considered localization and training development as one of the essential strategies for overseas business development. This factor not only reduces the costs associated with expatriate employment, but also allows Singapore contractors to recruit and make good use of local talents to run their overseas operation. According to them, they only deployed a few Singapore top executives to oversee their overseas projects, with the remaining staff ranging from middle management to floor workers being recruited locally. Owing to their familiarity with local practices and culture, local staff can contribute significantly to the performance of these companies overseas. In tandem with the company in-house training program, local staff have invariably gained the necessary skills and knowledge to manage their works more effectively and efficiently. However, results of localization and training would take time to build up. It is delighting to find out that every interviewee foresees the long term strategic and economic benefits accrued from the localization and training development program. "*While we have only four Singaporean staff in China, our turnover there amounts to US \$92million*" (A).

6. CONCLUSION

The preliminary framework for Singapore contractors to successfully manage overseas ventures was derived in this paper. Among the three stages in the framework, which incorporates a total of ten CSFs, it is clearly observed that Singapore contractors paid special attention to the entry stage, with eight CSFs. This is understandable because construction, unlike other industries, has relatively short project (contract) duration and continuous efforts to seek out new construction projects are mandatory. As such, it emphasized the importance of partner choice, being selective, culture appreciation, good connection, government support, Singapore brand, beyond contractor role and diversification, which ultimately aims to enlarge Singapore contractors' opportunity windows and enhance their chances of success in overseas ventures.

In conclusion, this paper presents a preliminary framework, based on findings obtained from experienced

practitioners, to help more Singapore construction SMEs to achieve better performance overseas in future, using the joint venture approach.

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