

# INTERNATIONALIZATION: RECOMMENDATIONS FOR JAPANESE CONSTRUCTION FIRMS

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## 1. Introduction

The potential of Japanese general contractors of massively contributing in the development of the most needed nations around the world due to its remarkable expertise is enormous. To expand their legacy across borders, firms have to increase their internationalization efforts and rejuvenate their business strategy. However, attempts for internationalization are of dubious value. The main objective of this paper is to provide recommendations to Japanese construction companies and industry practitioners on how to enhance their competitiveness in international construction markets.

## 2. Japanese construction firms overseas

New players in the international construction industry have recently outperformed Japanese construction companies (especially Chinese and Spanish). While many international companies have taken advantage of the attractive opportunities offered by the international construction industry, Japanese construction firms have remained stagnant without significant increases in their international operations (refer to Figure 1).

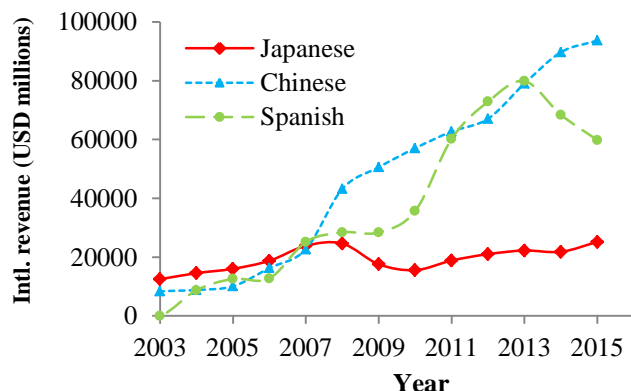


Fig. 1 Trend of intl. operations for selected countries [1]

Table 1 presents a breakdown of the geographical distribution of the total accumulated revenue by the 14 Japanese general contractors listed in the 2016 *ENR Top 250 International General Contractors*. In 2015, over 50% of the international operations of these companies were concentrated in Asia, followed by USA with a 23.2% and Europe with 2.9%. On a global scale, Asia is the region with the strongest presence of Japanese general contractors and Africa the lowest. Namely, 11.6% of the total revenue generated by international general contractors in Asia corresponded to Japanese firms.

Table 1 Geographical distribution of total revenue by Japanese general contractors (2015) [1]

Region	Total revenue <sup>1</sup>	% of total international	% of total self
Asia	14,054.1	11.6	55.8
USA	5,827.1	10.9	23.2
Europe	2,685.0	2.9	10.7
Middle East	1,276.4	1.7	5.1
Canada	611.6	2.7	2.4
LAC <sup>2</sup>	412.0	0.8	1.6
Africa	301.6	0.5	1.2

<sup>1</sup>USD millions

<sup>2</sup>Latin America and the Caribbean

Moreover, in contrast with other global construction firms of comparable size, technical capabilities and expertise, Japanese general contractors are characterized by its low internationalization degree. Internationalization degree is referred to the percentage of a company's total revenue derived from international projects. Among the top five general contractors in the domestic market, Obayashi Corp. had the highest internationalization degree. Three outstanding cases are JGC Corp., Chiyoda Corp. and Toyo Engineering whose total international revenue is higher than the average within Japanese construction companies.

Table 2 Japanese general contractors listed in the 2016 *ENR Top 250 International Contractors* (2015) [1]

ENR Rank	Company name	International Revenue <sup>1</sup>	Intl. Degree (%)
18	JGC	6,184.0	93.0
30	Chiyoda	4,243.9	82.1
33	Obayashi	3,748.0	23.2
43	Kajima	3,068.5	21.7
57	Toyo Eng.	2,219.0	83.4
73	Shimizu	1,528.7	11.4
78	Takenaka	1,399.0	14.2
80	Penta-Ocean	1,296.8	34.4
162	Taisei	380.0	3.1
175	Hazama Ando	326.0	10.3
187	Kinden	299.0	6.5
192	Sumitomo M.	282.9	10.0
232	Toda	102.0	2.4
238	Maeda	90.0	2.9

<sup>1</sup>USD millions.

Note: Due to space limitations, the name of some companies was abbreviated.

Keywords: Japanese general contractors, international construction market, future growth

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### 3. Recommendations for future growth

The following recommendations are mostly based on empirical experience, focusing on the areas considered as lagging behind in comparison to global competitors. By overcoming these interconnected deficiencies, it is believed that firms would become a stronger competition against other global players.

#### 3.1. International human resources

The development of international human resources plays a crucial factor to strengthen the international competitiveness of Japanese general contractors. Although this has been repeatedly mentioned in the past by prominent Japanese scholars and practitioners, only a few general contractors are taking significant steps towards achieving this. Thus, developing a comprehensive system to integrate foreign nationals in the organization needs to become a top priority for the company. This includes to develop clear career paths, offer them competitive employment benefits and provide fair and equal progression opportunities.

#### 3.2. Project Finance

##### a. Concessions

As the gap between infrastructure investment needs and governments' financial and technical capacity to deliver them continues to widen, public-private partnerships (PPPs) are increasingly becoming a common tool to finance infrastructure projects around the world. Thus, Japanese general contractors need to pay more attention to PPPs and take measures towards the development of the necessary know-how. Initial efforts could start with the creation of a specialized concessions section within the international division integrated by experienced foreign practitioners in the field of PPPs.

##### b. Project funding sources

Solely relying on Official Development Assistance (ODA) projects funded by Japanese development agencies and/or foreign direct investment (FDI) projects by Japanese manufactures is not a sustainable global expansion strategy. Instead, Japanese construction firms have to make more aggressive attempts to participate in international competitive biddings (ICB). To enhance their know-how in this regard, they should capitalize from ODA and FYI projects by using them as strategic advantage for getting familiar with the local conditions and forging beneficial alliances with local stakeholders.

#### 3.3. Risk Management

The ability of companies to assess and manage associated risks adequately is fundamental for succeeding overseas [2]. The unique nature of the Japanese domestic market (low risks and harmonious) has ill-prepared construction companies in terms of risk management capabilities among others. Therefore, the authors urge construction companies to start paying

greater attention to risk management practices with a successful track-record. Overcoming this weakness will enable them to make decisions based on calculated risks.

#### 3.4. Localization and hybrid system

A separate ongoing research by one of the authors revealed that Japanese general contractors tend to implement an autocratic approach when undertaking construction projects overseas. Opposite to this approach, Japanese general contractors have to truly localize by adopting a hybrid system in their operations. A hybrid system refers to the recognition and acceptance of local practices and merging them with compatible Japanese practices as well as adopting a flexible attitude towards local partners. This argument is reinforced by a previous study on critical incidents in international construction projects overseas claiming that adopting this managerial style has a robust correlation to enhance project performance [3].

#### 3.5. Merger and Acquisitions

Merger and acquisitions (M&As) have been recognised as one of the most preferred and adopted vehicle for global expansion. As part of the company's expansion plan, Japanese construction firms should reconsider its position towards the adoption of M&As. Transnational M&As are extremely complex, therefore this strategy will require them to build the necessary know-how and bring foreign experts in the field of transnational M&As to guide them throughout the whole transaction process.

#### 3.6. Discussion and Conclusion

Venturing into new foreign markets is a common strategic countermeasure adopted by construction firms around the world against stagnant local markets. In order to thrive abroad, Japanese construction companies have to embark into the journey of revitalizing many aspects of their operations and corporate culture. This paper first presented a quick snapshot of the international operations of 14 Japanese construction companies. Then five recommendations considered as crucial to the internationalization process of Japanese construction firms were presented. The authors highly encourage construction firms to study in depth each of the recommendations presented.

#### 4. References

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