Full Length Research Paper

Success criteria for international joint ventures: The experience of Malaysian contractors in the Middle East

Hamimah Adnan¹*, Heap-Yih Chong² and Roy Morledge³

¹Faculty of Architecture, Planning and Surveying, University Teknologi MARA, Malaysia.
²Faculty of Engineering and Science, University Tunku Abdul Rahman, Malaysia.
³School of Design and Architecture, Nottingham Trent University, United Kingdom.

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The overall objective of this paper is to produce success criteria considered critical in international joint ventures (IJV), specifically between Malaysian and foreign contractors outside Malaysia. The recognition of such criteria will contribute to the identification of non-viable projects and will enable improvements to be made to the IJV and other similar economies. Data specific to the present study was collected through face-to-face interviews, which were carried out with the General Manager of the respective companies to provide detailed information on their company structure, management and experience of any joint venture projects undertaken outside Malaysia. The main findings from the interviews are that the critical factors in IJV partner selection criteria were related to the reputation, inter-partner trust, experience, personal knowledge of the partner organizations, commitment and human resources management. The employment of Malaysian sub-contractors also lessened the complexity of management. This is largely due to the familiarity of working with fellow Malaysians in the Middle East.

Key words: Success criteria, international joint venture, construction, Malaysia, Middle East.

INTRODUCTION

An international joint venture (IJV) is like an “economic marriage” which offers great opportunities to exploit and share resources, skills and financial strength. For the construction industry, it is a strategic alternative in this globalized world to secure international competitive advantages (Ozorhon et al., 2010). IJVs offer the promise of economic and other benefits that entail significant costs in their implementation. However, the shared decision-making or venture makes contractual matters/arrangements difficult to manage in IJVs (Chan and Suen, 2005). Consequently, there tends to be fragile relationships and a high failure rate in achieving the pre-defined objectives from the aspect of time, cost and quality (Makino and Beamish, 1998; Abdelghany and Ezeldin, 2010).

The selection of general managers and the management team or board of directors is the key success factor in IJVs (Schuler, 200; Petrovic et al., 2006). Therefore, the research focuses on the details of success criteria from the view of the general managers. Previous studies on IJV focused largely on risk issues (McIntosh and McCabe, 2003; Hsueh et al., 2007; Zhang and Zuo, 2007; Meschi and Riccio, 2008; Hsieh et al., 2010) as well as management issues (Petrovic and Kakabadse, 2003; Chan and Suen, 2005; Petrovic et al., 2006). This research attempts to fill the gap in research literature and add to the body of knowledge about JV projects. It develops an appreciation for the chances of creating success, and discusses and internalizes the reasons for IJV failures and whether it makes sense to undertake the projects.

The research emphasizes the Malaysian construction performance and joint venture projects between indigenous Malaysian contractors and foreign contractors, particularly in the Middle East. The overall objective of the research is therefore to produce success criteria that are considered critical in IJV, specifically drawing upon lessons learned from the Malaysian and foreign contractors.
THE MALAYSIAN CONSTRUCTION INDUSTRY

Venturing Malaysian construction abroad

Joint ventures (JVs) in Malaysian construction often face a highly complex and dynamic environment because, in most instances, they are formed to execute large scale civil and engineering projects. One of the primary requirements of actors in such systems is to reduce the environmental complexity. JVs in Malaysian construction exist in high-pressure environments without established networks. The joint venture projects should provide excellent opportunities for Malaysian companies and foreign contractors to team up in order to explore business opportunities in achieving the Malaysian Government's vision of becoming fully industrialized by 2020.

Projects by Malaysian contractors overseas

Construction joint ventures outside Malaysia are becoming increasingly popular, both in multinational construction firms and local government, in order to achieve their respective objectives. Foreign contractors have been operating in Malaysia long before the signing of the general agreement on trade in services (GATS) accord in January 1995. At that time, these 100% foreign owned firms were admitted and allowed to operate in Malaysia's domestic market, mostly in a non-discriminate manner and without any rigid trade-related sanctions. With the implementation of GATS and with market access restrictions promulgated by Malaysian regulators, opportunities have been opened for both Malaysian as well as foreign contractors to operate through joint ventures. Henceforth, there are established joint ventures between Malaysian and foreign contractors (CIDB, 2006). The government of Malaysia is encouraging and supporting local contractors to participate in regional and global markets based on their expertise and experience of construction of buildings, infrastructure, projects, highways, power generation, port and airport construction.

Making profit and seeking customers' satisfaction are the major concerns for Malaysian contractors (Wang and Abdul-Rahman, 2010). The Construction Industry Development Board (CIDB) states that, based on their records up to 2008, there are 34 Malaysian contractors who have undertaken 54 projects overseas, with a total value of over RM59.5 billion. These contractors managed to secure projects in the ASEAN Countries (Brunei, Indonesia, Laos, Myanmar) India, Middle East (Kingdom of Bahrain, Libya, Qatar, Saudi Arabia, UAE/Dubai), Africa (South Africa, Sudan), China, India, Vietnam, and other countries where there are massive developments projects. Investments have also shifted to the booming Middle East countries like Qatar and the UAE and other countries with which Malaysia has a strong 'government to government relationship'.

Success criteria

Turner (2009) distinguished that success criteria are "the dependent variables by which we will judge the successful outcome of the project". In other words, it is about how to realize the predefined project objectives in JVs. Success criteria should be based on the performance achieved through the various management strategies of JVs. Ozorhon et al. (2010) highlighted that performance of IJV management was based on the their management control at different levels such as strategic control at board of directors level, operational control at general management level, as well as organizational control imposed by the partners in forming the venture's organizational structure, processes, and operating routines. We could observe that the role by the CEO/GM is critical at the first level. It is for the effective management of the IJV, as this is the focal point for the maintenance of relationships with each of the parents (Petrovic et al., 2006). Subsequently, operational control at general management level should focus on proper staffing and technical requirements of the IJV (Petrovic and Kakabadse, 2003). The last level is how organizational control should be implemented by the ventures. Several issues need to be addressed at this level such as trust, partner selection, knowledge transfer through co-operative, business ventures, complementarities and synergies between partners (Todeva and Knoke, 2005). This research takes into account all the management strategies and issues for successful implementation of IJVs with a detailed discussion in the data analysis section.

RESEARCH METHODOLOGY

Four interviews (M1, M2, M3 and M4) were carried out in the research. The interviewees are general managers from the registered contractor categories G7 (with unlimited amount of work more than Ringgit Malaysia $10 million and G6 (work consisted or more than Ringgit Malaysia $5 million). The selection of the general managers is based on the fact that they are the key people in JIVs (Schuler, 2001; Petrovic et al., 2006) who can provide valuable information and experience for success criteria for IJVs in the construction industry.

The registration of these firms with CIDB is based upon the fulfillment of a number of identified requirements. The decision to have key informants at this level was influenced by the need for information on the latest development of any construction joint venture outside Malaysia. They were selected based on their positions at senior management level as they usually guide the direction of the organization on the implementation of the company's overall practices and goals. Therefore, it was best for the researcher to obtain information directly from them. They were entrusted with the
responsibility of planning, utilizing and managing resources and functions in pursuance of their organization’s objectives.

The interview took place at the respondents’ offices in Dubai and Abu Dhabi. Data specific to the present study was collected through face-to-face interviews with the General Managers of the respective companies to obtain detailed information on their company structure, management and experience of any joint venture projects undertaken outside Malaysia. Some of the Malaysian personnel had left Dubai and Abu Dhabi and in such cases attempts were made to reach their head offices by telephone and fax. The in-depth interviews were conducted in a semi-structured way and the interviewees were encouraged to talk freely. Context analysis was applied for the data analysis. The original text is reduced to categories consisting of a word, set of words or phrases, on which to have specifics words or patterns that are indicative of the research question on IJVs (Jonker and Pennink, 2010).

Meanwhile, it is also important to deal with records which already exist. The relevant documents and records from Construction Industry Development Board, Malaysia were studied and referred. Therefore, document analysis was carried out to have a systematic examination of current records or documents as sources of data for enhancing the research findings (Yogesh, 2006). The interview questions were based upon the findings of the literature studies and survey. The questionnaire was categorized and structured into seven sub-sections. Each group of questions relates to particular research assumptions and questions. The respondents were asked to discuss at least one successful, completed IJV project outside Malaysia. In addition, they were also encouraged to discuss their experiences of any failed IJV projects. Important and significant findings were then selected and discussed in the subsequent section on analysis of the interviews.

DATA ANALYSES AND INTERPRETATION

Background of the joint venture

There was a variety of IJV projects involved, which consisted of civil engineering works, residential buildings and public buildings including airports, hospitals, tunnels, roads, a Formula F1 circuit, road works, fly-overs, stadia, railway tracks and sewerage works in Middle East. Four companies that had been established for more than 20 years, and are at the top public listed construction companies in the Main Board of Bursa Malaysia, were selected for this research. To avoid conflict of interest and for confidentiality, their names were represented as M1, M2, M3 and M4.

Partner selection

All respondents knew their partners. All the interviewees recommended that they should know their partner before agreeing to an IJV. It is advisable to have some working experience with the partner so that mutual agreement could be looked into if there were any problems encountered during the work. The local partner took the lead and acted as the project manager to the project. Both partners used their own people, recommended their own subsidiaries, and worked together as a team.

Company M2 indicated that they are not satisfied with their IJV performance and may not continue their association with the partner in the future. This is because the foreign partner did not share the same objective, had no sense of belonging and did not have teamwork. Company M2 suggested that although they were helpful, this did not resolve problems. They also encountered difficulties in their work, as the foreign partner was not as committed and expected the Malaysian partner to do their work. Company M1 was not surprised about their partner’s work attitudes as they already knew what to expect from their experience working with a UAE/Indian partner.

They also distribute their technology expertise and management skills whereby the foreign partner was expected to provide the local permit, environmental and local knowledge resources to the Malaysian partner. The Malaysian contractor would look into the partner’s experience, the background of the company, financial standing and close ties with the government. The interviewees considered that the client’s requirements play an important factor in selecting an IJV partner whereby certain projects required a foreign partner to participate and share the local company knowledge and technical management. Sometimes, the reason for having an IJV is that it is not feasible to do the work themselves and they need a suitable partner to do the work. The foreign partner knows the government and has good connections with them. All respondents commented that they knew their partner from previous projects. They commented that if the partners did not trust each other, it would be difficult for them to work together. On the other hand, the foreign partners were looking for a Malaysian partner who would be willing to impart technical expertise, develop, and upgrade his technical and managerial skills. Both parties ignored this fundamental difference in the perception of each other’s motives initially. This factor later proved to be one of the major causes of failure for these IJVs.

The interviewees commented that the foreign partner did not follow the company’s regulations, as they wanted the freedom to come and go as they like. The foreign partner was more concerned with the technical issues and did not bother to solve problems. They were not looking for a long-term relationship but were thinking about making money. There were few technical advisers from the foreign partner whom would help in advising on technical matters. These foreign partners also provided personnel who supplied the local knowledge aspect. Company M3 considered the records of the company’s accomplishment and reputation to be an important factor in selecting an IJV partner.

Although there were some difficulties with the foreign partner concerning their builders’ work, they managed to resolve such matters. This implicit trust and commitment helped the partners to perform as a unified team. Company M1 considered reliability and a good, technically sound relationship with the partner to play important roles especially if the IJV projects’ works were highly
technical and needed a good financial record from the company. Besides, although there was poor performance by the partner, Company M2 commented that they have to continue with their UAE partner. This was due to the mutual understanding, trust and commitment towards the successful implementation and completion of the JV project.

Company M3 considered their relationship with their UAE partner as satisfactory. They considered that connection like foreign participation was important to build an IJV. The foreign partner commented that, “construction is the most difficult industry as it deals with people, whether you assess them at face value or in written form, you need to be compatible or the JV would turn sour”.

The foreign partner had their own strengths and weaknesses in certain areas of the work but they were not too bad and knew Malaysian culture. “As you go along, your ability and intuition tends to sharpen and fewer mistakes are made”.

Mutual understanding, inter-partner trust and commitment

Company M3 related trust with profit. They commented that where there was trust, there would be profit and when there is no profit, trust ceases to exist. This shows that if both partners work well and trust each other, the IJV would last a long time. Trust is crucial in financial matters and both partners need to agree on the budget before proceeding with the IJV. They must agree on the budget and some security money.

Company M2 faced problems with their foreign partner as they did not know each other well. The foreign partner did not adhere to the agreement and engaged his own engineer and personnel. Their style of working was also different from the local partner.

The Malaysian partner commented that the foreign partner was not hardworking and would not work late or overtime. This situation created unhappiness for the local management. The foreign partner was viewed as a foreign investor for they had the say but did not care about the work. The Malaysian partner had to take over control, as the foreign partner did not contribute in terms of productivity.

Company M4 commented that their foreign partner did not get too involved in their daily management on site. The foreign partner contributed technology transfer in terms of designing, implementation, quality control and time management. Company M4 preferred to have a win-win situation. This situation shows that trusting each other is very important for IJV work to run smoothly.

Company M4 pointed out those decisions have to be made quickly by the appropriate persons to enable the project to run on schedule. Cooperation and sensitivity between both parties must exist in order for the work to succeed. The importance and benefits of trust, and the emerging global and multicultural workplace, highlight the need for us to understand how trust develops and the different ways national culture impacts the trust-building process. Although trust may be formed in a variety of ways, whether and how trust is established depends upon the societal norms and values that guide people’s behavior and beliefs.

Since each culture’s “collective programming” results in different norms and values, the processes trustors use to decide whether and whom to trust may be heavily dependent upon a society’s culture.

Malaysian respondents said, “You must understand the document. The principal agreement is important. IJV conflict is destined for failure. In the IJV, if two partners do not join, it is a failure. It is how well you manage it.” The foreign partners were satisfied with the work performance. Malaysian companies commented that the agreement was written clearly, with the conditions and the profit also well stated.

The local partner would make sure that trust is important in the IJV as all the works were done in a systematic manner. There was an independent consultant to check the design and make sure that the contract was written in such a way that the scope of work and profit were very clear. This is to ensure that the quantities were measured properly and the scope of work ascertained was negotiated. There was no variation to the order of the work and it proceeded five months ahead of time.

The IJV agreement is very important for both partners and it needs to tabulate the scope of work and responsibilities for both parties. This had to be discussed further as both partners were responsible for it. However, the interviewees commented that there were some clauses that should have been included in the agreement but which were not.

Management, organisation and control

The Malaysian partner commented that as a foreign partner, they had clearly defined the scope of work and had an organizational structure as well as highly technical expertise. They had a project team, which comprised of construction management, an engineering manager, quality control and assurance. Construction is not an individual endeavor as is long-distance running, but rather a business team building. Sound relationships between the JV partners and staff determine the quality of the project’s implementation.

These relationships are formed early on and are nourished by clear communication. Both the IJV partners normally met once a month and reviewed the progress of the project. The main thrust of the review was on the physical progress achieved by each partner of his or her respective scope of works.
Company M4 commented that the overall level of the IJV work is quite satisfactory with some profits made. He said, “We tend to continue with the UAE partner if it is a suitable project. We had contributed technical expertise and a good management system to the IJV project. The foreign partner likes working with us because we are straight-forward, transparent, and there were no hidden agenda. However, the UAE partner does not carry out on-going maintenance which for us is very important in our management.” Company M1 said, “We were surprised that the UAE partner was very professional in managing their people at the site and there were no major difficulties working with them”. As for the Malaysian partner, their attitude was to finish the job on time and produce a good job, as cost was not important for the m. The client should come first and they would make sure that they would put the subcontractor first and fix the date for their payment. However, the Malaysian partner argued that the foreign partner did not look after their subcontractor properly.

Company M3 said, “You have to define what a successful JV and a failed IJV are. I say successful when two parties make a joint effort and achieve the same goal and failure is when they fail to make a joint effort to achieve the same goal”. However, Company M2 said, “You have foreign staff and some could adapt easily and some could not. Whether it is in Malaysia, UAE or another country, if they could not adapt, they would not be able to do so, no matter where you put them”. Asians are easily embarrassed when they are informed that there is a long-term vision statement for the IJV but which was not really followed through due to lack of commitment and human resources. They shared the same objectives and desire to succeed and the trust between the joint-venture partners enable the different members to take responsibility for different aspects of the joint venture.

The foreign partner usually assembles the team just for the project. They do not bond with the Malaysian partner and they only conduct public relations while the technical part was provided by the Malaysian partner. Sub-contractors play a major role along with the main contractor to perform the IJV works. All respondents said that they treated the subcontractor as a member of their own team and everyone is always given some profit motive in order for the JV to work successfully and to profit all. Although the IJV Board was responsible for approving only the plants and equipment, materials and sub-contractors, which were jointly used by both the partners, they were constantly worried about the quality of materials and sub-contractors used on the project.

The local partner would sublet the works to the subcontractor. The foreign partner did not know the reason for sub-contracting the work until the client gave them part of the work. They even went to see the client. They tend to sublet their works to sub-contractors and prefer not to supervise the sub-contractors. As Company M2 said, “the local partner tends to leave the sub-contractors to do the job and assumes that the sub-contractors would do the job properly. They would leave it to the manager whereas often when the sub-contractors have a problem, they would come to the main contractor to resolve it. We would make sure that we give more management responsibility to the sub-contractor than the locals do because we know that there would be no point sorting it out before the problem happens”. As the local partner from Company M2 said, “we always make sure that we are able to manage the sub-contractor and help them especially during the initial stages of the work. We do not want our money issues to slow down the sub-contractor”.

There were problems with mutual trust with regard to the appointment of sub-contractors. The local contractors felt that they had developed a good working relationship with a selected group of sub-contractors and wanted them to be appointed as sub-contractors on the IJV project. However, the foreign partner would prefer to follow the traditional method of selection through competitive bidding, as they feared collusion between their local partner and the recommended sub-contractor would result in high sub-contract prices.

In establishing and sustaining relationships of high quality with sub-contractors, it was revealed that the general contractor in question is reliable, trust worthy, legitimate, ethical and conforms to societal expectations. This information is vital for not only sub-contractors but also for clients, materials vendors, equipment dealers, financial institutions and sureties.

Maintaining high quality relationships with the sub-contractors enables a general contractor to address coordination problems faced in the construction processes by capturing the benefits of inter-organizational learning. A general contractor can partly address these challenges by establishing and maintaining good relationships with sub-contractors, since relationships of high quality facilitate the formation of subsequent transactions: parties can rely on the experiences acquired in previous transactions to overcome problems of coordination, communication and integration.

Company M1 commented that mutual respect is very important in doing business with the UAE partners. We need to learn their nomadic ways and socialize with the local partner. Company M2 has been operating in Dubai, Abu Dhabi and Bahrain. It was made known that working in Dubai is not the same as working in Malaysian whether or not in IJV with local partners. In UAE, the local authorities have certain advantages that enable them to ease problems. Communication is very important although they prefer to communicate in Arabic. “Apart from knowing what the issues are, the Malaysian contractor must know how to deal with the local police and municipality.” He
He also commented on the staff turnover whereby after being trained, they will leave the company.

Company M2 informed that good leadership is very important in IJV projects and recommended the concept of “Servant Leadership”, the idea which was articulated and drilled into the minds and hearts of leaders at Toyota. The servant leader serves the people he/she leads which imply that they are an end in themselves rather than a means to an organizational purpose and the servant leaders are felt to be effective because the needs of followers are so looked after that they reach their full potential, hence performing at their best. The strength of this perspective on leadership is that it forces us away from self-serving, domineering leadership and makes those in charge think harder about how to respect value and motivate people reporting to them. This concept is an upside down pyramid and the leader (president/chairman) would put himself at the bottom with the team members at the top. The key point was that the team members are in the value stream of connecting the suppliers to the customer. The key insight of servant leadership is that the further someone is from the value stream, as in the case of upper management, the less that person can directly add value. When team members are at the top, the organization can draw on the collective capacity and imagination of a much larger pool of individuals. In a traditional top-down organization, the capacity and imagination is limited to a few leaders at the top.

The construction industry hosts an unstable and seasonal demand (that is market volatility) which does not justify the emergence of large construction firms that have the capability of carrying out the entire construction process with their own workforce and equipment. Unstable and seasonal demand causes construction firms to split into autonomous units and to rely on subcontractors to undertake some of the work packages. Construction firms prefer to be flexible rather than maintain a large organization to undertake the entire construction process.

While the IJV board was responsible for approving any major purchases of construction plant and equipment and sourcing of expensive materials, the UAE partners preferred to use their own sources in their home countries for this purpose. A few local contractors felt that the foreign partner might have inflated transfer prices charged to the IJV account in order to artificially lower the profit margin, affecting the share of profits for the local partner. Company M2 argued that it is very important to have proper organizational change. Change management entails thoughtful planning and sensitive implementation, and above all, consultation with, and involvement of, the people affected by the changes. If change is forced on people, problems will normally arise. Change must be realistic, achievable and measurable. These aspects are especially relevant in managing personal change and also relate strongly to the management of personal as well as organizational change.

Change such as new structures, policies, targets, acquisitions, disposals, re-locations, etc., all create new systems and environments, which need to be explained to people as early as possible, so that people's involvement in validating and refining the changes themselves can be obtained. Management training, empathy and facilitative capability are priority areas - managers are crucial to the change process - they must enable and facilitate, not merely convey and implement policy from above which does not work.

CONCLUSIONS AND RECOMMENDATIONS

A series of semi-structured interviews were carried out outside Malaysia. The respondents of the interviews were General Managers from the respective organizations. Malaysian contractors perceived that the overall performance of the IJV works were successful and would prefer to continue their relationship with their partners for JV works in the future based on the results of the interviews.

The main findings from the interviews are that the critical factors in the IJV partner selection criteria were related to the reputation, inter-partner trust, experience, personal knowledge of the partner organizations, commitment and human resources management. The employment of the Malaysian sub-contractors had also lessened the complexity of management. The results render a useful insight in terms of theoretical contributions toward the success criteria for IJVs from the perspective of Malaysian contractors in the Middle East, while the challenges and problems encountered as highlighted in data analysis serve as practical contributions in this paper.

Apart from that, it is recommended that all construction workers service providers should be wary of possibility of changes instructed by clients. This is especially so in Middle East countries and Malaysian construction service providers ought to comply with stringent quality control imposed by the overseas clients. The culture of doing business in the Gulf countries is based on trust rather than technical know-how. In UAE, foreign companies have to gain trust and a good rapport with the personnel in the construction sector before being given a chance to penetrate the market. Due to the intense international competitive bidding, margins can be rather thin. It is therefore pertinent that Malaysian contractors do not compete with each other as a consortium for a win-win situation for all. A paradigm shift of mindset and the quest for excellence are the most important attributes for successful global business ventures.

Hands-on events need to be publicized to promote the capability of Malaysian construction service providers and tender prices must be considered carefully. Always include the cost of unpredictable changes or factors that
may occur during the construction. Close interaction with local society is pertinent. It is important to know the social and cultural practices that may affect their work practices. Malaysian contractors venturing in all parts of the world need to be alert about the social and political development of the host countries.

Employing highest quality of professionals, managers and workers is an important contributory factor for success. Apart from that, all companies should recognize and appreciate the efforts of the personnel workers, suppliers and sub-contractors involved and reward them accordingly. Documentation of all work procedures is important as managers do not have to reinvent the wheel all the time when executing the work.

In most of the third world countries, most workers do not understand English language fully, so project leaders or managers should always be at the sites to resolve any conflicts that may arise from any communication gap. To venture into the Gulf countries, contractors need to have local sponsors. Therefore, it is important to establish an office locally and make contact with the locals.

Staff motivation is an important aspect in global ventures as we have to consider that most of the workers have to leave behind their loved-ones, families and friends in their respective countries. Careful consideration should be given to motivate all parties by removing the organizational features that de-motive the staff. Servant leadership, crisis management and change management entails thoughtful planning and sensitive implementation, and above all, consultation with, and involvement of, the people affected by the changes.

LIMITATIONS

Certain limitations need to be considered in this research, the language used in the data analysis comes from original texts that were transcribed from the interviews. Although the language seems straightforward or at times, impolite, it needed to be presented in that particular manner to deliver the message on success criteria and to convey the lessons learnt from the IJV projects.

REFERENCES


