FINANCIAL PERFORMANCE OF MULTINATIONAL CONSTRUCTION COMPANIES IN SOUTH AFRICA

Odediran, Sunday Julius; Windapo, Abimbola Olukemi
Department of Construction Economics and Management, Faculty of Engineering and Built Environment, University of Cape Town, Rondebosch 7701, Cape Town, Western Cape, South Africa

Abstract
The paper examines the financial performance of multinational construction companies (MNCC) in South Africa and whether the financial resources of these MNCC are sufficient to meet the demands of the domestic market. The rationale for this examination stems principally from the need for large scale contractors to have enormours resources and capabilities for the execution of construction works in international markets. Although, this has made international markets to be oligopolostic. The research makes use of the Engineering News-Record (ENR) data set as a standard through which the level of revenues and assets of MNCC in South Africa were assessed in order to know whether these financial resources are sufficient for international construction operation. Financial and other relevant data were collected through a qualitative research approach from four MNCC listed on the Johannesburg Stock Exchange (JSE). These data were obtained through an evaluation of the archived data (annual and financial reports); and analysed using content and thematic analysis. The paper establishes that the financial capabilities of MNCC in South Africa are adequate for overseas market operations. This is because their revenues and assets compete favourably with their counterparts from other parts of the world who were ranked among the top 100 by the ENR in 2015. The paper concludes that the construction market in South Africa would tend to be oligopolistic if other African-based construction companies do not build up their financial resources so as to be able to compete in the domestic, cross-border African and International construction markets.

Keywords: Construction companies, Financial performance, International markets, Multinational companies, South Africa

1 Introduction

This paper examines the financial status of MNCC in South Africa. Construction market has become a global market due to the impact of globalization which enables transfer of resources, skills and capabilities mostly from developed to under-developed/developing economies (Ofori, 2000; Ngowi et al., 2005) and vice versa in recent times. Globalization also had made irrelevant national and political boundaries; it has increased economic reliance; and exposed national and societal differences relating to cultures and business issues (Ngowi et al., 2005). However, only large-scale construction companies operate in international markets because international construction projects are often of large scale in scope (Jaring, 2009) and due to the nature and magnitude of risks in the markets when compared to a local market (Gunhan and Arditi, 2005; Loo, *et al*., 2013). The larger the scale of a project, the more is the demand in term of resources (material and human) commitment in overseas operations.

For a company to succeed in international markets, certain level of resources and capabilities are required to meet the demands that may arise due to the magnitude of uncertainties associated with overseas construction. Capabilities are configurations of routines and resources that allow an organization to achieve its goals (Nelson and Winter, 1982). However, dynamic capabilities reflect a firm's capacity to reconfigure its capabilities to adapt to its environment (Eisenhardt and Martin, 2000; Sapienza, Autio, George and Zahra, 2006). The demand for enormous amount of resources (materials and labour) for overseas markets operation had made international markets to become oligopolistic i.e. few large firms control the major shares in international markets (Messner, 2006; Kenter, 2014). However, there are limited studies that establish the experiences of MNCC on international construction markets within Africa. This paper examines the financial records of MNCC in South Africa with a view to establish whether their financial strength are sufficient to meet the demands of the local construction market using the Engineering News Record (ENR) annual ranking of international contractors as a basis of assessment. The research investigates the level of revenues and assets of MNCC in South Africa and how sufficient these resources are for operation in an international space when benchmarked against global standard.

2 Literature review

This section presents a review that justifies the significance of financial indicators as a measure for successful operation of construction companies in overseas markets and outlines the financial performance of international contractors as established by ENR.

2.1 Financial requirements for international market operation

Construction works could be situated either locally or internationally depending on where clients who own the projects or construction companies who execute the projects reside. Similarly, a company becomes international if it exports its services and resources (materials and human) to other markets outside its home country. According to Forlani et al. (2007), a capability is the ability of the firm to successfully manage its assets and activities in the international environment while Eisenhardt and Martin (2000) describes dynamic capabilities as an organizational strategic routine whereby managers alter their firms' resource base to generate value-creating strategies. Similarly, dynamic capabilities reflect a firm's capacity to reconfigure its capabilities to adapt to its environment (Sapienza et al., 2006). The level of uncertainties associated with overseas markets pose a demand on firms going international to be well equipped with certain measures of capabilities before entry into unknown market terrains (Jaring, 2009).

The measures of resources and capabilities that are essential have been argued in literature. In a study by Gunhan and Arditi (2005) on factors affecting international construction, measures of resources and capabilities required for overseas operation highlighted include track record/performance, specialist expertise/human resources, technical skills, international network/experiences, financial strength (revenues) and equipment (assets). Li et al. (2013) established that resources like know-how, capital, technology, equipment and personnel are as significant for firms to attain success in foreign markets. Similar studies further argued that firms going international without having sufficient number of employees, technological base/assets and adequate revenue base are on a suicidal mission (Majocchi, Bacchiocchi and Mayrhofer, 2005; Suarez-Ortega and Alamo-Vera, 2005; Filatotchev, Liu, Buck and Wright, 2009; Serra, John and Abdou, 2012).

In another view, level of resources and capabilities within firms are trio in nature and these cover financial (revenues & assets), human (technical & managerial employees) and experiential (years of operation) (Evans and Berman 1994). The major argument in international business environment is how best or to what advantage these resources are used

in meeting the demands posed due to level of constraints in overseas markets (Grant, 2008; Ballegooiljen, 2010). Tucker et al (2015) established that financial capacity is a predictor of construction company performance. It becomes obvious that firms cannot have a successful operation in foreign markets without being adequately equipped with required resources and capabilities such as financial, human and experiential. Hence, financial resources such as revenue and assets of MNCC in South Africa were considered in this paper. The following section presents a review of the revenues of the Top 250 international contractors as annually ranked by ENR.

2.2 Revenue of the Top 255 international contractors

Engineering News Record (ENR) is a monthly global publication with a focus on ranking of top international contractors, shares of regional markets and construction services among the top rated international contractors. The ranking is based on the level of revenue that individual firm generates annually from global construction markets out of its total revenue. A review of the 2015 edition of the ENR publication reveals revenues of the top rated international contractors over a decade (2005-2014) (see Table 1) while their total revenue between 2001 and 2004 were obtained from other sources (Reina and Tulacz, 2014; Statista, 2015).

Table 1. International Contractors Revenues from 2001-2014

S/N	Year	Revenues (US$ Billion)
1	2001	106.5
2	2002	116.5
3	2003	139.8
4	2004	167.5
5	2005	189.4
6	2006	224.4
7	2007	310.3
8	2008	390.0
9	2009	383.8
10	2010	383.7
11	2011	453.0
12	2012	507.5
13	2013	544.0
14	2014	521.5

(Source: Reina and Tulacz, 2014; Statista, 2015)

In addition, the nationalities and revenues of the top 20 international contractors in 2013/2014 was also examined (see Table 2) and the share of the global construction market across the nationalities of the Top 250 international contractors in 2013 according to the ENR records is further presented in Table 3.

Table 2. International Revenues of the Top 20 International Contractors in 2013/2014

S/N	Contractor Name	Nationality	Revenues (US$ Billion)
1	Group ACS	Spain	44.05
2	Hochtief AG	Germany	34.65
3	Bechtel	Unite States	23.64
4	Vinci	France	20.29
5	Fluor Corp	United States	16.78
6	Strabag	Australian	15.39
7	Bouygues	France	14.79
8	Skanska	Sweden	14.14
9	CCC	China	13.16
10	Technip	France	12.24
11	Saipem	Italy	12.14
12	Constutoral Norberto Oderechit	Brazil	9.88
13	Hunndae Engineering and Construction	South Korea	8.71
14	Ferrovial	Spain	7.42
15	Samsung Engineering	South Korea	7.13
16	Bilfinger	Germany	6.85
17	Samsung C & T	South Korea	6.31
18	Royal BAM Group	Netherlands	5.94
19	Abemsa	Spain	5.82
20	China State Construction Engineering	China	5.74

(Source: Statista, 2015)

Table 3. Share of International Construction Market across Nationalities of 250 Top International Contractors in 2013

S/N	Contractor Nationality	Number of firms	Revenue (US$ Million)	Percentage (%)
1	AMERICAN	31	70,955.4	13.0
2	CANADIAN	2	1,112.4	0.2
3	EUROPEAN	58	272,040.6	50.0
	British – 2			
	German – 5			
	French – 5			
	Italian – 16			
	Dutch – 3			
	Spanish – 13			
	Others – 14			
4	AUSTRALIAN	4	10,589.1	1.9
5	JAPANESE	14	22,243.8	4.1
6	CHINESE	62	79,013.0	14.5
7	KOREAN	13	42,415.9	7.8
8	TURKISH	42	20,409.2	3.8
9	BRAZILIAN	4	12,977.4	2.4
10	ALL OTHERS	23	12,084.6	2.2
	ALL FIRMS	**250**	**543,840.4**	

(Source: Reina and Tulacz, 2014)

Further assessment of the ENR Records presented in Table 4 highlights the level of revenue being generated by international contractors by region in 2013. Prior to this period, the revenues generated by international contractors outside their home countries in 2006 was estimated at US$224.43 with a growth rate of 18.5% from US$184.41in 2005. In 2009, their earnings were estimated at US$383.78 billion and the biggest increases in international contracting revenues came from Africa. Notably, their international revenues in central and southern Africa grew by 31.7% to $29.29 billion in 2009 from $21.04 billion in 2008. North Africa grew by 30.8% to

US$27.52 billion in 2009 from US$21.04 billion in 2008 (Reina and Tulacz, 2010). In 2013, the total revenues of international contractors had grown to US$543.97 billion with Central/Southern and North Africa representing US$41.23 billion (7.6%) and US$21.02 billion (7.2%) respectively (see Table 4) (Reina and Tulacz, 2014). Nevertheless, statistics about other regions such as East and West Africa are excluded. Gaps in infrastructural needs within Africa have received global attention in recent times due to the backlog of physical infrastructure such as power/electricity, roads, water etc. in most of the African states (AfDB, 2011).

Table 4. Revenue of International Contractors in 2013

Region	Revenue (US$ billion)	Percentage (%)
Europe	111.86	20.6
Middle East	84.13	15.5
Asia and Australia	146.47	26.9
United States	48.41	8.9
South/Central Africa	41.22	7.6
North Africa	21.02	3.9
Latin America	54.12	9.9
Canada	34.20	6.3
Caribbean Islands	2.41	0.4
Other Arctic/Antarctic	0.13	0.0
Total	**543.97**	

(Source: Reina and Tulacz, 2014)

3 Research Methodology

A review of literature was carried out to establish the financial requirements for international markets operation and the significance of revenue as a major financial requirement for international construction operations. The study from which data discussed in this paper were obtained employed a convergent mixed methods research approach in data collection and analysis. However, the paper presents a part of the qualitative data analysis result. The study was conducted on South African MNCC construction companies, which are registered with the cidb on Grades 8 and 9. The qualitative strand in form of case studies (interview and documents analysis e.g. annual/financial reports) was conducted on MNCC that are listed on the Johannesburg Stock Exchange (JSE). A sample frame of nine MNCC was obtained and all were listed on Grade 9 with some on Grade 8 in the cidb Register of Contractors. These grades of contractors are considered because they are on the uppermost grade of the cidb Contractor Register in South Africa and are capable of operating in the international space. Out of this, a sample size of 4 was selected for investigation, which represents 44.44% of those construction companies listed on JSE. Data reported in this study were obtained through the evaluation of the archived data (annual and financial reports) of MNCC in South Africa, which were mostly obtained from the companies' websites. These data include their grade, region of operation/geographical presence, construction services being exported/areas of specialization, revenue, assets, number of employees, and international experiences/year of establishment/listing. Other data extracted are risks encountered and entry models to African markets. Data obtained were analyzed using NVivo in forms of content and thematic analysis.

4 Findings and Discussion

4.1 Background information of the JSE listed companies in the case study

Table 5 presents the background information about the companies who were selected as the cases in the study. There were 4 cases and each of them registered on grade 9, which means that the cases constituted the large-sized contractors in South Africa. All are registered to

execute large scale infrastructural projects which are mostly general building and civil engineering works. Most of these cases had been established for more than 4 decades and listed on JSE. Similarly, the permanent workforce on the payrolls of most of these cases are more than 10,000 and they operate in African countries, Middle East, Eastern Europe etc. These data show that the cases/JSE listed MNCC investigated are actually large-scale contractors; have adequate experiential and human capitals; are operating in international space and could be described as international contractors.

Table 5. Background information of the cases/JSE listed companies

Type	Grade	Class of work	Year Established	JSE Listed	Current Employees	Regions of operation
A	9	9CE & 9GB	1971(more than 40 years)	2007	>12,000	Africa countries, Middle East, Abu Dhabi & Qatar
B	8, 9	8GB, 9CE & 9GB	1984 (more than 30 years)	nil	>1,000	Southern African Development Community (SADC)
C	9	9CE & 9GB	1974(more than 40 years)	1978	>12,000	Africa countries, Middle East & Eastern Europe
D	8, 9	9CE & 9GB	1970(more than 40 years)	1994	>14,000	SADC, Middle East, Indian Oceans Islands

Key: CE- Civil Engineering; GB- General Building; CEO- Chief Executive Officer
(Source: Authors, 2015)

4.2 Financial resources and capabilities of the cases/JSE listed companies

This paper examines how the cases/JSE listed MNCC in South Africa behaved financially over a period of ten years. The results as presented in Table 6 and Figure 1 show that the revenues of these companies range between 2.57 to 36.039 billion rand. The average revenue for company A over a period of ten (10) years was 7.418 billion rand; and 33.736, 9.630 and 14.165 billion rand for companies B, C and D respectively. These are equivalent to US$539.065million, US$2.544billion, US$726.244million and US$1.068billion for companies A, B, C and D respectively.

Table 6. Revenues of the cases/JSE-listed companies (2005-2014)

	Companies (US$ Billion Rand)			
Year	**A**	**B**	**C**	**D**
2005	-	10694	4939	4765
2006	-	11098	5865	5795
2007	-	17815	7689	8128
2008	2570	27898	8900	10784
2009	6317	32684	12090	14769
2010	7417	31962	11338	15201
2011	8998	30535	9207	14767
2012	8068	35406	9805	17893
2013	9057	34575	11131	23773
2014	9498	36039	15340	25777
Average	**7418**	**33736**	**9630**	**14165**

1 US Dollar = 13.26 (Accessed October 12, 2015)

This is significant when compared with the total revenue of the top 250 international contractors in 2014 as ranked by ENR (Reina and Tulacz, 2015). In addition, these are higher than the total revenues of most of the contractors ranked on the ENR list. The extract of the revenues of the top 100 international contractors in 2014 is shown in Table 7 and the result shows that the revenues of the cases examined can compete favourably within this group as

ranked by ENR. However, most of the contractors with ranking below 100 on a total rank of 250 international contractors had total revenues less than that of MNCC in South Africa in 2014. However, company B has the strongest financial base followed by companies D, C and A.

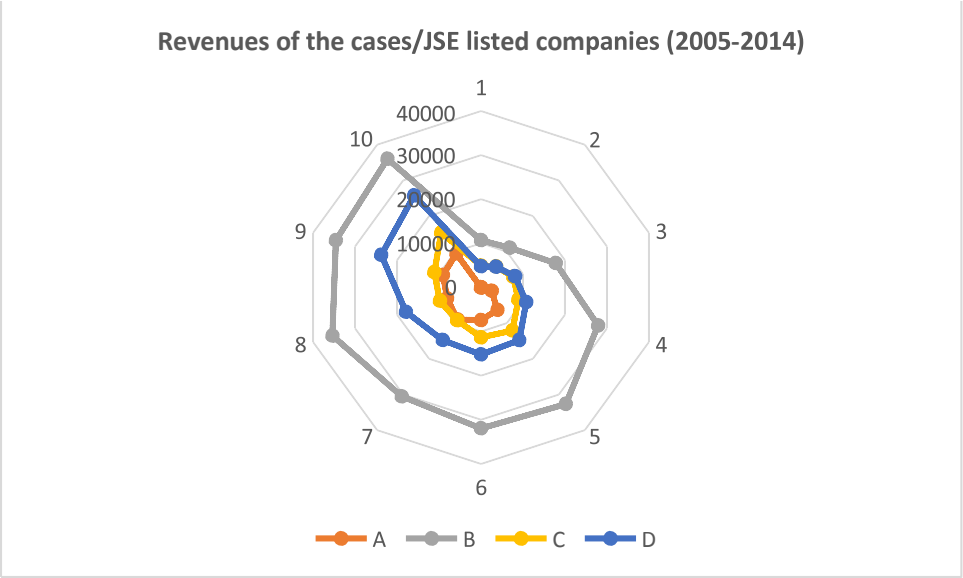

Figure 1. . Revenue of the cases/JSE listed companies (2005-2014)

Table 7. Total revenue of the Top 100 international contractors in 2014

S/N	Ranking		Name	2014 Total revenue (US$ Billion)
	2015	**2014**		
1	62	85	POLIMEKS INSAAT TAAHHUT VE SAN TIC. AS, Istanbul, Turkey	2.2026
2	65	52	ENKA CONSTRUCTION AND INDUSTRY CO. INC, Istanbul, Turkey	2.1389
3	69	66	VAN OORD, Rotterdam, The Netherlands	2.5663
4	74	84	CHINA INT'L WATER & ELCTRIC CORP., Beijing, China	1.5417
5	79	81	JOANNOU & PARASKEVAIDES GROUP OF COS, Guemsey, Channel Island, UK.	1.3801
6	80	78	MAIRE TECHNIMONT, Milan, Italy	1.6137
7	82	83	TAV CONSTRUCTION, Istanbul, Italy	1.4544
8	85	105	THE ARAB CONTRACTORS CO., Cairo, Egypt	2.3670
9	86	93	CGCOC GROUP CO. LTD, Beijing, China	1.1098
10	89	157	CALIK ENERJI SAANAYI VE TICARET AS, Ankara, Turkey	1.0107
11	90	101	TEKFEN CONSTRUCTION & INSTALLATION CO. INC, Istanbul, Turkey	1.3460
12	91	64	SHANGHAI ELECTRIC GROUP CO. LTD, Shanghai, China	1.5360
13	92	107	ANT YAPI CONSTRUCTION, INDUSTRY & TRADE CO. LTD, Istanbul, Turkey	1.0568
14	94	96	CONDOTTE SPA, Rome, Italy	1.5364
15	95	99	ARABIAN CONSTRUCTION CO., Abu Dhabi, U.A.E.	1.0484
16	97	106	BAUER AG, Schrobenhausen, Bavaria, Germany	1.1690
17	99	118	SHANGHAI CONSTRUCTION GROUP, Shanghai, China	0.9095

(Source: Reina and Tulacz, 2015)

The result on the assets of the companies presented in Table 8 and Figure 2 reveal that the assets of the MNCC's studied in South Africa range between 2.291 to 24.532 billion rand. In a period of ten (10) years, the average revenue for company A was 5.555 billion rand, 18.494 for company B and 7.833 and 8.304 billion rand for companies C and D respectively. These are equivalent to US$418.929million, US$1.395billion, US$590.724million and US$626,244billion for companies A, B, C and D respectively. These are significant assets when compared with their revenues. Company B has the highest asset base followed by D, C and A respectively.

Table 8. Total assets of the cases/JSE listed companies (2005-2014)

	Companies (Billion Rands)			
Year	**A**	**B**	**C**	**D**
2005	-	8104	2867	2291
2006	-	10385	4904	3008
2007	-	13011	6888	4248
2008	4371	21650	9250	7958
2009	5024	23493	10373	9608
2010	5027	21952	9950	9358
2011	5604	19560	7771	9492
2012	5991	22442	7589	11342
2013	6571	24532	8804	12337
2014	6298	19811	9933	13398
Average	**5555**	**18494**	**7833**	**8304**

1 US Dollar = 13.26 (Accessed October 12, 2015)

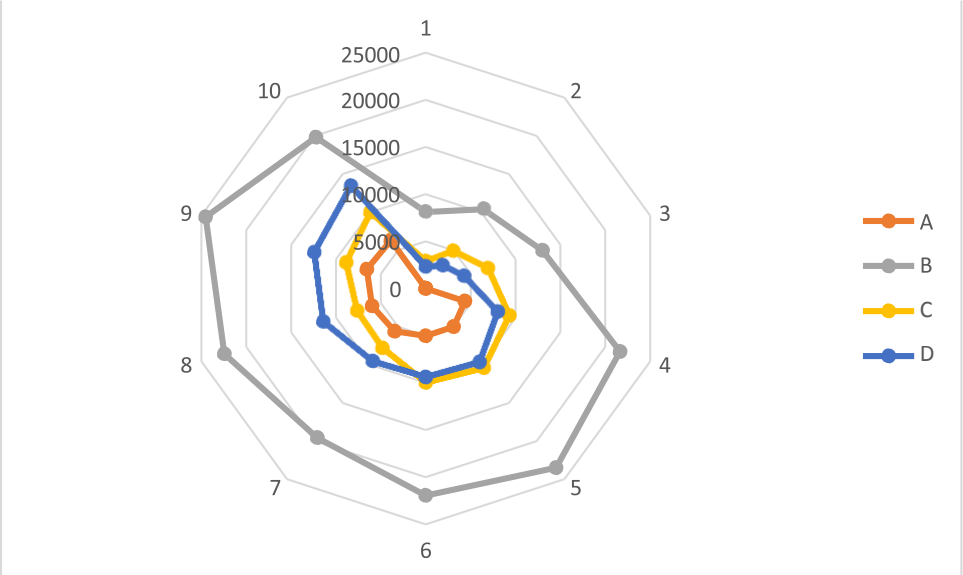

Figure 2. Assets of the cases/JSE listed companies (2005-2014)

From the result of international contractors ranking by ENR in 2015, it was established that there are contractors among the top rated 250 international contractors that has revenue that is as low as US$101. 9 Million (Reina and Tulacz, 2015). However, the average revenue of MNCC examined in South Africa over a period of 10 years range between US$7.418 to 33.736 Billion. Within the same period of years under review, the least total revenue among the cases/JSE companies investigated was US$2.570 Billion with the maximum up to US$33.736

Billion. These figures reveal that the total revenue of the significant number of international contractors as ranked by ENR are below the revenue of MNCC in South Africa. This therefore supports the argument that the financial performance of MNCC in South Africa are adequate and this place them on leverage to compete globally.

5 Conclusion and Further Research

This paper examines the financial performance of MNCC in South Africa and this was achieved through cases investigation (annual and financial reports) of JSE listed construction companies. A review of extant literature reveals that financial resources and capabilities such as revenues and level of assets are significant for any firms intending to internationalize. It was established in the cases conducted that there are construction companies in South Africa that are multinational because they are of large scale and have adequate financial, experiential and human capitals. It was further revealed through data obtained that the revenue of MNCC in South Africa is adequate when compared with the total revenues of the top 100 international contractors in 2014. The paper concludes that the construction market in South Africa would tend to be oligopolistic if other African-based construction companies do not build up their financial resources so as to be able to compete in the domestic, cross-border African and International construction markets. Further research that aims to employ financial ratios in establishing the level of financial performance of the cases/JSE listed construction companies is proposed.

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