International Strategic Management of Chinese Construction Firms

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Introduction

With the rapid increase in China’s construction demand and the liberalization of the construction market after its entry into WTO, foreign contractors are presented with tremendous opportunities to participate in construction projects in China. Concurrently, Chinese construction firms (CCFs) are also actively involved in the international construction arena. Such developments pose both opportunities and threats for CCFs. How CCFs compete with their international rivals domestically and internationally becomes a major concern for all stakeholders of international construction. Strengthening their international strategic management, especially in strategic positioning and resource/capability cultivation, becomes a top priority and challenge. To tailor suitable strategies and cultivate firm-specific resources and capabilities for CCFs’ internationalization, their international performance is first reviewed. A model for their generic competitive strategy will then be conceptualized.

International Performance Review

CCFs have achieved significant milestones in the international market since early 1980. They are actively involved in construction projects in more than 180 countries or regions (CHINCA 2004). Figure 1 shows the international performance record of CCFs over the past 15 years. However, the international performance of CCFs has not been adequately studied (Low et al. 2004). This section provides an overview of CCFs’ international performance.
Figure 1 International Performance Record of CCFs since 1991

Figure 2 shows the CCFs’ international market share by regions in 2003. It can be seen that the main bulk of CCFs’ business was centred in Asia, which includes the Middle East (CHINCA 2004).

Figure 2 CCFs’ International Market Share by Regions in 2003
Source: CHINCA, 2004
In Asia, CCFs are most active in Hong Kong due to historical and locational factors. Many CCFs are also successful in Singapore because of its similar cultural environment, open construction market and flexible immigration rules (Chew and Liu 2004). However, these two markets have matured due to their size constraint and limited economic growth. For other countries, CCFs’ market shares were not stable, depending largely on whether any big projects could be secured. Table 1 lists the ten most active markets for CCFs, for which Asian countries accounts for the majority.

In Africa, CCFs mainly participated in large infrastructure projects, especially in Algeria, Sudan, Nigeria and Angola (CHINCA 2004). CCFs have a small market share in Latin America, having secured a number of projects in Mexico, Venezuela and other Caribbean countries with the help of the Chinese government. In advanced industrialized countries (AICs), CCFs were hardly able to compete with local contractors in Europe and North America, where they failed to gain sufficient ground in their foray there.

Table 1 Top 10 Countries for CCFs’ International Construction and Labour Service in 2003

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<tbody>
<tr>
<td>Hong Kong</td>
<td>2637.32</td>
<td>Hong Kong</td>
<td>2837.51</td>
<td>Hong Kong</td>
<td>2506.45</td>
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<tr>
<td>Pakistan</td>
<td>614.73</td>
<td>Singapore</td>
<td>927.96</td>
<td>Sudan</td>
<td>1154.18</td>
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<tr>
<td>Singapore</td>
<td>499.33</td>
<td>Japan</td>
<td>704.61</td>
<td>Singapore</td>
<td>1021.81</td>
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<tr>
<td>Sudan</td>
<td>476.91</td>
<td>Pakistan</td>
<td>617.58</td>
<td>Japan</td>
<td>822.90</td>
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<td>Algeria</td>
<td>471.76</td>
<td>Algeria</td>
<td>500.26</td>
<td>Algeria</td>
<td>694.74</td>
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<td>Myanmar</td>
<td>370.74</td>
<td>Sudan</td>
<td>488.54</td>
<td>The Philippines</td>
<td>598.75</td>
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<td>Bangladesh</td>
<td>348.82</td>
<td>Myanmar</td>
<td>378.78</td>
<td>Nigeria</td>
<td>533.38</td>
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<tr>
<td>Iran</td>
<td>328.44</td>
<td>Bangladesh</td>
<td>353.49</td>
<td>Myanmar</td>
<td>463.31</td>
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<tr>
<td>Nigeria</td>
<td>264.28</td>
<td>Iran</td>
<td>337.17</td>
<td>Pakistan</td>
<td>408.12</td>
</tr>
<tr>
<td>Mexico</td>
<td>247.56</td>
<td>South Korea</td>
<td>318.79</td>
<td>Kazakhstan</td>
<td>384.62</td>
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<td><strong>Total for the Globe</strong></td>
<td><strong>13837.36</strong></td>
<td></td>
<td><strong>17233.93</strong></td>
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<td><strong>20930.31</strong></td>
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</table>

Source: Data from CHINCA, 2004 and NSBC, 2004
The types of international construction projects undertaken by CCFs can be categorised as follows: general building, transportation, power, petrochemical, manufacturing, sewage treatment, water supply, telecommunication projects, etc. (CHINCA 2004). In 2003, the top three types of works involving CCFs are general building (28.6%), transportation (18.6%) and petrochemical projects (14.5%) (Figure 3). As indicated, there is a trend from 2001 to 2003 towards more diversification in CCFs’ construction business. General building works remain the biggest share. More projects involving high technology and financial requirements have been undertaken, including large industrial manufacturing, power, water supply and telecommunication works.

![Figure 3 Share of Various Types of Work CCFs involved in international Markets](image)

Source: CHINCA, 2004

**Generic Competitive Strategies of CCFs**

Porter (1985) highlighted three types of competitive advantage that a firm may possess: cost leadership, differentiation and focus. Cost advantage means having lower cost arising from the firm’s ability to perform activities differently than rivals. Differentiation means that a firm differentiates itself from its competitors if it can be unique at its competency that is valuable to buyers (Porter 2002). Focus strategy rests on the choice of a narrow competitive scope within an industry. Hoskisson et al (2003) identified five strategies.
which were adapted from Porter (1985): cost leadership, differentiation, focused cost leadership, focused differentiation and integrated cost leadership/differentiation (hereinafter called “integration mode”). Firms can choose from among these five strategies to establish and defend their desired strategic position against rivals. None of the five strategies is inherently or universally superior to the others (Dess et al 1999). The effectiveness of each strategy is contingent on both the opportunities and threats in a firm’s external environment and on the possibilities provided by the firm’s unique resources, capabilities and core competencies (Hitt et al 2003).

Based on the above literature review and considering the practical situation of CCFs, an overall competitive strategy model is postulated, as shown in Figure 4. Type I strategy approach is to start from focused cost leadership to the integration mode. CCFs could focus on specialised projects in a few target markets to minimise unforeseen risks. Gradually, cost leadership can be broadened to cover more fields of construction. Type II strategy approach is to start from focused differentiation to the integration mode. CCFs could also start from differentiation in a narrow segment where they have competitive advantage in certain construction technology and construction equipment. However, differentiation in a broad range of segments can hardly be achieved by CCFs as they lag behind big Japanese and Western contractors in technology. Ultimately, these two approaches will lead to the integrated mode which is the ideal strategic competitive advantage approach. Type III strategy approach is to start from the integration mode directly with a dynamic balancing process to meet the environmental and organizational changes. To what extent cost leadership can be broadened or differentiation can be achieved is firm-specific. For example, a specialist CCF may exert more differentiation advantage than a building CCF. In contrast, cost leadership may be more advantageous for a building CCF than a specialist CCF. The balance between cost leadership and differentiation is determined by the firm’s business nature and decision makers’ management ability and style. This model is based on two of the hypotheses of the current research, which will need to be validated through subsequent questionnaire survey.
Conclusions

Review on CCF’s international performance showed that they have made noticeable achievements in international construction. However, their international market share is still relatively small, focusing mainly on Asian and African countries. A model for CCFs’ generic competitive strategy was conceptualised, with three evolutionary strategy approaches being suggested. The model and other propositions for CCFs’ internationalisation strategies made beyond this paper will be validated through questionnaire survey in future.

References

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