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Decision of GCC Construction Market Entry Mode

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Abstract

The international construction sector is one essential organ of the global economic body. More construction companies target international construction markets and would need to make a decision as the most appropriate mode to enter a particular market. This purpose of the study is to develop a framework to guide the decision making process for contractors considering entry to Gulf Cooperation Council (GCC) construction markets. This market emphasis the delivery of innovation and creating smart facilities and infrastructure.

The study analyzed data from 86 international contractors who are listed as the most successful international contractors in the GCC countries. The paper examined the key factors that have influenced contractors' entry strategy. The paper presents the results from the analysis of the proposed selection framework through interviews with a sample of top management executives in contracting firms. The study found that firms' initial choice of a specific entry mode is a key strategic decision made to ensure successful investment. Firms believed that the option of entry mode adjustment is hard without incurring significant losses of time and money. Further, it was found that construction unique characteristics imply different priorities than those in other industries to enter foreign markets. Furthermore, The study concluded that most of GCC markets require the entry using permanent modes (branches or sole venture companies), eventually a set of recommendations were introduced to facilitate the entry process and ensure successful entry to GCC construction markets.

KEY WORDS: International Construction, Entry Modes, GCC, Construction Markets

1. Introduction

Research Background

The international construction sector, one of the main supporting blocks of the global economy. International construction is where a foreign construction firm resides in one country, while it has other construction activities in another remote country (Mawhinney 2001), Those activities constitute the scope of international construction, where international business is challenging and unusual, the main challenges are associated with client communications, avoiding local politics, understanding a new culture, and managing a diverse group of senior professionals (Kangari and Lucas 1997).

Due to the dominant globalization trends high technology and communication means, ambitions and visions of construction firms' decision makers were encouraged to expand their business into promising new construction markets (Han and Diekmann 2001). , International contractors turned their compass towards other markets and entered foreign countries, where they found numerous benefits. On the other hand, host countries can have their projects accomplished beyond their local capabilities and capacities. The local market would also benefit from growing competition in its local market to drive improvement of local skills and practices. (Chen 2005).Never the less, the decision of foreign market entry is not an easy task, it includes high risk factors, since entrants are going to perform in an alien business environment. This decision requires significant knowledge of the host

market and local competition. It is critical that the international firm fully appreciate the basis of entry decisions, prior entering a foreign market.

One of the major developing construction markets is the GCC market where the significant increase of oil export income during the period of 2002 to 2007 stimulated massive economic activities in this area. Many gulf governments have embarked on a mission to diversify its economy to be less reliant on oil exporters. Many GCC countries started a number of remarkable mega projects that attracted the attention many international construction firms. However, the worldwide financial crunch of the year 2008 has its own negative impacts on the oil prices and significantly stalled the rate of construction growth in the GCC markets. Nevertheless, GCC economies recently started to recover from that recession effects, and construction markets returned relatively to its earlier well-known strong state (Alpen Capital 2012).

Problem Statement

In most cases different countries have different economic cycles which offer opportunities for international firms to shift their activities to achieve a more balanced economic growth. . Especially those markets that firmly withstood with their oil reserves against the slow down of other economies in the world. Researchers have focused examining entry modes for the manufacturing sector Chen (2008). .Kim et al. (2013) explained that although researchers have widely proposed that “monetary and investment risk as one of the main factors contributing to the success and failure of international construction market entry decisions”. Nevertheless current risk-based decision-making methods are not solely enough for the financial analysis of investments in international construction markets (Hastak and Shaked 2000). As a result it can be concluded that construction process includes a different variables that doesn't allow the direct application of manufacturing concepts to construction process, and hence a serious need is required to develop and adapt this current frameworks and understanding to match the special properties of construction field in the GCC.

Aim and Objectives

The paper aims to investigate how international contractors make the decision and select the mode to enter the GCC construction market..

The objectives of this study are to:

- 1) Examine the construction markets of GCC countries to identify the key factors that would influence a firm's entry strategy.
- 2) Investigate the decision making process adopted by international construction firms seeking an effective strategy to enter the GCC construction market.

2. Literature Review

International Construction Entry Modes

The decision as to how to inter a new market is the result of the considerations of both that market itself as well as the attitude and strategy of the international firm. Andersen (1997) has defined the entry mode as an institutional arrangement to organize and perform international business transactions, Root (1987) has provide more detailed definition stating that entry mode process is “the organizational behavior that facilitates the entry of a company's products, technology, human skills, management or other resources into a foreign country”.

Some researchers such as; Sharma and Erramilli (2004) have introduced the concept of marketing to the entry mode concept, by defining entry modes as the structural agreement that allows institutions to apply its product market strategy in the targeted market. This can be by performing the marketing activities only, or by performing both marketing and production activities there by itself or in partnership with others. The review of the literature has revealed several entry modes as summarized in the following table 1:

Entry Mode	Definition
Strategic alliance (SA)	A long-term inter-corporate association without an affiliated organization based on trust and a mutual respect for each participant's business needs, used to further the common interests of the members (including the entrant)
Local agent (LA)	A contractual arrangement between the entrant (principle) and a local agent where the agent provides principle information on local market conditions, contacts, and assistant to the entrant
Licensing (LI)	A contractual arrangement between parties in different countries on the licensee's use of limited rights or resources like patents, trademarks, trade names, technology, and management skills from the entrant (licensor)
Joint Venture Company (JVC)	A permanent joint venture in which the entrant and other legally separate parties form a jointly owned entity in which they invest and engage in various decision-making activities
Sole venture company (SVC)	A permanent venture in the host country wholly owned by the entrant where profits and responsibilities are assigned exclusively to the entrant
Branch office/company (BRO/BRC)	A form of presence without a legal person status of the entrant in the host country that can carry out either profit-making or non-profit-making business activities
Representative office (RO)	An unincorporated formal presence in the host country to carry out non-commercial activities like business communications, product promotion, market research, contract administration, and negotiations on behalf of the entrant's head office
Joint venture project (JVP)	A project specific joint venture in which profits and other responsibilities are assigned to the entrant and other parties according to a contract
Sole venture project (SVP)	A wholly owned project specific venture where both profits and responsibilities are assigned exclusively to the entrant
BOT/equity project	A project delivery method where the entrant (sponsor) finances, builds, and operates an economic infrastructure in the host country, and then transfers the ownership back to the government at the end of the project term free of charge or at an agreed price

Table1: Entry modes for international construction markets (Source: Chen & Messner 2009, p. 549)

Relationships between different entry modes

1.1.1 Basis of entry modes selection: The five strategic effects

The decision to adopt a particular mode may not necessarily follow from a careful consideration of all options rather reflecting the firm's attitude and priorities to that particular market. Chen (2005) research has shown that when a firm decides to proceed with a specific entry mode, the firm doesn't consider the earlier mentioned entry modes characteristics. A number of scholars argued that entry mode decision has to be built on trade-offs amid returns and risk, in a process that assures the selection of the mode which offers the maximum risk-adjusted return (Luo 1999). Further to risk and return, behavioral evidences manifest that the process of selection is linked to the control needs and

resource availability (Cespedes 1988). Additionally, flexibility of entry mode sometimes affects the firm's behavior during selection process. As a result, entrant should take into account the aforementioned strategic effects (return, risk exposure, resource commitment, flexibility, and control) in an integrated framework upon selection of entry mode (Chen and Messner 2011).

Chen (2005) suggested a relationship model to interpret the interaction of these effects as per figure 1, and explained that when entrants select an emerging market to achieve high profits whilst avoiding excessive risks, they have to maintain essential control over their offshore operations and resources. Since risk reduction and return achievement are also determined by the foreign partners' liability, a mode that ensures acquiring host country specific knowledge through local partners is usually chosen (Chen 2005). On the whole, entrants must pick an entry mode which offers the "optimum risk-adjusted net return" with a suitable degree of flexibility through attaining further resources from other companies and controlling their income-generating assets (Chen 2005). The interactive character of the relationships among the different strategic effects entails that generally there is no one dominant effect to control the prioritization process of the basic entry modes. Accordingly, every mode has its own structure regarding this effect model, therefore the process of identifying dominant strategic effect(s) relies on the proposed available entry modes (Chen 2005).

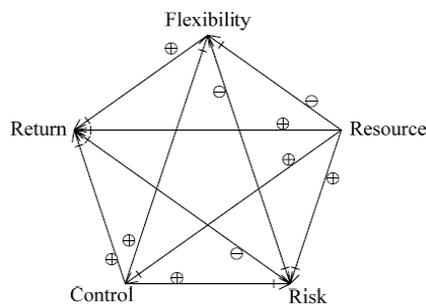


Figure 1: The relationships between different strategic effects (Source: Chen 2005, Page 126)

1.1.2 An Investigation of Different Effects of Entry Modes

Chen and Messner (2011) ranked basic entry modes based on their contractual risks exposure and control effects as shown in the following Table 2.

	Cooperative	Competitive
Hierarchy entry modes		Branch office/company Representative office SV company SV project Nonintegrated JV project
Quasi-hierarchy entry modes	JV company Integrated JV project	
Quasi-market entry modes	Local agent Licensing	

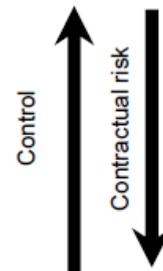


Table 2: Entry Modes differences in context of contractual risk and control (Source: Chen and Messner 2011, Page 561)

As an extension of the home country based head quarter, the BRO/BRC forms, and RO form, are directly controlled by the parent company in the operational and strategic levels. Similarly SVC, SVP, and Nonintegrated JVP are all entirely foreign owned modes. With no interference of local partners, entrants enjoy full power and avoid partners' opportunism. As for the quasi-hierarchy entry modes, on the other hand, the JVC and the integrated JVP modes involve partners, thus contractual risk exposure increases accompanied with control descent. The LA and LI modes involve an investment found on the basis of a contract, where entrants can't control their partners' operations and hence control in those two modes is extremely low. Chen and Messner (2011) remarked also that it is impossible to set SA mode anywhere in this table, since it is a very loose cooperative relationship and least

contractually binding. In general SA mode involves an odd relation with very little contractual risk exposure and control.

Another form of entry modes ranking can be presented in terms of mode’s level of localization, duration, and presence of an existing establishment to perform business activities (Chen 2005) which is called “mobile/permanent” characteristics and another strategic effects, which are; resource commitment, investment risk exposure, and flexibility. Chen and Messner (2011) provided such a ranking form as shown in the following Table 3.

	Cooperative	Competitive
Permanent entry modes	JV company	Branch office/company Representative office SV company
Mobile entry modes	JV project BOT/Equity project	SV project

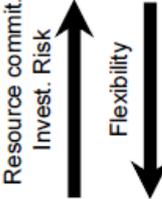


Table 3: Entry Modes differences in context of Resource Commitment, Investment Risk Exposure, and Flexibility (Source: Chen and Messner 2011, Page 562)

Ranking of modes according to this approach is relatively simple, since permanent modes include a complete or partial corporate infrastructure in the foreign market, which implies highest levels of resource commitment and, adversely, least flexibility. Permanent modes also involve long-term existence on an ongoing basis, which by return expose entrants to the investment environment of the foreign market, which is directly implies less flexibility than the mobile modes (Chen and Messner 2011).

Theories of Internationalisation of Construction

Several theories have been proposed by scholars to identify the external and internal variables which affect the selection process between mobile and permanent entry modes. This section will review those theories in depth to identify the impact of those variables on the selection process.

1.1.3 Transaction Cost Theory (TCT)

The logic of this theory states that the company can arrange its interdependence based on the hierarchy and market, while TCT defines entry mode process as the arrangement that foreign market entrant considers to minimize his business transaction costs (Chen 2005). Within the context of entry modes domain, transaction costs are commonly recognized by the three dimensions extensively discussed by Williamson (1985) which are; asset specificity, frequency and uncertainty. The basic unit of research in the TCT, as mentioned earlier, is the transaction itself. As such, it is distinguished by three unique properties: conflict, order and mutuality (Mroczek 2014; Baudry and Chassagnon 2010). TCT suggests that “less integrated entry modes assure more efficient organizational structures when there is a reduced threat from opportunism” (Williamson 1985).

1.1.4 Dunning Eclectic Paradigm, the Ownership, Location and Internalization (OLI) Theory

Dunning (2000) explained that the theory is simple, deep and well-construct; this paradigm suggests that the extent, geography and industrial composition of a firm’s foreign production (i.e. Entry mode) is based on three sets of interdependent determinants: International contractors shall have greater assets and skills which can earn economic rents high enough to counter the higher cost of servicing international construction markets (the ownership advantages); International contractors are anticipated to be selective and support entry into more attractive construction markets (the location advantages of the market); and eventually, low control entry modes are generally considered superior for certain transactions since they allow a firm to benefit from the scale economics of the market place while avoiding the bureaucratic disadvantages that accompany integration (the internalization advantages of integrating transactions within the firm).

1.1.5 Stage Models of Entry Theory

According to Root (1987), the Stage Models of entry theory suggests that the entry of foreign markets shall be based on a sequential pattern of entry with a progressive increment of commitment. Scholars who supports this theory defends their approach with the excuse that when foreign international contractors decides to go overseas, they apply their business to a higher risk factors due to the different cultural, political and market systems and therefore it's a must to adapt first with the new market environment and sequentially start developing their entry form to increase profits and commitments (Pan and Tse 2000).

1.1.6 Institutional/ Cultural Theory (ICT)

North (1991) noted that ICT has to be integrated with transaction cost theory (TCT), since institutions provide the structure in which transactions take place, and therefore institutions define the market rules and contain regulations and laws of the host country. Chen (2005) demonstrated this theory against TCT proposed entry modes, as he stated that in some countries, the institutional structure may create a situation where the TCT proposed entry mode choice may not be the best choice.

1.1.7 Bargaining Power Theory (BPT)

The bargaining power Theory has been called “the accepted paradigm of host country – Multinational Corporations relations in international political economy” (Kobrin 1987). Nebus and Rufin (2008) explained that the basic concept of the BPT is that a Multinational enterprises with less bargaining power with a host country is more likely to attain fewer of its targets that clash with those of its host country, than a Multinational enterprises (MNE) with greater bargaining power. Consequently, BPT asserts that the entry mode selected by a MNE relies on the relative bargaining power of the international entrant and that of the host Country (Luo 2001).

1.1.8 Organizational Capability Theory (OCT)

When a firm enters a foreign market, its resources and capabilities have to be transferred to its foreign operations. Therefore, entrant must select an appropriate entry mode which ensures the best transfer to its capabilities and resources from the home country to the host country without losing their original value (Madhok 1997).

Framework Development

1.1.9 Theoretical Framework within International Construction context

Since no particular factor is likely to have a critical influence on the entry mode selection process in general (although it may have for a specific firm), it can be suggested that such factors discourage or encourage a specific entry mode (Root 1987), i.e. selection of entry modes is a multivariate decision problem. Chen (2008) reviewed current literature on foreign markets entries and international business trends of some international contractors and unveiled ten factors which argued to influence the selection among mobile and permanent entry modes. The proposed factors and their influences are derived from the six internationalization theories presented earlier. The factors are summarized as shown in the below table 4:

	Influencing factors	Origin	Description
1	Home market attractiveness	extracted from BPT	This factor represents the entrant home country market growth and size.
2	Uncertainty avoidance	extracted from ICT	This factor represents the intention to avoid risky host countries, where structures and rules are often less clear, unwritten, and imposed by traditions.
3	Long term orientation	extracted from ICT	This factor represents entrant orientation toward long term investment in host market
4	Cultural distance	extracted from ICT and OLI	This factor represents the culture similarity level between home and host country.
5	Colonial link	extracted from	This factor represents the similarity in political and legal

		ICT and OLI	institutions between home and host country.
6	Language proximity	extracted from OLI	This factor represents the language similarity between home and host country.
7	Entry restriction	extracted from ICT and BPT	This factor represents host government ownership restrictions on FDI choices.
8	Competitive intensity	extracted from OLI	This factor represents the level of competitiveness in the host country.
9	Multinational experience	extracted from OLI and BPT	This factor represent the previous experience of entrant in foreign markets
10	Firm size	extracted from OLI and BPT	This factor represents the size of entrant firm, financial capabilities, and available assets and technology.

Table 4: Factors influencing entry modes selection within int'l markets

1.1.10 Synthesis of Influencing Factors in foreign markets

Chen (2008) paved the way for entrants to select the appropriate entry mode to foreign construction market, his studies resulted in forming the below entry hypothesis shown in table 4 which facilitates the selection criteria based on the previously mentioned factors, This hypotheses represents the integrated application of the OLI paradigm, ICT, and BPT theories.

Where entrants first prioritize their modes based on the optimization factors (excluding entry restriction factor), and then filter inapplicable modes based on the constraint factor, The below interaction effects shown in table 4 are developed to integrate the influences of factors at different stages. Instructions of each hypothesis are also mentioned in the table, where the positive sign means; the greater the factors are, the more likely that an entrant will select the entry mode, while the negative sign means that the greater the factors are, the less likely that an entrant will select the entry mode. Below hypotheses shown in table 5 were extracted by Chen (2005) through extensive literature review, and tested using regression test based on actual data, the below table includes the modified hypotheses where all insignificant preliminary hypothesis were disregarded.

Predictors		Entry Modes	
		Permanent	Mobile
Influencing Factors			
1	Uncertainty avoidance	+	-
2	Colonial link	-	+
3	Language proximity	-	+
4	Competitive intensity	+	-
5	Home market size	-	+
6	Entry restriction	-	+
7	Long term orientation	+	-
8	Cultural distance	+	-
9	Multinational experience	+	-
10	Firm size	+	-
11	Home Market Growth	+	-

Table 5: Tested framework of Entry modes selection based on influencing factors, Courtesy of (Chen 2005)

Framework Application for the GCC Construction Markets

This section will investigate the different GCC construction markets according to the aforementioned external influencing factors shown in table 4, to propose a modified framework which describes the recommend entry mode for each country. The description will be presented in terms of permanent and mobile entry modes classifications.

The considered methodology to initiate the modified framework is summarized in the following steps:

1. Selection of mobile or permanent entry mode based on the GCC construction markets analysis according to the host country influencing factors (ignoring entry restriction factor).
2. Examining the applicability of the selected mode after implementing the entry restriction factor.
3. Generating secondary conceptual model for each country in terms of permanent and mobile entry mode classification.
4. Specifying the recommended entry mode by incorporating the results of the previous step with the preliminary conceptual framework.

It's important to note that this study is focused on the GCC construction markets only, and its limited to those specific markets, the application of the tested framework shown in table 5 requires a direct emphasis on host country influencing factors only and not the firms' home country factors.

1.1.11 Summary of Hypothesis application

The following table (table 6) summarizes the results of the earlier performed four steps application process by verifying the influencing factors levels in each state and checking the entry restrictions to verify which entry mode can be used. This table indicates briefly the main characteristics of each market and mentions the proposed entry mode type.

Country	Entry decision influencing factors	Entry Mode Type	Country Characteristics	Entry Mode
UAE	High language proximity levels Low cultural distance levels Low colonial link levels High uncertainty avoidance levels High competitive intensity levels High long-term orientation levels	Permanent	Strong Market. Competitive and well regulated. Sustainable.	SVC or BRC
KSA	Low language proximity levels High cultural distance levels Low colonial link levels High uncertainty avoidance levels High competitive intensity levels High long-term orientation levels	Permanent	Strong and Sustainable Market. Competitive. Supported by government.	SVC or BRC
Qatar	High language proximity levels Low cultural distance levels Low colonial link levels High uncertainty avoidance levels High competitive intensity levels High long-term orientation levels	Permanent	Promising Market. Competitive. Entry Restriction is main concern.	JVC
Kuwait	High language proximity levels Low cultural distance levels Low colonial link levels Low uncertainty avoidance levels High competitive intensity levels Low long-term orientation levels	Mobile	Weak Market. No fair competition. Risky.	SVP or JVP
Oman	High language proximity levels Low cultural distance levels	Permanent or Mobile	Slow and Stable Market. Competitive.	LA and (SVP or

	Low colonial link levels High uncertainty avoidance levels High competitive intensity levels Low long-term orientation levels		Low Returns.	JVP)
Bahrain	High language proximity levels Low cultural distance levels Low colonial link levels High uncertainty avoidance levels High competitive intensity levels Low long-term orientation levels	Permanent or Mobile	Slow and Weak Market. Competitive. Low Returns. Risky.	BRO

Table 6: GCC construction markets characteristics and proposed entry mode for each market.

3. Conceptual Framework

Based on the earlier presented extensive literature review, the following conceptual framework (figure 2) is introduced to explain the approach to select the entry modes based on the entry modes characteristics and the internationalization theories.

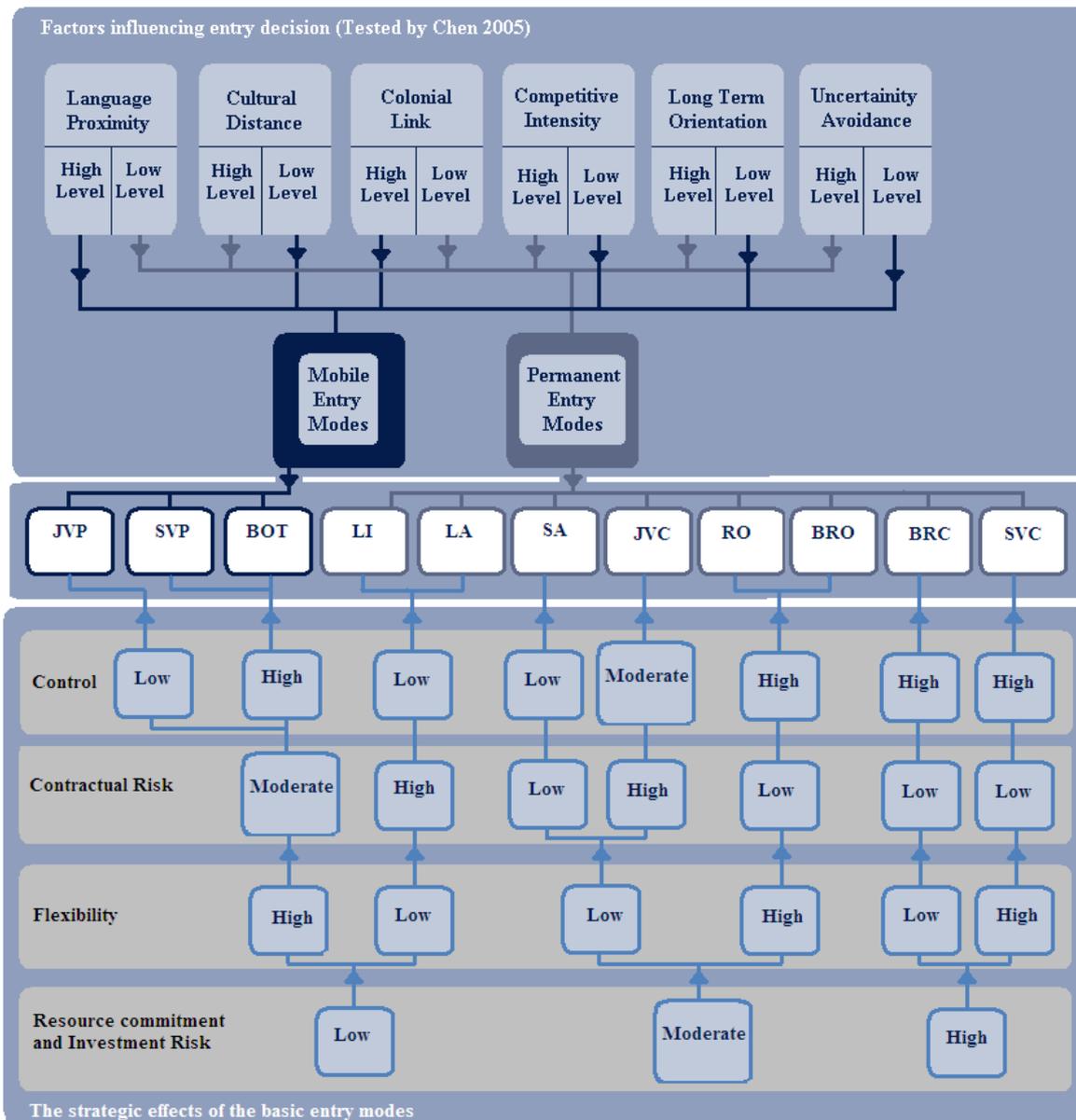


Figure 2: Integrated Conceptual Framework

The study will identify the most appropriate entry mode for foreign contactors targeting the six construction markets of the different GCC states in different steps;

First step includes study of the main characteristics of each entry mode, and upon the full understanding of each mode, a preliminary framework was proposed to select entry modes based on the strategic effects of each mode, this framework was called “the preliminary framework”.

The second step of the process required an extensive review of internationalization theories, extraction of influencing factors that affect the entrant’s decision, and then the introduction of the Chen (2005) tested selection framework based on these influencing factors, this framework was called “the tested frame work for entry mode selection”

Third step is to analyze the GCC construction market of each state individually, and perform further analysis to the levels of influencing factors for each state; the results of this influencing factors analysis are applied in the tested selection framework introduced in the second step.

Upon the application process, entry modes for each state will be defined in terms of Mobile and/or Permanent entry modes. In order to refine these results, this study considered another application of results using the preliminary frame work imitated at first step, which ended with a specific entry mode proposal for each state.

The process produced the following six hypotheses:

H1: Most appropriate entry modes to penetrate UAE construction market are the permanent BRC and SVC.

H2: Most appropriate entry modes to penetrate the Saudi construction market are the permanent BRC and SVC.

H3: The Most appropriate entry mode to penetrate the Qatari construction market is the permanent JVC.

H4: Most appropriate entry modes to penetrate the Kuwaiti construction market are the mobile JVP & SVP.

H5: Most appropriate entry modes to penetrate the Omani construction market are the permanent LA, and mobile JVP, and SVP.

H6: The Most appropriate entry mode to penetrate the Bahraini construction market is the permanent BRO.

4. Methodology

Research Method

The literature review provided evidence that the decision process on selecting the entry mode is very complicated and depends on several factors. The research adopted a mix approach to enable the use of quantitative data to capture a wider perspectives of the industry. Then complemented by qualitative approach to understand the complex dynamics of the decision making process.

Using quantitative technique, this study mapped the content of the web home pages of the most successful international contractors in GCC and analyzed the profile of each firm to examine the proposed six hypotheses. The mapping process extracted the necessary data to define the entry mode the different mapped companies into each of the GCC country.

The research conducted three case studies in UAE construction market engaging their executive managers to examine their preliminary framework, through verifying the effect of control, risk, flexibility, and resource commitment on entrants’ decision. This qualitative approach examined the

main two dimensions of the preliminary framework; the level of importance of each strategic effect in UAE construction market and the used entry mode in each case. The compatibility of observation between the literature review and the qualitative approach will support the integrity of the proposed preliminary framework and accordingly the integrated conceptual framework.

Data Collection

3.1.1 Quantitative data collection

Most of the active international contractors are captured in the annual ENR Top 250 International Construction Firms. Using MEED projects data a list for the most successful international contractors in each GCC state is prepared. This exercise identified 86 firms, of which 70 international and 16 regional. The quantitative data analysis reviewed the available online content in each firm home page to investigate the used entry mode by firm’s owner and compared with the research hypotheses.

3.1.2 Qualitative data collection

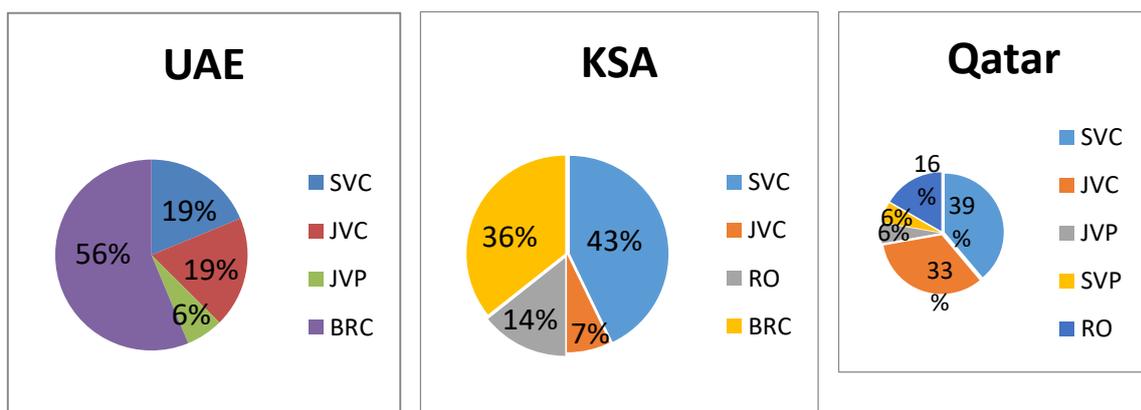
This research undertook three case studies of international contractors working in the UAE. Several semi-structured interviews with the key decision makers in the three firms.,

The Interviews were recorded coded and categorized to develop the analysis procedure and ensure relevant outcomes. The interviews tackled the two main components of the preliminary framework; 1) understanding the characteristics of UAE construction market, 2) the main strategic effects which impact the entry decision. First part included the various questions about the market size, competitiveness, returns, threats, and the performance of foreign firms within this market to provide more clarity of the characteristics of this market, while the second part focused on the main factors affecting the investment decision with UAE construction market in order to examine the earlier presented theoretical concepts.

5. Analysis & Findings

5.1 Data Analysis

According to the gathered quantitative data for the top construction companies in GCC, Figure 3 demonstrates the percent of entries using different entry modes in the six GCC states.



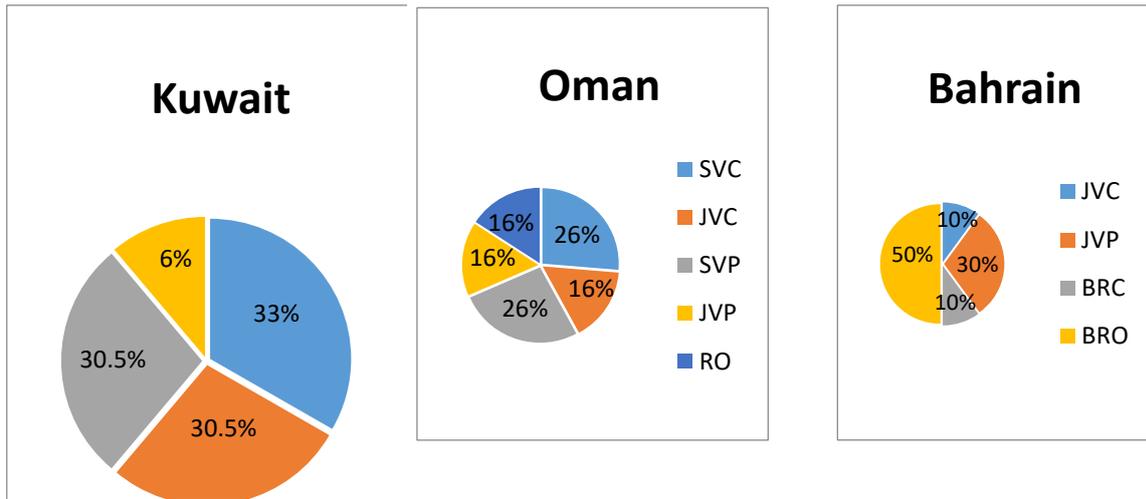


Figure 3: Entry modes adopted in GCC construction markets according to the collected samples.

Based on the literature review, the process of entry mode selection has to be supported on six strategic effects pillars (return, resource commitment, investment risk, contractual risk, control, and flexibility), and the decision to enter must be supported with a precise balance between the risk and return factors, in order to utilize the theoretical framework, entrant has to understand the different strategic effects of each entry mode in order to conclude the right mode.

The performed interviews tackled the two main components of the preliminary framework; 1) understanding the characteristics of UAE construction market, 2) the main strategic effects which impact the entry decision. First part includes various questions about the market size, competitiveness, returns, threats, and the performance of foreign firms within this market to provide more clarity of the characteristics of this market, while the second part focused on the main factors affecting the investment decision with UAE construction market in order to examine the earlier presented theoretical concepts.

A detailed coding analysis was performed to facilitate the interview analysis procedure. Using the data in the coding tables, the percentage of each category out of total categories can be utilized to reflect further impression about entrants main focus during entry, the below table 7 summarizes the weight of each category based on its repetitiveness during the performed interviews:

Category	Codes	Freq.	Coding	Percent
Returns	A1	8	Market with strong potentials	28%
	A2	8	Competitive market	
	A3	1	High returns	
	A4	1	Acceptable demand in the market	
	A5	4	Un fair competition	
	A6	1	Profit margins	
	A7	2	Low profit margins	
Resource Commitment	B1	1	High development investments	9%
	B2	2	High resource commitment	
	B3	2	Emphasis on resource commitment	
	B4	3	Avoiding high resource commitment	
Investment Risk	C1	14	High investment risk	21%
	C2	3	Fluctuant market	
	C3	2	Low profits due to competition	
Contractual Risk	D1	6	Rules and regulations risks	23%
	D2	3	Supply chain risks	
	D3	2	Secure collection of payments	
	D4	2	Incomplete design	

	D5	2	Client experience	
	D6	4	High contractual risk	
	D7	1	Legal cover	
Flexibility	E1	1	Retreat of market	9%
	E2	2	Flexibility to accommodate market changes	
	E3	4	Ability to make critical decisions	
Control	F1	1	Proper team management	10%
	F2	6	High level of control is required	
	F3	1	Low control levels	

Table 7: Categories percentage within the performed three interviews

6. Conclusion

This study aimed to answer “what is the most appropriate entry mode to consider during entry to GCC construction market?” and “how does this entry modes vary across different GCC states?”. The answers of these questions were provided by identifying the different modes of entry and the factors that affects the selection process in each state of GCC. The research classified the entry modes for international construction based on their strategic effects, identified the external factors that influence the entrant decision, and developed a selection model based on these classifications and influencing factors.

The basic entry modes varies in strategic effects (flexibility, control, resource commitment, risk exposure, and returns) and setting characteristics (e.g., ownership, hierarchal levels, cooperative versus competitive, investment versus contractual). But, there is no single dimension which can distinguish all basic entry modes. The dichotomy of mobile and permanent entry was utilized to establish a binary selection among two groups of entry modes: mobile entry modes and permanent entry modes. The permanent group includes: SVC, JVC, RO, and BRO/BRC; mobile groups includes: SVP, JVP, and BOT. On the whole, permanent modes involve more investment risk and control, but are less flexible than the mobile modes.

As for the influencing factors that affect the selection among permanent and mobile modes, The research found that only three theories (transaction cost theory, OLI, and institutional/ cultural theory) involve seven factors that may affect the decision of mobile and entry modes, these factors are: 1) cultural distance, 2) colonial link, 3) language proximity, 4) uncertainty avoidance, 5) long term orientation, 6) competitive intensity, and 7) entry restriction.

The study applied Chen (2005) tested hypotheses which highlight the influences of these factors on mobile/ permanent modes decision on the six GCC states to generate the summary of recommend entry modes in each GCC market. Applying the tested hypothesis of Chen (2005) on the different GCC construction markets separately revealed that UAE, KSA, Qatar and Bahrain construction markets share the same characteristics to enter using permanent modes, while Kuwaiti market was found different and requires mobile entry modes. Interestingly, the Omani market was found appropriate for both permanent and mobile entry modes.

On the other hand, and away from theoretical data, the quantitative data analysis using real entry data of the most successful international contractors in GCC revealed some differences as per the following table 8:

Hypotheses		Testing result
H1	Most appropriate entry modes to penetrate UAE construction market are the permanent BRC and SVC.	Yes
H2	Most appropriate entry modes to penetrate the Saudi construction market are the permanent BRC and SVC.	Yes

H3	The Most appropriate entry mode to penetrate the Qatari construction market is the permanent JVC.	Partially
H4	Most appropriate entry modes to penetrate the Kuwaiti construction market are the mobile JVP & SVP.	Yes
H5	Most appropriate entry modes to penetrate the Omani construction market are the permanent LA, and mobile JVP, and SVP.	No
H6	The Most appropriate entry mode to penetrate the Bahraini construction market is the permanent BRO.	Yes

Table 8: Results of hypotheses testing

This analysis found that proposed hypotheses in UAE, KSA, Kuwait, and Bahrain are accepted according to historical entry data, however, the hypothesis H3 in Qatar was found incomplete, as the analysis unveiled that although the JVC mode was one of the used modes to enter Qatar, however, there was a significant tendency toward entering this market using the SVC mode, which was not proposed in theoretical context. On the contrary the proposed hypothesis H5 in Oman was rejected as the majority of used entry modes were different than proposed ones.

Eventually, the qualitative interview analysis indicated a remarkable compatibility in the main entry modes strategic effects taken into consideration while establishing a new contracting firm in UAE, as the respondents agreed on the emphasize on the risk investment and control effects of the selected entry mode which directly complies with the assumed effects in the preliminary framework. And hence, this result affirms that accuracy of the proposed entry mode strategic effects while entering other GCC states.

7.Recommendations

The decision of foreign market entry is a controversial decision. It includes high risk factors, since entrants are going to perform in new environment, which requires a deep experience in foreign investment, host country and the competition in that market. The implication of the findings of this study is for international contractors to consider the following recommendations to to support the decision making process to enter GCC markets.

1. Firm understanding of the capabilities and limitations of the different entry modes.
2. Performed feasibility study before making the decision to a GCC market, in order to assess the available potential, latent risks, business environment and competitiveness within the targeted market.
3. Careful review of the legal restrictions imposed on foreign investment.
4. Entrant with little experience of GCC markets should consider a gradual entry process using less “resource commitment” modes.
5. Despite the recommendation of cooperative entry modes in some GCC states, the partnership with local partners implies several threats if not well evaluated.
6. Any entry mode analysis for construction markets has to start from scratch. Applying successful experience within other domains (rather than construction) may not assure the same successful outcomes, due to the unique construction domain characteristics.

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