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## GLOBALISATION IN THE CONSTRUCTION INDUSTRY

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### INTRODUCTION

The emergence of globalization in the nineteenth century has brought about a change in the world. It has resulted in the elimination and diminution of barriers between countries, in order to aid the flow of goods, services, capital and labour between these countries. There have been various debates surrounding the concept of globalization. The opening of the markets have been said to be a way of enabling the developed countries maintain their position of supremacy over the developing and less developing countries by allowing their big multinational companies exploit the resources of these other countries and keep the profit. (Lewis 2007).

In spite of this, globalization has created a lot of new opportunities and for many nations and has required them to develop partnerships and bonds throughout the world which has played an important role in the success of some nations.

### AIM

In a speech given by Nelson Mandela at the British Museum in 2000, he said

“If globalization is to create real peace and stability across the world, it must be a process benefiting all. It must not allow the most economically and politically powerful countries to dominate and submerge the countries of the weaker and peripheral regions. It should not be allowed to drain the wealth of smaller countries towards the larger ones, or to increase inequality between richer and poorer regions. “Cited in Lewis (2007).

The aim of this essay is to examine the impact of globalization on domestic construction companies, their projects and services in developing countries.

## WHAT IS GLOBALIZATION

Diverse definitions have been given to globalization, depending on the context in which it is being used. The world has suddenly become a global village, where boundaries are being removed and organizations are free to envisage, design, create, purchase and sell products in other countries making the world interconnected.

According to (Govindarajan & Gupta, 2000), globalization is defined as the increasing economic reliance that exists among countries as seen in rising traverse relationship with the flow of goods and services.

Cope (1999) sees the process of globalisation as “having two inter-related dimensions: scope (or “stretching”) and intensity (or “deepening”). On the one hand, the concept of globalization defines a universal process or a set of processes which generate a multiplicity of linkages and interconnectedness which transcend the states and societies which make up the modern world system. On the other hand, globalisation also implies intensification in the levels of interaction, interconnectedness or inter-dependence between states and societies which constitute the modern world economy”

The International Monetary Fund (IMF) defined globalization, as rapid economic incorporation countries around the world by the movement of goods, services and capital across borders.

In the design and construction industry, globalization means two major things; improved competition and improved opportunity (Russell J.S, 2000). Globalization affects every design and construction firm both domestic and foreign.

Globalization is needed in countries to improve the relationship between these countries and to improve the economic stability of these countries.

## GLOBALIZATION IN THE CONSTRUCTION INDUSTRY

The influence of globalization in the construction industry is beginning to emerge; this can be seen from both external and internal factors within the industry. There is an increasing need for organization’s to develop new strategies and ways of getting things done, as global competition is growing. Different organizations small, large, domestic and international are all going to be affected by this new way of doing things. According to Cheah et al (2005), globalization is bringing about new prospects for the construction industry due to the deregulation of industries and privatization of traditionally state-owned entities needing new construction or an upgrade of existing facilities which has attracted new key players from abroad. Externally, the clients are globalizing. In order to serve them better and generate repeated business, engineering and construction firms have to elevate their agendas to the international level.

Fundamental changes have to be made to project management techniques in engineering and construction companies if they are to maintain their standards and are to be successful in the global market place in the 21st century. Customers will expect lower costs, shorter engineering and construction periods, lower costs, shorter engineering and construction periods, high-quality materials and equipment from manufacturers anywhere in the world and prompt attention to their needs. Kini (2000).

The construction industry is an important part of the development industry within an economy, particularly in an era where the rate of urbanisation and resources continue to reduce. The construction industry plays its role in any economy as it uses materials and resources, changes the environment and affects the lives of the people living in the society.

## **INTERNATIONAL CONSTRUCTION AND GLOBALIZATION IN DEVELOPING COUNTRIES**

According to Ngowi et al (2005), International construction has been defined, as when a company which is based in one country executes work in another country. Most of these companies are from advanced countries and go to carry out work in newly industrialized countries and least developed countries. Through globalization, many doors have been opened for international construction in developing countries. Developing countries require specialized contractors for new infrastructure and buildings which their domestic construction companies might be unable to handle or do not have enough experience in the construction of such buildings.

There are various explanations why construction firms expand into international markets. Some of these reasons include inactive domestic markets, development of new markets, economical utilization of resources and the realization of new prospects brought by the global economy (Gunhan and Arditi 2005). In taking international construction into consideration, there is a need to understand the risks and threats it involves. International construction is much riskier than domestic construction. The different variables which affect the international environment are not part of the domestic markets and create risk for international construction that would never be encountered in domestic conditions (Gunhan and Arditi 2005).

A critical review of international business failure was done by Gordon and Arnold (1988) and White (1990) cited in Han et al (2005 p. 284). Some reasons why international business fails were pointed out and they include the following:

1. Failure to develop a business plan.
2. Lack of commitment from top management in the early stages of the venture.
3. Lack of attention to the development of strategic links in the international market place.
4. Failure to recognize the demands of operating in a multi-cultural business environment.
5. Failure to weigh foreign requirements with respect to their social, legal, political and governmental procedures.

Construction companies therefore must set up strategies in order to compete in the international market. Gunhan and Arditi (2005) carried out a survey of executives in charge of international construction in the United States to determine the most important strengths a company must have in order fully expand their business into the international market.

## **TRACK RECORD**

The past performance of any organization hoping to diverge from the domestic market to the international market is necessary. A firm or an organization with a good track record can easily enter the international market, due to their past experience in form of reference from all their previous works.

An experienced firm has a ready solution or a cheaper solution to a technical problem since it might have come across a similar problem in the past and has found a solution for it. It has exhibited through previous performances that it has the organizational and technical experience to overcome technical challenges that may come up in the course of a construction project Quak, 1991 cited in Gunhan and Arditi (2005 p.275).

### **SPECIALIST EXPERTISE**

For a company to succeed in the international arena there is a need for specialist expertise. This gives the company a higher advantage due to the fact they have knowledge in areas that few companies can compete with them.

According to Quak, 1991 cited in Gunhan and Arditi, 2005 “specialists technologies enable smaller companies to carve a niche for themselves in the international market by competing for specialist subcontracts or as a desired consortium partner”

The use of new technology would enable domestic companies find jobs in sectors where expertise in that technology is needed.

### **PROJECT MANAGEMENT CAPABILITY**

International projects tend to be in complicated circumstances such as; multiple ownership, elaborate financial provisions and different political ideologies. These projects are more difficult to manage than domestic projects as the risk involves are often numerous and less predictable. Stallworthy and Kharbanda 1983, cited from Gunhan and Arditi, (2005 p.276)

There is often the need for a project manager who can handle both the business and technical side of the project. This would give the project manager an advantage, because he will be able to solve problems in all areas of the project.

### **INFLUENCE OF GLOBALIZATION ON DOMESTIC CONSTRUCTION COMPANIES IN DEVELOPING COUNTRIES**

- The concept of globalization was brought about by the need for free trade between developed and developing countries. The ideology behind this was setup by the World Trade Organisation (WTO), and this was formed from the 1986 Uruguay Agreement WTO, (2004) cited in Lewis (2007) which says that “the international trading system should be:
- without discrimination- a country should not discriminate between its trading partners (giving them equally ‘ most favoured-nation’ or MFN status); and it should not discriminate between its own and foreign products, services or nationals (giving them ‘national( giving them ‘national treatment’);
- Freer- tariff and non-tariff barriers should be reduced (removed) through negotiation;
- Predictable – foreign companies , investors and governments should be confident that trade barriers will not be raised arbitrary; market-opening commitments are ‘bound’ in the WTO;
- more competitive-‘ unfair’ practices such as export subsidies and dumping products at below cost be discouraged;

- more beneficial for less developed countries-they should have more time to adjust, greater flexibility, and special privileges.”

The purpose of this was to establish competitive markets for trade for all goods and services, including those acquired in the public sector. Globalisation has an effect on the following sectors of the domestic construction sector of the economy:

### **PROJECT SIZE**

The size of a project plays a major effect in selecting who the key contractors for that project are going to be. The larger the project size is, the more out of reach it is for consulting and contracting firms in developing countries. Large projects which could be broken down in to smaller projects are given as one, making it available to only large transnational companies that have the capability in terms of staff, equipments and labour to handle such projects.

These projects could be broken down into smaller project such that it would be available for local firms as well as the large transnational companies.

### **MARKET ACCESS**

Market access, has to do with goods and services, this entails that the goods and services which are coming into any country must be treated in the same way regardless of where they are from. In the construction industry, this entitles all consultants and contractors who come from less developed countries or developing countries to have equal opportunities with large firms to the same projects in developed countries.

This actually never happens. According to Lewis (2007), the large companies have higher advantage than the smaller ones; in terms of enormous physical, financial, technical and human resources that the small firms do not have the capability to have. The large firms also receive support from their home government in many areas which is not available to the smaller domestic companies from developing countries.

Consequently, the local firms in developing countries tend to be doubtful about the opportunities globalisation holds for them in developed countries; this is due to the advantages the large firms have over them.

### **UNDER PRICING**

The need for growth in developing countries has brought about an invasion of overseas contractors and consultants in to developing countries. This has a negative impact on the domestic construction companies.

Lewis (2007) explains that these foreign contractors are keen to get into that region, that they may take strategic decisions to make a loss in the construction of that project just to make sure that they win the contract. The local firms do not have the available resources to compete with them on that basis and therefore loose the contract.

Opportunities associated with International Construction for Domestic Companies in developing countries

The emergence of the new global economy has brought about extraordinary opportunities for growth in developing countries. Hans et al (2005) explains that at national level, the amount of international construction plays a big role in the nation's trade balance. They also balance the growth of their company to contribute to their security through

increased global activities and so to reduce the effect of the cyclic nature of their work load. The different opportunities associated with international construction for domestic construction companies include:

### **INCREASED LONG TERM PROFITABILITY**

One of the main reasons for expanding from domestic to international construction is for the increase in the long term productivity of that company. The expansion of these companies takes place when their own domestic markets are not doing so well and there is a need to expand into other countries which offer profitable opportunities for the company.

The economic state of affairs of the most important countries often affect the economic situations of many other nations and this effect actually takes a lot of time before it reaches these nations. Expanding into the international market therefore, is a good way to survive the setbacks in a country and increase the profitability of that company (Gunhan and Arditi 2005).

### **ABILITY TO MAINTAIN SHAREHOLDERS RETURN**

The ability of the domestic company to maintain its shareholders return creates the need for the company to be involved in international construction. This could be very useful for the company, for instance in times of economic recession in a country there is another country in which profit is being made by that company (Gunhan and Arditi 2005).

### **ABILITY TO TAKE ADVANTAGE OF GLOBALIZATION AND OPENNESS OF MARKET**

globalization has given the domestic construction companies an advantage of having open markets which gives the companies a lot of benefits. This increases the competition for a project because now both domestic and foreign companies are allowed to bid for the project.

Even though globalization has increased the competition within the geographical borders of countries, it also allows access into markets which were previously inaccessible. There is a need for construction companies to recognise this change in the environment. Sillars and Kangari, 1997 cited in Gunhan and Arditi, (2005 p.279)

### **ABILITY TO TAKE ADVANTAGE OF PRIVATIZATION PROGRAMS IN EMERGING ECONOMIES**

In developing countries, the amount of capital needed to achieve the rate of market expansion needed and this is often dependent on the foreign investment available to sustain a privatization programme. Miller, 2000 cited in Gunhan and Arditi (2005).

Privatization is being seen as a way of creating opportunities for construction companies to carry out projects in countries, this is for both local and foreign companies.

### **KEY AREAS A DOMESTIC CONSTRUCTION COMPANY MUST FOCUS ON IN GLOBALIZATION**

In this new era of globalization and free market trade between nations, changes will have to be made in companies in order to keep up with the new way of doing things. The thinking process of these companies has to be changed in

order to compete with other companies. The following areas need to be taking into consideration in order to be a highly successful global construction company:

## **ORGANIZATION**

The organizational structure of accompany is important in achieving global excellence. There would be a need to set up a system in which work will be done faster and would meet the client's needs.

## **INFORMATION TECHNOLOGY SYSTEMS**

According to Kini (2000), if there is no effective Information technology (IT) system in the company, they would only be global in their names. The information system of the company should have the capability to provide all the company's offices with real-time access to data should be designed with hard ware and software that go well together, and should use incorporated software which will provide the information to the managers when needed.

This would enable accurate information to be gotten by the project manager at any time and allow fast access to the information when needed.

## **THINKING GLOBALLY**

There must be division of work among engineers so that the time frame of the work can be shortened and work will go on consecutively. There is a need for a variety of specialist for different areas of engineering in order to be able to review the impact of change on any area in the design.

According to Kini (2000), when thinking globally, the followings things must be put into consideration to access some certain issue:

1. Division of work: There is a need for the project manager to establish how the work is to be divided in terms of the customer requirement, the manpower and expertise needed. Subcontractors have to be selected before the design phase of the project for specialist needs of the project.
2. Key suppliers: The key suppliers should be located within the area with low manufacturing costs and convenient transport connections. The relationship between the suppliers should be one of partnership for mutual benefit in the project.
3. The construction plan: The construction plan should be checked before the start of the design. The design schedule needs to be developed with reference to the construction sequence; this would be used as the source of coordinating the design at the various office locations and placing orders with suppliers.

## **WORLDWIDE SUPPLIERS**

There is a need for the use of worldwide suppliers in order to get the best price available. The utilization of the global market place would enable the company get lower rates for labour and raw materials. There would be need to ensure that theses suppliers meet the requirements of the company. The project manager would have a choice in the selection of the supplier to be used and the performance of this supplier can be monitored.

## GLOBAL CONSTRUCTION

The company must be familiar with local construction methods and materials used in that area. Due to the varying site conditions, the need might arise to import some materials. There is a need for the participation of the local engineering company in the project to advise the project team on the use of these local materials and also in the hiring of skilled craftsmen within the project. This is to ensure that the maximum satisfaction of the client is guaranteed when the project is completed.

## QUALITY

The whole aim of going through the steps listed above is to ensure that the overall quality of the project meets the client's expectation. There is a need for all members of the project to be aware of the client's needs for the project, this would enable them know the kind of standards to be achieved in the project.

## CONCLUSION

Globalization has brought about new opportunities for construction companies. Globalization holds the greatest opportunity and risk for domestic construction companies. This is determined by the strategies implemented by the company in order to ensure that they are affected by the positive effects of globalization.

In the global economy, both the domestic and foreign companies have to face competition in order to be successful. There is a need for contractors to understand the risk associated with globalization such as political, economic, cultural and legal project conditions; these can affect the goals set by the firm when dealing with a strategic market.

However, for those domestic companies who are willing to enter the international market, globalisation holds new prospects for them as long as they have identified most of the risks and put in place strategies on how these risks can be mitigated. Therefore globalization must be embraced by both foreign and domestic companies so that they don't left behind.

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