

EVALUATION OF THE GLOBALISATION READINESS OF MEDIUM SIZED CONTRACTORS IN THE SOUTH AFRICAN CONSTRUCTION INDUSTRY

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Abstract

The developing countries are on the verge of developmental take-off, most especially the African continent with its emerging economies. The current competitive forces are intense both on the global and domestic in the construction market. The global thrusts have generated the concepts of globalization business strategy as one of the drivers of competitiveness of many countries and organisations. The objective of this study is to evaluate the globalization readiness amongst the medium enterprise (MEs) contractors in Port Elizabeth, Eastern Cape Province of South Africa (SA). This paper is a qualitative study which adopted in-depth interviews for 10 contractors in the Civil Engineering and General Building contractors within the cidb grade 4 to 6 between the months September to October 2015. These MEs are perceived as potential large scale construction organisations in the nearest future. Findings of the study shows that most of the contracting firms interviewed are currently sustainable and competitive organisations in the domestic market but significantly lacking the readiness and the strategic business approach to penetrate and participate in the global construction market. It can be concluded that the competitive forces emanating from globalization thrust may have the capability to erode the potential and opportunities of the SA medium contractors for growing and maturing into large construction organisations in the African continent, due to lack of globalization business strategy amongst local contractors. This study recommended that the SA construction contractors should endeavour to develop and implement globalisational business strategies that would foster their global competitiveness.

Keywords: Competitiveness, Globalisation readiness, SME contractors, South Africa

1 Introduction

The global attention that African countries are receiving is due to its needed calls for massive infrastructure development and its maintenance that would worth around US\$100 billion per year on the continent over the next decade (KPMG, 2014). It is obvious that developing countries, most especially those in the Africa continent are on verge to take-off on its massive infrastructure and mega cities building projects development; and as such the construction organisations both the small, medium and large firms should be encouraged to take advantage of this strategic positioning in order to heighten its global competitiveness. Dlungwana & Rwelamila (2004:349) advise that industries in the developing countries such as South African construction industry must strategically enhance the capacity at the base levels in order to improve its readiness to deliver effectively on local and global projects. The local contractors’

readiness to deliver effectively on the future infrastructure projects would increase their competitiveness in the local and global construction market.

Martin (2010) and Orozco et al. (2011) note that current competitive forces are intense both on the global and domestic market. This has posed a major challenge for many industries including construction. Given the increasing pace of globalization in the commencement of the twenty-first century; it is imperative for domestic organizations in African continent it strategically tap into this upsurge of opportunities. However, it is crucially for South African construction industry to create the readiness to develop, compete and adopt business strategies that would embrace international business management approach. According to Porter (1985) competition remains the center-focus of firms in any given marketplace (locally and internationally). It streamlines a firm's activities and resources; and it can lead to innovation, a cohesive culture and competitiveness (Riley, 2012; Blunck, 2006).

Blunck (2006) reveals that competitiveness emanates from superior productivity or performance in a business environment. However, enhancing the survival rate and competitiveness of the construction industry should be one of the most important strategic tasks for construction players. The construction industry has been an important venture for material production and is playing an important role especially in today's conditions where the rate of industrialization and globalisation in this sector is growing fast. The construction industry is important for the South African and global economy. According to the ECORYS SCS Group (2011) and the National Research Council (2009:2), the construction industry is of strategic importance to the European Union (EU) countries and the U.S.A, as it delivers the buildings and infrastructure needed by the rest of the economy and society; and it is a major generator of jobs. The South African construction industry contributes about 3.7 and 4.0 of the country gross domestic product GDP in the year 2012 and 2013 respectively (Kumo et al., 2015). Therefore, it is vital to ascertain the survival rate and competitiveness; and globalisational readiness of the construction industry especially the MEs contractors. Thus, this paper seeks to evaluate the globalization readiness amongst the active medium enterprise (MEs) contractors in the South African construction business. It was necessary to engage with the medium contractors and organisations that participated in the study as they are been perceived as potential large scale construction organisations in the nearest future. The paper consists with synopsis of the related literature reviews on the MEs contractors' competitiveness and globalisational readiness and it subsequently depicts the research design and method adopted; and presentation of the findings and discussion as well as the conclusion and further research areas.

2 The Medium Contractors' Competitiveness and Globalisational Readiness

According to Ngowi et al. (2004) the competitive force of globalization in the construction industry (CI) has presented new opportunities and challenges which have an impact on all countries in different perspectives. It can be convinced that the globalisation tends would erode the competitive strengths of the local CI. The lack of tenacity and readiness amongst local CI contractors to participate actively in global construction market would consequently undermine any protection policy provided national government that intended to shed the local contractor from the harsh reality of global forces. Ngowi et al. (2004) maintain that construction firms in developing countries have no choice, but to develop skills capacity and tactically position and differentiate their organisations in the market in a way that would ensure their sustainability and competitiveness. Such would also create the readiness for them to compete both in the domestic and global market.

The numerous advances in communication technology, transportation and air travel, and contemporary knowledge on business management and strategies have made global business environment so conducive to initiate and develop a rapid expansion of international business on from any country in the world (Howes and Tah, 2003). According to the, KPMG Global Construction Survey 2013, it was found that, about half of 165 senior leaders in the construction and engineering industry globally, are strategically planning to move into new geographies and most of them focus their business direction towards the African continent, which has been listed as the most popular and prospect to run a business (KPMG, 2014). KPMG (2014) further revealed that most of the organisations that are planning to gain entrance in the construction market in African continent have their headquarters in Europe and the Middle East, and many of these organisations are small companies with a turnover of up to US\$5 billion.

These global thrusts have generated the concept of globalisation and internationalisation in today's business world. The concept of globalization and internationalization is a dominating source of competitiveness for countries and organisations, and well as economic sustainability in the global construction businesses. Globalisation is the movement of people, resources, goods, services, ideas, language and skills across international spaces (Ibrahim, 2013; Dlungwana and Rwelamila, 2004). According to Tallman and Fladmoe-Lindquist (2002), globalisation can be regarded as the managerial process of integrating worldwide activities into a single world strategy. This can be achieved through organisations managing business networks of differentiated, but integrated subsidiaries, affiliates, alliances and associations.

Globalization and internationalization of a business organisations as be regarded as one drivers of any countries competitiveness. Broadly, the World Economic Forum (2014) defines "competitiveness as a set of institutions, policies and factors that determine the level of productivity of a country". The World Economic Forum (2014) further asserts that the stability of the macro-economic environment in any country enhances or deters its holistic business survival and performance as it impacts significantly on a nation's general level of competitiveness. According to Orozco *et al.* (2011) the concept of competitiveness in the construction industry can be divided into four sections, namely the country, industry, firm and project. The World Economic Forum (2014) indicates that South Africa's competitiveness has fallen to 56th out of 144 countries in the Global Competitiveness index for 2014, compared to 2013 when it was ranked 53rd out of 148 countries. It can be said that the country's competitiveness factors are determinants of its firms' international competitiveness; because it is evident that a country's international competitiveness is represented by its firms' competitiveness in comparison to other countries' firms. More so, the government should endeavour to create an enabling environment for MEs contractors through provision of easy access to finance, and creating awareness regarding available technologies, business opportunities and innovation which would boost their productivity and competitiveness globally.

The concept of competitiveness at the industry level is often considered as the results of the strategies and actions of organisations that operate in it. According to Momaya (1998) competitiveness of an industry depends on its ability to obtain inputs at competitive terms, to gain effective value through efficient processes, effective application of business management practices and the successful marketing of its output to downstream industries and international markets. In addition, Momaya (1998) claims that there are three components and facets of competitiveness in the construction industry, namely, competitive assets (factor costs, human resources, industry infrastructure, technology, demand conditions, government); competitive processes (strategic management, formal business plans and models, implementation, human resources development, R&D synergies); and competitive performance (productivity, human resource, quality/effectiveness, cost, financial, international, technological). The relative

market positions of the construction organizations in a particular country would determine their survival rate and competitiveness in global landscape of its industry. The competitiveness of a country and its levels of industrial development impacts heavily on the firms that operate within the system. It is therefore important that a firm compares and defines its competitiveness as per its own strategy and management practices. A systematic evaluation of competitiveness will be of great help to firms. According to Depperu and Cerrato (2005) a firm's competitiveness can be treated as a dependent or independent variable: the first approach looks at competitiveness as driver of a firm's survival and performance whereas the second one considers competitiveness as an outcome of a firm's competitive advantages. However, the concept of competitive advantage is central in strategic and business management and model. Ambastha and Momaya (2004) add that understanding the firm's level of competitiveness helps to provide a broader and more comprehensive view on sources of competitiveness. These sources have been categorized under 'Asset', 'Processes' and 'Performance' on spectrum of strategic and operational levers both in local and international markets.

- Asset - includes firm's brand, reputation, culture, system, structure, human resources, and technology;
- Processes - involves strategy, innovations, competencies, capabilities, quality, persuasion power, flexibility, adaptability, IT applications, managing relationship, design and deploy talent, marketing, manufacturing; and
- Performance – consists of value creation, customer/client satisfaction, market share, productivity, new product/service development, price and cost, profitability.

Wadiwalla (2003) suggests that economic integration in Southern Africa has been enhanced significantly through assistance of regional protocols relating to trade, finance, investment, transport, telecommunications, laws, amelioration of cross border trade barriers, facilitating efficient movement of goods between countries and frameworks for good governance. This economic integration has brought about internationalization of business organisations. Ellis & Williams (1995) state that organisations should have integrated approaches to international business strategies (such as international business, strategic management, international finance, organisational development and international marketing) relating to international aspects of industries, companies and their strategies. Daly (1999) suggests that inter-national literally means between or amongst nations. The basic unit remains the nation, even as relations amongst nations become increasingly necessary and important. However, the integration of international business strategies into contemporary organisations is applicable to small businesses and contractors.

According to Daly (1999) globalisation is inevitable wave of the future in a business environment; because the process of globalization has eliminated the natural barriers over the protection for local economies, and it has brought together the standardized outputs; and businesses across different sectors and countries (Gonov and Genova, 2001).

However, it is a fact now, that globalisation impact in developing countries is real, irreverable, and it has potential force to eliminate all the uncompetitive organisations and contractors within the construction industry in Africa continent (Dlungwana & Rwelamila, 2004). The strategic readiness for the African organisations to harness globalisation as a competitive advantages is their last life-belt that will enable them to strategically weather the storms of globalisation. Tallman and Fladmoe-Lindquist (2002) globalisation stands as new dynamic and strategic dimension to do business, because there is potential for competitive advantage through globalization; because it has becomes an important source for knowledge transfer and new market development. According to Ofori (2000) globalization is an inescapable fact for the construction industries in developing countries. However, Africa continent is no longer

immune to external influences and cannot be insulated from global effects. Wadiwalla (2003) opined that South African construction organization have globalised as a result of expansion, diversification, deepening of trade and to eliminate the cyclical nature of the construction market within South Africa. Furthermore, Wadiwalla (2003) said that contracting business in Southern Africa is dominated by South African Contractors. However, recent, and massive penetration and domination of the Chinese, European and Indian contractors in African continent should be wakeup call for indigenous organisations.

3 Research Methodology

The study made use of the qualitative research method using in-depth interviewing. However, the phenomenology paradigm was adopted in order to holistically understand the phenomenon about the medium contractors' perspective on globalisational readiness. This method in the study is considered the most appropriate and effective to elicit useful and authentic information- experiences, opinions and perspectives through the interviews with the medium construction business owner's and executive managers as firms' representatives. The primary data for this study emanated from face-to-face interviews conducted in Port Elizabeth between the Months of September to October 2015 and on-going PhD research. The interviewees were ten (10) construction business owners and executive firms' representative under the Construction Industry Development Board (cidb) register of contractors in the civil engineering (CE) and general building(GB) organisations within grade 4-6 (medium contractors- see Table 1). The interviewees comprise those organizations that have been competitive and sustainable and; actively operating their business beyond five (5) years in the construction industry.

Table 1. The background profile of interviewees

Interviewee code	Organisational Position	Years of Experience in Industry	Highest Level of Education Qualification	Cidb register of contractors grade
CC1	Executive Member(Owner)	40 years	National Diploma	6 GB
CC2	Director (Owner)	17years	Matric	5 CE
CC3	Managing Director (Family Business)	24years	Bachelor's Degree	5CE
CC4	Director (Shareholder)	40years	Matric	5 GB
CC5	Executive Manager (Family Business)	30years	National Diploma	5CE
CC6	Manager (Owner)	7years	Matric (studying Bcom)	4GB
CC7	Director (Owner)	10years	Bachelor's Degree	4GB
CC8	Managing Director (Owner)	42years	National Higher Diploma	6CE
CC9	Director (Owner)	32years	National Higher Diploma	6CE
CC10	Executive Managing Member	13years	Bachelor's Degree	4CE

(Source: Anugwo and Shakantu, 2015)

The information gathered during the study interviews was analysed thematically. However, the interview was purposively composed into themes as its links and reflects that of the research questions. These themes were emerged by pertaining the research questions within globalizational readiness and participation; international business strategy; and strategic partnership with foreign organization(s), as it were emerged from the transcribed interviews. Although, the research population response rate may seems low, but the data collected was still

significant and meaningful as most interviewees (contractors) were business owners and had wealth of experience in the South African construction industry.

4 Findings and Discussion

Theme 1: Globalization Readiness and Participation

Interview question: *Does your organization have business plans of operating internationally? And why?*

The issue of global participation amongst the medium scale construction contractors is worrisome as it only one (1) organization is actively operating outside South African construction market whilst 70% of organization the interviewed indicates that they have no strategic business intention to engage in international construction market. CC-1 explained that: *“At this moment, you can call us international company because we got subsidiary in Namibia, and have started a new project this year in Oshakati”*.

The common challenges deterring the medium construction expanding the businesses internationally are; lack of awareness, readiness and knowledge on opportunities in the international construction markets, risks of resources transfers, lack of interests and resources; and strong attachment to have absolutely control in the activities of their organizations. The CC-3 *“our organization have not done international project, and to be honest with you, it is a matter of awareness. I think there are lots of business opportunities internationally, but we are not ready for it yet”*.

From the reviewed literature, it has been confirmed that about 165 senior leaders as small construction companies in Enrope and the Middle East are strategically planning to penetrate and compete in the African continent as the continent expected to be spending about US\$100billion on infrastructure development and its maintenance per year. This notion presents the evidence that integration of international business and operational strategies is applicable to small businesses and contractors across the Africa continent, most especially those contractors who are proactive to strategically penetrate and to actively participate in the global construction markets. CC-2 *“At this point in time, our organization doesn’t have any business to engage in international construction market and I’m not in a position where I’m going to be looking for them”*, and other organization- CC-8, added that *“No, we don’t operate internationally and I don’t want to, because I’m too old and it is too risk”* and similar responses emanated from the contractor CC- 9, *“No, I have never really thought about operating internationally. It hasn’t crossed my mind to strategically expand or gain competitive advantage in our business through that way”*. It seems the readiness is greatly lacking amongst the contractors as CC-5 states *“Our organisation haven’t thought or create that readiness about expanding our business on international level, so we don’t engage in international business”*. Remarkably, it take a brave organization to explore into international construction business as; CC-4 responses was *“No, to go internationally, no we are not that brave enough to expand our business internationally”*

Coincidentally, both CC-7 and CC-10 contractors have a long-term strategic goal to grow their resource base nationally but not internationally. CC- 7 *“No, not yet. We are still developing our business locally, but we might get to the international in future, but not really sure”*. And according to CC-10 *“Not really operating internationally but we currently have the business plans to expand nationally for the next five years”*.

Theme 2: International Business Strategy

For an organization to operate successfully in international market it must possess a competitive international business strategy. However, various factors foster or deter an organization to consciously develop international business strategy for its business expansion;

and these are economic crisis, comfort zone, local opportunities and advantages, family concerns, technically and administrative challenges, international alliances. According to CC-1 *“We have strategically chosen to this route of international business because of the economic challenging here in South Africa and obviously for expansion of our business network”*. In addition, CC-2 *“Running a family business successfully and within the immediate local market, and trying to be strategically the market leader locally required you full time attention. However, our business is strategically structured, that we don’t have time to go and engage in an international businesses”*.

Interacting with foreign business organizations can stimulate local contractors’ interest to starts nursing the need and business ideas to develop business strategy and go into international business landscape. According to CC-6 *“our business, is tentatively developing international business strategy. I have been engaging on business trips specifically to China and I’m strategically studying and learning how the Chinese operate their businesses in terms of construction operation and management”*. Shockingly, some the organisations deliberately undermine globalization thrust in the construction international market especially in African continent. The contractors’ CC-7, CC-8 and CC-9 stated that it is unnecessary for them to develop globalization business strategy. However this notion is a warning flag as it’s capable for undermining the country as well as the continent globalization readiness and competitiveness within the global market. CC-7 *“We don’t have concrete strategic business plans on that direction”* and CC-8 *“Our organisation don’t have a business strategy for international activities because it not necessary for us”*. Whilst, CC-9 said *“We don’t have any international business strategy for our organisation because it not necessary for us as we always wanted to be a small organisation and strategically cope on our own”*. However, only one organization have a long term business plan to development international business strategy, as CC-10 said that *“we don’t have international business strategy at this moment, perhaps in next ten years we may develop business plan to actually expand our business operation into international markets”*

Theme 3: Strategic Partnership with Foreign Organisation(s)

Interview Question: *Does your organization have any form of partnership with a foreign organization? And why?*

In today’s business world, strategic alliance and partnership are the emerging drivers of competitiveness and globalization for numerous organisations. It is unfortunate that the medium scale construction contractors have been perceived as potential large scale construction organization in future, they are not tapping into the concepts of organizational alliance which is capable to strategically facilitate their business expansion into global construction markets. All the organisations interviewed indicated that they didn’t have any form of business alliance and partnership both locally and internationally. CC-1 *“We don’t have any strategic alliance or in partnership with any foreign organization at this moment. Our organization is very cautious in partnership or alliance because it comes with a lot of uphill tasks and it would involve an extensive feasibility study and business protocol”*. The organization CC-2 added that *“We consider our organization has not been grown big enough to strategically forming international partnership”*.

In addition, some organisations are striving to solely develop themselves into large scale construction businesses locally and nationally, as CC-3 *“Our organisation haven’t explored the possibilities and advantages for partnering with foreign organisation at this point in time. Our business intention is to strategically develop and grow our resources locally”*. However, two contractors CC-5 and CC-10 indicates that they may consider partnering with foreign organization on joint venture project within South Africa; as CC-5 said, *“Our organisation doesn’t have any foreign partnership in our business; maybe because of the opportunities*

haven't presented itself to our business landscape and we are not ready to start searching for it".

It can be said that the strategic partnership as one pillar of competitive advantage for various organizations in today's business is not being utilized or adopted by the medium construction contractors in Port Elizabeth, South Africa, both on local and global landscape of business operations. All the organisations interviewed indicated that there are not in any form of business partnership. Accordingly, the contractor CC-10 said, *"Currently our organisation is not into any form of partnership with foreign organisation as we have not look into that depth of business strategy"*. However, it is an open discussion in most of the organizations to consider it, but they have generally lack the interest to see the needs to strategically ascertain the pros and cons for engaging in it and how it would be beneficial to their business performance. Also, CC-10 further added that *"... I see businesses especially in the construction industry "big players" engage with lots of foreign organisations in their business and they are quite competitive and well off. As such, we are not entirely close-minded about it"*. Unfortunately, about 40% of the contractors interviewed considered that any form of business partnership or alliance is unnecessary as they lack interest to engage in it. CC-4 *"No, we don't have interest"* and CC-9 *"No, we don't have any partnership and we consider it not necessary for us"*.

5 Conclusion

The article set out to evaluate the globalisational readiness and competitiveness amongst the medium scale contractors in the Port Elizabeth, Eastern Cape province, South Africa. The critical review on literature has shown that African continent is attracting huge global interest in their construction market; and it is obvious that globalization is becoming one of the emerging drivers of competitiveness for various countries and organizations in the construction market. As such, the globalization forces are inevitable and the local contractors in SA must consciously create higher level of readiness to strategically participate in the infrastructure development that taking-off within the continent and beyond. In this fact, the South African construction industry as one of the most structured and coordinated construction industry within the continent; should encourage its contractors especially the medium scale contractors. They should seize up the advantage of its strategic positioning within the continent to develop and adopt business strategies that would embrace its international business management approach; sustainability and competitiveness. This is possible as researcher commentators have highlighted that contracting business in Southern Africa is been dominated by South African Contractors. However, the new strategies on the increasingly penetration and domination of the Chinese, European and Indian contractors within the continent; should serve as serious wakeup call for indigenous construction organisations in Africa.

It can be said that the further persistence of lack interest and for global readiness and willingness to strategically explore global markets amongst local contractors will under-mine their sustainability and competitiveness in the nearest future. As such, the strategic readiness for the South African construction organisations should target to harness the trends of globalisation as a competitive advantage. However, strategic positioning remains the last life-belt for the continent to improve its global penetration and participation as it would enable them to weather the storms of globalisation challenges; and to harvest the benefits emanating from it. Hence, it was found that most challenging and mitigating factors for the medium contractors not be able to internationalise their businesses are lack of knowledge and awareness of opportunities on global markets; focusing only risk aspect of going globally and neglecting advantages; short-sighted on the strategic positioning on the continent; comfort zone and not willing to grow big and highly structured organisations (may lose control of the business); and lack of strategic resources and willpower to explore the global market.

Therefore, this study was based on pilot study with a small sample of contractors; the result has revealed valuable and strategic insights for raising awareness on globalisational readiness amongst contractors in the study area and South Africa generally. Thus, it can be recommended that the construction industry players and contractors should drastically develop interest in exploring and, to actively penetrate and participate in the construction global market most especially within the African continent. Because, having the ability to develop globalization business strategy amongst the construction contractors would heighten the economic sustainability and competitiveness globally. If these commendations are adhered, there will be significant improvement amongst medium contractors that would develop and grow into large scale construction business in the Port Elizabeth, Eastern Cape Province of South Africa.

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