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NOTE

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The internationalization of British construction companies is not a new phenomenon. A recent stated aim of some of the larger companies has been to increase their overseas activities in an attempt to counteract some of the problems within the domestic construction market. This paper examines the international performance of British construction firms during the period 1990–1996, and is based on a questionnaire survey of senior executives of the largest British construction companies in an attempt to analyse their perceptions of the overseas market. The survey was concerned with the companies' general views, reasons, objectives, conditions, location and future expectations with regard to their overseas operations. The principal findings indicate that British firms had increased their overseas activities during the study period. However, despite theory to the contrary and relatively high levels of construction demand in some developing countries, they had tended to conduct the major share of their overseas work in developed countries. The reasons given for this bias were that developed countries provided: a secure environment in which to evaluate risks; financial security; and less corruption. The results suggest further that shareholder influence is an important factor affecting the respondent companies location overseas. It was concluded that while market demand is a factor for overseas location by British construction companies, it is only one of many.

Keywords: Internationalization, British construction companies, location, perceptions

Introduction

Previous research (Crosthwaite, 1997) on the performance of British construction companies in international markets during the period 1990–1996 indicated that the major share of their overseas activities appears to be conducted within developed, rather than developing, regions. This finding is not only contrary to the practice of some competitors but also to Seymour's (1987) theory that the major markets for international contractors will be in developing countries rather than industrialized countries. This he suggests is due to the relatively high levels of construction demand within developing countries.

This paper examines the reasons, objectives and conditions considered important by British construction

companies operating overseas, in an attempt to explain their location. The research is concerned with international contracting activity performed by the top ten British construction companies (Amec, Balfour Beatty, Bovis, Costain, John Laing, Mowlem, Tarmac, Taylor Woodrow, Kvaerner and Alfred McAlpine) who, according to Department of the Environment (DoE, 1997) and *Engineering News Record* (ENR, 1997) data, account for approximately 90% of overseas activity by British firms.

Methodology

The paper is based upon the results of a confidential questionnaire survey distributed to the ten British

construction companies with the highest overseas turnover in 1996. The DoE (1997) notes that almost 90% of overseas construction activity conducted by British companies is carried out by these top ten firms, it is therefore considered that they are representative of the majority of overseas work undertaken by British construction companies. Furthermore, all but one of the companies surveyed appear in the annual survey of the top international contractors conducted by ENR (1997). Both DoE and ENR sources have been used extensively to provide the analysis on which this empirical research is based.

The survey was distributed to chief executives of the construction companies and the managing directors of the international divisions. Of the ten companies surveyed, all completed and returned the questionnaire. Of the ten questionnaires returned one was completed by a chairman, three by managing directors, one by the head of strategic development, with the remaining five completed by managers. The survey was concerned primarily with three areas and these were broken down into general, specific and location questions, with responses generally ranked by mean. This method enabled an attempt to be made to address the issues discovered in the desk research, and also allowed comparisons to be made between this research and earlier works by Seymour (1987), Enderwick (1989) and others.

Survey respondents' general views of the overseas market

The results of the general questions can be seen in Table 1. There was general agreement on questions 11 and 13, supporting earlier evidence (Crosthwaite, 1997) that British construction companies have increased their overseas turnover, both in real terms and as a share of total turnover during the period 1990–1996. However, responses to question 12 indicate less agreement, with only four out of nine respondent companies stating that their overseas profitability had increased during the period 1990–1996. This is interesting considering that the respondents rank the increase in long term profitability as very important, and the increase of short term profitability as important reasons for operating overseas, as shown in the following section. This appears to suggest that the majority of respondent companies have not met their expectations from operating overseas during the period 1990–1996, and also tends to support findings by Hewes (1993, 1994, 1997) with regard to the overseas profitability of British construction firms.

The response to question 1, does your company's overseas workload favour developed over developing

countries, was by mean value negative. Six respondent companies answered no to this question, one was not sure, and three answered yes. The reasons given by the three respondents for their overseas workload favouring developed over developing countries were: a secure environment in which to evaluate risks; financial security; and less corruption. However, of the six companies that responded negatively to question one, two indicated that their largest overseas market, by turnover, was North America. Furthermore the company that was not sure of their response also indicated their largest overseas market as North America. This seems to identify a conflict in the responses, with 60% of companies indicating their largest overseas market is in a developed region, although only 30% indicated that their overseas workload favoured developed over developing countries.

There is general agreement by the respondents that overseas work carries higher risk than domestic work, and companies therefore require higher returns to consider overseas work. Most respondents thought that overseas work in developed countries did not carry any less risk than work in newly industrializing countries (NICs). However, most respondents thought that overseas work in developed countries carried less risk than work in less developed countries (LDCs).

Most respondent companies indicate that the increase in overseas turnover has been accompanied by an increase in the number of overseas offices during the period 1990–96.

The responses to questions 7, 8 and 9 indicate that generally most companies expect to increase their overseas work in developed countries, NICs and LDCs in the future. The most interesting result is the increase expected in LDCs, with only one company not expecting any increase. It was also found generally that government help, through increased aid provision or the extension of the Export Credit Guarantee Scheme, would influence a companies decision to approach developing markets, which supports a similar finding by Enderwick (1989).

Question 14 concerns the number of overseas offices. Most respondent companies indicate that the increase in overseas turnover has been accompanied also by an increase in the number of overseas offices during the period 1990–1996. What perhaps is more interesting is that most respondent firms have not increased their number of foreign company acquisitions during 1990–1996. This is interesting given that Arditi and Gutierrez (1991) suggest that one of the most successful strategies for penetrating into foreign markets, besides joint venturing, is to buy a stake in a local company, particularly in countries where the government establishes strong barriers against foreign competition, an argument supported by Ive (1994). Perhaps it can

Table 1 General survey results

	Yes (%) 3	Not sure (%) 2	No (%) 1	Mean value	Sample size
1. Does your company's overseas workload favour developed over developing countries?	30	10	60	1.7	10
2. Does shareholder influence affect your company's investment decisions overseas?	60	20	20	2.4	10
3. Does your company consider overseas work as carrying higher risk than domestic work?	90	0	10	2.8	10
4. Does your company require higher returns to consider overseas work?	80	10	10	2.7	10
5. Do you consider overseas work in developed countries as carrying less risk than work in NICs?	20	20	60	1.6	10
6. Do you consider overseas work in developed countries as carrying less risk than work in LDCs?	50	10	40	2.1	10
7. Do you envisage your overseas work in developed countries increasing in the future?	60	30	10	2.5	10
8. Do you envisage your overseas work in NICs increasing in the future?	70	0	30	2.4	10
9. Do you envisage your overseas work in LDCs increasing in the future?	70	20	10	2.6	10
10. Would government help through increased aid provision or the extension of the Export Credit Guarantee Scheme influence your company's decision to approach developing markets?	80	10	10	2.7	10
11. During the period 1990–1996 has your company's overseas turnover increased?	80	0	20	2.6	10
12. During the period 1990–1996 has your company's overseas profitability increased?	44	22	33	2.1	9
13. During the period 1990–1996 has your company's overseas turnover as a share of total turnover increased?	90	0	10	2.8	10
14. Has your company increased its number of overseas offices during the period 1990–1996?	80	0	20	2.6	10
15. Has your company increased its number of foreign company acquisitions during the period 1990–1996?	30	10	60	1.7	10

be argued that the increase in overseas workload during 1990–1996 has arisen largely as a result of joint ventures, rather than foreign company acquisition, which would help explain the increase in overseas offices, a relationship established by Enderwick (1989).

Factors considered important by survey respondents with respect to internationalization

The survey was concerned with specific questions relating to the reasons, objectives and conditions considered important by British construction companies when operating overseas.

Table 2 indicates the responses of the British construction companies surveyed with respect to their reasons for operating overseas. The joint top ranked

response was to increase long term profitability, and this is broadly in line with previous research in this area by Seymour (1987) and Abdul Aziz (1994), although their work was not purely restricted to British companies. Perhaps the most striking difference in respect of Seymour's findings is the weight given to the maintenance of shareholders returns as a reason for operating overseas. This finding tends to support the work of Neo (1975), who argues that protection of shareholders interests is a major motivation for international involvement. As the findings in the previous section indicated, shareholder influence generally affects the respondent companies investment decisions overseas, and it is perhaps possible to argue that shareholder opinion is important in the choice of overseas markets, possibly favouring the 'safer' developed country markets rather than the perceived higher risk in developing countries. The importance given to the

Table 2 Survey respondents reasons for operating overseas

Reasons for operating overseas	Very important (%) 4	Important (%) 3	Moderately important (%) 2	Not important (%) 1	Mean ranking	Sample size
To increase long term profitability	70	20	0	10	3.5	10
To maintain shareholders return	50	50	0	0	3.5	10
To diversify risk	20	50	20	10	2.8	10
To balance growth	20	40	30	10	2.7	10
To increase short term profitability	20	50	0	30	2.6	10
To avoid saturation in established markets	10	40	50	0	2.6	10
To make better use of resources	0	50	30	20	2.3	10
To increase turnover	10	10	40	40	1.9	10

maintenance of shareholders returns has probably been brought about by the fact that the vast majority of the firms surveyed are now public limited companies subject to the vagaries of the Stock Exchange.

The third ranked reason for operating overseas by the respondent companies was to diversify risk. However, with a large proportion of overseas work by British construction companies in developed countries (particularly North America) with cycles of a similar nature to the UK's, one has to query whether the strategy is enough to spread the risk significantly, a point also made by Ive (1994).

Table 3 shows the priorities accorded to the various objectives for operating overseas by those British construction companies surveyed. The top ranked response was to tap new and booming markets, and appears to be supported by the responses to later questions with relation to future markets. This implies that companies should be able to identify and position themselves to take advantage of new and booming markets, and supposes an increased marketing function to be aware of these opportunities before competitors. The second ranked response with regard to objectives for operating overseas is to protect the company against cycles. In the recent past this objective probably has not been achieved, due to the reliance on developed countries markets. Abdul Aziz (1994) suggests that as construction industry cycles are

becoming increasingly synchronized, international construction firms should acquire a fairly even footing in nations of dissimilar development phases.

The responses of the surveyed companies in relation to conditions considered important in working in a particular country can be seen in Table 4. Political stability is the joint top ranked response, and tends to support Hillebrandt *et al.*'s (1995) findings that when selecting overseas markets, contractors are interested in the stability of the country and therefore the ability to get paid. Potential economic growth of a country is also regarded as an important condition. The link between economic growth and construction activity has been established by Turin (1969), Strassmann (1970), Edmonds and Miles (1984), Wells (1985), and Bon (1992). The next most highly ranked responses relate to levels of competition, and the weight given to these responses seems to indicate that companies will not enter markets where competition is intense. The OECD (1992) suggest that competition in OECD construction markets is expected to grow, raising questions as to why developed country markets should be favoured by some British construction companies? Levels of foreign competition are considered more important than levels of indigenous competition by most respondents, perhaps indicating the increasing internationalization of overseas construction. With some NICs and LDCs now exporting construction

Table 3 Survey respondents objectives for operating overseas

Objectives for operating overseas	Very important (%) 4	Important (%) 3	Moderately important (%) 2	Not important (%) 1	Mean ranking	Sample size
To tap new and booming markets	60	30	10	0	3.5	10
To protect company against cycles	20	70	10	0	3.1	10
To maintain edge over competitors	30	30	20	20	2.7	10
To help poorer countries develop	0	10	60	30	1.8	10

Table 4 Conditions considered important by survey respondents for working in a particular country overseas

Conditions considered important in working in a particular country overseas	Very important (%) 4	Important (%) 3	Moderately important (%) 2	Not important (%) 1	Mean ranking	Sample size
Political stability	60	40	0	0	3.6	10
Potential economic growth	60	40	0	0	3.6	10
Levels of foreign competition	30	70	0	0	3.3	10
Levels of indigenous competition	30	60	10	0	3.2	10
Potential project size	30	50	10	10	3.0	10
Growth of market	20	60	20	0	3.0	10
Potential for future projects	20	60	10	10	2.9	10
Size of market	10	60	30	0	2.8	10
Home country links	20	40	30	10	2.7	10
Openness of market	20	30	50	0	2.7	10
Language similarities	10	40	40	10	2.5	10
Long association with market	10	40	40	10	2.5	10

services, the market is becoming more competitive, the result being that British companies must ensure they capitalize on their ownership advantages.

The rank of the responses related to potential project size, growth of the market and potential for future projects are perhaps interesting in that they are not considered more important. All these conditions relate primarily to the circumstances that exist in the construction markets of developing countries, and perhaps this goes some way to explaining the overseas location of British construction companies, primarily in developed countries.

Survey respondents present and expected location in overseas markets

The initial findings of this research (Crosthwaite, 1997) indicated a bias towards developed countries markets by British construction companies. This is borne out by the survey and can be seen in the responses in Table 5.

Four respondents identified the North American, one the European, and one the Oceanian (particularly Australia) markets as currently being their largest overseas markets, by turnover. In contrast, four respondents identified the Asian market as currently being their largest overseas market. This tends to support the previous evidence of a bias towards developed, rather than developing, regions by some of the companies. In relation to where the respondent companies overseas profitability was the greatest, four companies indicated the Asian market, two the North American, one the Middle Eastern, one the Oceanian (particularly Australia) and two companies failed to respond. Two respondent companies had their largest overseas turnover in a region that was not their most profitable overseas market; this is interesting given that the top ranked reason for operating overseas was to increase long term profitability.

The survey attempted to identify the respondents future expectations with regard to overseas markets. Five respondent companies expected the Asian market, two the North American, one the African, one the Middle Eastern and one the Oceanian (particularly

Table 5 Survey respondents largest overseas market by location

	Africa (%)	North America (%)	Asia (%)	Europe (%)	Latin America (%)	Middle East (%)	Oceania (%)
Region where respondents overseas turnover is the greatest	0	40	40	10	0	0	10
Region where respondents overseas profitability is the greatest	0	25	50	0	0	12.5	12.5
Region where respondents expect their largest overseas market to be in 5 years	10	20	50	0	0	10	10

Australia) to be their largest overseas markets in the next five years. This appears to correct the bias towards developed country markets and generally position the companies in markets that are expected to grow.

Table 6 displays the overseas regions where respondent companies expect their overseas turnover to be increasing, decreasing or stable over the next three to five years. The overall trend is increasing in all regions except for the Middle East, the only region where any respondent firms expected a decrease in turnover. The future importance of the Asian market to respondent companies is clearly visible, with eight companies expecting their overseas turnover to increase there in the near future. Clearly the North American market remains important, with four firms expecting to increase their turnover there. The ranking of Europe is interesting, with only three firms expecting to increase their overseas turnover there. Expectations about the African market are perhaps the most interesting, with five companies expecting to increase their overseas turnover in that region.

The overall results appear to suggest that the respondent British companies will increase their overseas turnover in the next three to five years, with the bias towards developed countries shifting towards developing countries in the near future. However, whether British companies have moved quickly enough into these markets, that are now dominated by their competitors, remains to be seen.

Conclusion

In summary the survey results suggested that the respondent companies had increased their overseas turnover during the study period, although not all were experiencing increased profitability. The results also suggested that the increase in overseas workload may have arisen largely as a result of joint ventures rather than foreign company acquisition. The survey respondents most important reasons for operating overseas

are to increase long term profitability and to maintain shareholders returns. Their most important objective was to tap new and booming markets. The respondents considered political stability and potential economic growth as the most important conditions for working in a particular country overseas.

The empirical findings tended to support previous research (Crosthwaite, 1997) with regard to the location of the respondent companies, i.e. primarily in developed countries. The research indicated that some respondents felt that developed countries markets provided: a secure environment in which to evaluate risks; financial security; and less corruption. On the basis of the empirical findings it is also possible to argue that shareholder influence also affects the respondent companies location overseas. Companies are perhaps constrained by shareholders and loan institutions, who consider overseas investment, particularly in developing countries, to carry high levels of risk.

Although clearly market demand is a necessary condition for overseas location by British construction companies, from the evidence presented in this paper it may be concluded that it is perhaps not a sufficient condition.

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Table 6 Survey respondents future expectations of overseas regions

Overseas regions where respondents expect their turnover to be increasing, decreasing or stable over the next 3-5 years	Increasing (%)	Stable (%)	Decreasing (%)	Mean ranking	Sample size
	3	2	1		
Asia	89	11	0	2.9	9
Africa	71	29	0	2.7	7
North America	67	33	0	2.6	6
Latin America	60	40	0	2.6	5
Oceania	50	50	0	2.5	6
Europe	43	57	0	2.4	7
Middle East	43	43	14	2.0	7

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