



25-28 June 2016 Hotel Danubius Health Spa Resort Margitsziget****, Budapest, Hungary

Creative Construction Conference 2016

Foreign Market Entry: An Analysis of Barriers and Market Entry Modes Adopted by Pakistani Contractors

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Abstract

The construction industry plays critical role in the economic opulence of any country. Though developed country contractors occupy major share in the international markets, a number of developing country contractors are increasing expanding their overseas operations. There has been very little variety of work regarding the international market entry modes adopted by these contractors and barriers faced by them while expanding overseas. The aim of this paper is to explore the markets ventured by Pakistani international contractors and to analyze the market entry modes and critical external and internal barriers faced by these contractors. The data was collected by using questionnaire survey method. The findings of the study showed that the surveyed contractors have major presence in UAE and Saudi Arabia. Also, it shows that inaccessible market information is identified as critical external barriers, whereas start-up cost and communication issues are identified as internal critical barriers faced by these contractors. Furthermore, study shows that the two important market entry modes adopted by Pakistani contractors for expanding overseas are Subcontracting and Joint Venture.

Keywords: Internationalization, Barriers, Market entry modes, Contractors, Developing Country

1. Introduction

Different researches done by many scholars have proved that the internationalization of service firms has remained largely under-researched area [1]. As a result, the understanding of this area is less compared to the understanding of the internationalization of manufacturing firms. In spite of the fact that services have been increasingly traded across borders, less scholastic attention has been paid to the internationalization of services firms from emerging economies.

Previous studies have recognized three basic market entry strategies, which are the market selection, entry mode choice and entry timing decision [2]. Furthermore, [3] outlined some market entry strategies which include, choosing a specific market, setting objectives and goals, overcoming barriers, determining a control system to monitor performance, marketing plan to penetrate the market and also choosing the right entry mode to penetrate the market. Selection of the right entry mode for international expansion is a key managerial decision and can have significant and far-reaching consequences for a firm's performance and survival [4]. It is one of the significant parts of a firm's foreign investment strategy. It is inferred that the methods of international market entry vary in three major aspects: (a) cost as resource commitment; (b) control as level of ownership; and (c) risk related to the level of resources committed and the complexity of the environment entered [5].

According to the previous literature, there is still a lack of framework to guide the construction firms to adopt effective entry mode strategies. Hence, this study particularly analyzes the market selection choice, entry barriers and entry mode choices by the Pakistani construction firms in venturing the international markets. The results will be significant for local firms in developing their strategies to face the inevitable foreign market players. Domestic firms will be encouraged and facilitated to expand their business by encountering barriers and implementing effective entry modes to undertake construction projects in international market.

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2. Literature Review

Research has regularly shown that adopting suitable market entry strategies is critical in the firms' decision to enter and later continue in international market. Therefore, before selecting suitable market entry strategies, it is suggested to have an extensive environmental scanning, determination of strengths and weaknesses of the firms and matching international market opportunities and threats with the firms' capabilities [6]. Various researchers have suggested different plans in making the right combination of market entry strategies related to entry mode and entry timing in the international business [7].

The previous researches on the barriers of internationalization have distinguished several extensive areas as market oriented (both international and domestic markets), managerial and industry oriented. It is conceded that barriers of internationalization are present at every stage of the internationalization process. These barriers can vary in intensity counting on the stage of internationalization of the specific firm.

[8] clearly stated the importance of choosing the right entry mode as it requires great resource commitment which may lead to financial burden and time loss. Entry mode is an institutional agreement for organizing and conducting international business transaction or in other words, a decision on how to enter the market. Though, each entry mode comes with its own benefits and risks. Therefore, the decision on which entry mode to be selected is most critical decision faced by MNEs and depends on the internal factors related to the firms' strengths and weaknesses. Similarly, there are external factors related to the international market environment affecting the entry mode choices such as, the opportunities and threats.

[9] have formed a hierarchical model of the basic entry mode choices which are strategic alliance, build-operate-transfer/equity project, joint venture project, representative office, licensing, local agent, Joint Venture Company, sole venture company and branch office/company under two main categories: equity and non-equity. Many researchers have shown that entry mode strategic decisions such as joint venture, wholly owned, and merger and acquisition, are found to be effective entry mode strategies in the international market [10].

Previous studies have shown that choosing a suitable entry mode is critical in order to ensure the performance of projects [10]. [11] asserted that entry mode choices are usually influenced by the internal and external factors such as the firm and market factors. [10] further emphasized that the entry mode plays a significant role in firms' profit making and sustainable growth. Therefore, [12] suggested an extensive environmental scanning, determination of opportunities and threats, and the matching them with the firm strengths for the selection of suitable entry mode. However, there are not much studies that suggest a framework to guide the construction firms in order to decide which entry mode strategies; namely equity and non-equity modes to be used in international market expansion.

3. Research methodology

3.1. *Quantitative - survey questionnaire*

In order to collect primary data for this study, a structured questionnaire was developed to collect data from the targeted sample group, i.e. contractors that are based in Pakistan and have operations in countries abroad. A total of 7 randomly selected contractors were interviewed to pre-test the questionnaire and make necessary amendments or respond to recommended contents [13]. A revised version of the questionnaire was completed after rephrasing ambiguous questions. Respondents were asked a series of questions, derived from the literature, relating to the foreign market choice, barriers and entry mode strategy of their firm in the international market.

The questionnaire was divided into three parts and 23 questions. The company background was included in the first part (3 items), and the second part inquired the respondents on the involvement of their companies towards international activities (5 items). Both of these sections were measured by open end questions. The third part of the questionnaire comprised of questions on barriers their company has faced when internationalizing (9 items). The fourth section of the questionnaire comprised of questions relating to the market entry mode their firm has chosen for venturing international markets (6 items). The respondents were required to state their agreement/disagreement on statements on a 5-point Likert scale with 1 = strongly disagree, 5 = strongly agree. Finally, the collected data were processed and analyzed using SPSS software.

Questionnaires were directed through postal mail, electronic mail and followed-up by telephone calls. A questionnaire was sent to the 126 identified contractors listed in the PEC 2011/2012 Directory, of which 84 firms responded, representing a response rate of 67%. The remaining responses could not be received, either because there was a change in e-mail addresses, business address or telephone numbers.

3.2. Qualitative – interviews

To get a better overall understanding of the barriers and entry mode behavior of Pakistani international contractors, in-depth interviews with seven key executives in seven contractors firms were also conducted. To ensure that important matters were not missed, an ‘interview guide’ was used. The respondents were asked to freely express their opinions related to the issues discussed. All of the interviewed respondents (ranging from CEOs, Directors, senior managers and other executives) claimed to have an in-depth knowledge of their firm’s international operations and investments and there seemed to be no reason to doubt their veracity. Each interview took between 60 to 90 minutes, and were digitally recorded, carefully listened and transcribed in written form.

3.3. Triangulation approach

A triangulation approach was adopted which aided the researchers to integrate the quantitative results (i.e., questionnaire surveys) with the results from the qualitative method (i.e., interviews).

4. Findings and Discussion

The data in Table 1, from the investigated contractors in terms of firm’s legal status, age and overseas experience, shows that the investigated contractors were having mixed characteristics. Seventy six of the investigated contractors (90%) were privately registered while the remaining eight contractors (10%) were publicly listed. Largely, Pakistani construction industry is dominated by the private sector. The investigated firms were possessing specialization in various fields including (1) building and civil, (2) electrical and mechanical and (3) petrochemical. Majority of the contractors (38%) possessed multiple specializations. Major amount of firms (50%) were having more than 20 years age since establishment. Concerning international experience, contractors have diverse nature as around 40% of the contractors have less than 5 years of international experience.

Table 1 Characteristics of the surveyed contractors

Characteristics	Frequency	Percentage
<i>Respondent’s designation</i>		
Top management	64	76
Middle management	20	24
<i>Firm’s legal status</i>		
Public listed	8	10
Private limited	76	90
<i>Specialization</i>		
Building and Civil	23	27
Electrical and Mechanical	16	19
Petrochemical	13	16
Multi Specializations	32	38
<i>Age</i>		
≤10 years old	12	14
11-20 years old	22	26
>20 years old	50	60
<i>Overseas experience</i>		
≤5 years	40	47
6-10 years	13	16
11-15 years	13	16
>15 years	18	21

Source: Questionnaire Survey

Table 2 below shows the markets that the studied Pakistani contractors have ventured. Although the markets operated by Pakistani contractors range from being contiguous to the distant, there appears to be gradual progress pattern in the way the surveyed Pakistani contractors developed overseas. The surveyed contractors have large presence in United Arab Emirates (UAE), Saudi Arabia and Qatar which are geographical and physically close countries in contrast to the Angola and Malaysia located at far locations. The interviewees described that these

markets were advantageous and more appropriate for their firms as inferred by the fact that these markets had good economic growth and sound profit potential, and geographically these markets are near to Pakistan hence costing less expense for mobilization of equipment, labor and material to these markets.

Table 2: Foreign markets ventured by the surveyed firms

Country	Nos.	Percentage
United Arab Emirates	42	22%
Saudi Arabia	36	19%
Qatar	26	14%
Afghanistan	14	7%
Oman	12	6%
Angola	6	3%
Malaysia	4	2%

The statistical results in Table 3 show the criticalness of the barriers in the internationalization of Pakistani contractors. The surveyed contractors have ranked one external barrier important which is inaccessible market information (MIR=3.93 and Standard Deviation=0.867), and two internal barriers important which included start-up cost (MIR=3.74 and Standard Deviation=0.964) and foreign language (MIR=3.62 and Standard Deviation=0.854).

Table 3: External and internal barriers to internationalization

Variables	N	MIR	SD	Remarks
External				
Inaccessible market information	84	3.93	0.867	Important
Cultural differences	84	3.36	.906	Moderately Important
Foreign government restrictions	84	3.31	0.869	Moderately Important
Bureaucracy (long administrative procedures, laws and regulations)	84	3.12	0.942	Moderately Important
Intense competition in the market	84	2.07	0.947	Less Important
Internal				
Start-up cost	84	3.74	0.964	Important
Foreign language	84	3.62	0.854	Important
Limited financial resources	84	3.23	0.882	Moderately Important
Lack of management skills	84	2.64	0.630	Moderately Important

[3] stated that the market information regarding market size and market growth rate can have significant impact on the international market entry mode selection. According to [14], the target country where completion is judged too strong for export and equity entry modes, a company may select licensing or other contractual modes. If the market is growing at a fast rate, and this rate of growth does not seem sustainable over several years ahead, the firm will be suggested to strike into this opportunity without any delay and use non-equity entry mode preferably exporting or sub-contracting. The findings from our surveyed firms verify this statement as this barrier faced by surveyed contractors does influence the choice of company's entry mode, as the firm sees the importance of market size and market growth rate for the continuity of work in international markets which is an important consideration for these firms. Hence, where the market information is not easily accessible, these contractors try to avoid those markets or enter through non-equity modes i.e. sub-contracting or exporting.

The company's different international business risk acceptance depends on the financial condition, start-up cost and strategic alternatives of the company as well as the competitiveness of its competitive atmosphere and its experience. The perceived risk related to an individual market entry mode or country can influence a company's choice of market entry mode in a significant way [3]. [15] stated that strategic goals for entering new international markets and the development of these strategies may influence the choice of international market entry mode. The findings from our firms revealed that the strategy is not to depend on one market however the companies have clear stated strategy regarding international market entry that they want diversification to ride out the dips in a particular market. According to the respondents obtaining an early stability in the new international market involves

huge start-up cost and resource utilization, therefore, entering into sub-contracting or a joint venture is a more professional approach and later local subsidiaries can be created. These findings verify the theory of [15].

The foreign language has second highest mean and was considered second important internal barrier. Language is considered as the extreme mediator that enables linking and understanding. Language allows sharing the feelings, expressing the emotions and conveying complicated messages and knowledge. Foreign language proficiency allows access to the foreign markets (authorities, competitors and customers) and hence it helps to overcome the lack of market and local information. Though foreign language has been the critical barrier in the internationalization of our surveyed contractors, yet networks and social relationships circumvented this internal obstacle.

In general, while limited financial resources and lack of managerial skills had lower means, when combined, could detract from the interest to work in specific countries. However, these barriers were outwitted by adopting sub-contracting and joint venture entry modes in foreign countries.

Table 4: Preferred Market entry modes (Operational modes) adopted / Modes of market presence

Variables	N	Mean	S.D	Remarks
Sub-Contracting	84	4.33	.650	Often.
Joint Venture	84	3.95	.854	Often.
Exporting	84	3.57	1.063	Often.
Own Representative	84	3.43	.966	Sometimes.
Wholly Owned Subsidiary	84	3.24	.983	Sometimes.
Merger & Acquisition	84	2.38	.909	Rarely.

The scale of investment and control in overseas business centered changes in the entry modes choice of the Pakistani contractors (Table 4). While the main entry mode chosen by the Pakistani construction firms is a type of sub-contracting, exporting and equity joint venture, other mechanisms consists of own representative, establishment of completely owned subsidiaries and mergers & acquisitions. Mostly firms initiated their internationalization with temporary market presence by providing management services for the particular projects and exporting main employees on term basis, employees who returned to Pakistan at the end. For example, in Qatar a firm joined Brazilian construction firm to expand its local skill and expertise base, its main strategy for internationalization was to transfer skill knowledge and expertise by behaving as the subcontractor (piggybacking) in the start. Although in traditional exporting no physical movement is involved, this strategy of market entry is found to be the most effective method for serving global markets. Later the firm made equity joint venture with the local Qatari firm in the second year of its establishment. The firm later expanded its business sphere to Saudi Arabia also by forming joint venture with the same Qatar based construction firm.

One of the representative said that entering the foreign market through sub-contracting was due to the network of the company. To demonstrate the nature of this network or relationship, the respondent stated that “It all came up of a chance job we did. A major building was constructed by us for a Pakistani minister who had good terms with the government official in UAE. They were in dire need of a firm to do emergency works on the airport and the roads. We were asked to start this work at earliest. We did it successfully and our work was acknowledged.”

The finding from our investigated firms revealed that they give an important consideration to the continuity of work in the foreign country and the markets they enter are mostly atomistic and constitutes of many competitors. Therefore they normally use the non-equity modes for initial penetration into the new market and with the time which is normally two or three years when they got enough knowledge of the market and got enough resources, capabilities and networks to compete with the large companies around, they establish the joint ventures or wholly owned subsidiaries. Parallel to this, few firms has yet another vision of the subject, which is to simply ignore the markets where competition is intense and unfavorable and to pay attention on the markets which are less competitive.

5. Conclusion

This study involved an empirical assessment of the internationalization of Pakistani contractors in the integrated context of key conceptualizations of internationalization. Overall, the study has brought up useful insights about the foreign market choice, barriers and market entry modes of Pakistani contractors by employing a triangulation approach. The findings showed that UAE, Saudia Arabia and Qatar were the main markets ventured by Pakistani contractors. Further, inaccessible market information, cultural differences and foreign government restrictions were key external barriers whereas start-up cost and communication issues were key internal barriers for

international market entry of Pakistani contractors. Among the foreign market entry modes, sub-contracting and joint ventures are the important and mostly used modes of entry.

In spite of the significant findings, the study has limitations related to sample size. The conclusion of this study should be interpreted in view of the limitation of the data and that the research has been conducted on contractors from Pakistan only. Future studies may be carried out by including more samples and other research methodologies such as qualitative approaches. This study could be further extended to include alternative forms of data collection, with research conducted longitudinally.

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