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1. INTRODUCTION

As the biggest construction company in Nordic Countries market which has been expanded to other European countries, USA and South American countries, Skanska has many potentials to expand into new markets. Some push and pull factors can be the trigger for Skanska to expand it's current business. China can be a suitable country to be entered since the construction industry in China is booming nowadays as reflected by a dramatic increase in physical infrastructure spending as well as in commercial construction project value (McKinsey 2013; Reserve Bank of Australia 2014).

This paper provides analysis regarding Skanska’s expansion plan to China. The analysis begins with push and pull factors of Skanska's expansion to China. Skanska's current resources and capabilities and it’s performance in current markets will also be explained in this early part. The next part will be the analysis regarding challenges that should be tackled by Skanska when it want to enter China. This will covers some issues ranging from cultural distances (CD) to legal institution constraints. Suitable entry modes, operational strategies and further market development plan will be suggested in the next part. The conclusions then will be put at the end of this paper.

Data and information to support the analysis in this paper are gained from Skanska’s Annual Reports, Skanska’s internal magazines, news from mass media, industry and country reports from reliable institutions, journal, articles and books.

2. MARKET ANALYSIS
Despite its positive financial performance and reputation as a big company (Skanska 2013; Fortune 2012), Skanska didn’t successfully meet its financial target recently (Skanska 2013). The reason is the demand in Czech Republic, UK and Latin American countries were lower than previous years (Skanska 2013). It shows that current markets where Skanska operates have economical risk. This fact can be classified as push factors that encourage Skanska to expand into new markets. The expansion will enable Skanska to diversify risks.

Since construction business is sensitive to the volatility of the economy (Finkel 1997), diversifying business to another regions which are experiencing high growth will not only neutralise risk of declining revenue but also allow Skanska to safe its long term profitability. From 2000 to 2012, the average economic growth of most of European countries where Skanska operates were under 5%. On the other hand, emerging countries like China has experienced almost 10% of economic growth in average from 2000 to 2012 (World Bank 2014). Figure 2 draws these trends.
High growth in China is reflected in high amount of capital formation (depicted in Figure 3) which provides opportunity for commercial construction projects.

Moreover, allocating investment to China will boost public private partnership business unit of Skanska since the value of infrastructure spending in China is the largest in the world nowadays. This drawn in Figure 4 and 5. This fact can be categorised as pull factor.
Another trends that should be noted are the increase of middle class and urbanisation that currently happening in China (KPMG 2013). The increase of middle class will
increase demand for family housing and the increase of urbanisation will increase demand for urban physical infrastructure such as roads, water system, sanitation,
China has overtaken the United States and the European Union to become the world’s largest investor in infrastructure.

Figure 4: Infrastructure investment by country from 1992 to 2011 (McKinsey 2013).

Energy infrastructure and so on. Based on this analysis, expansion of Skanska to China will be more related with market-seeking motive.
According to the concept of L-Advantages, a particular country will become more attractive to foreign investors when it owns advantages such as markets, resources endowments, agglomeration and institutions (Dunning 1980).

China’s construction industry has a huge market size that derived from significant economic growth such as previously mentioned. China is the largest construction market in the world and it contributes as much as 41% of total Asia Pacific construction spending in 2012 (Aecom 2013). Figure 6 draws the comparison between Asian countries in terms of construction value in 2012. In China, construction value has been predicted to increase at the rate of 7% per annum until 2018 while infrastructure will increase at the level of 9% per annum (Aecom 2013).

These have proven the existence of high demand condition in China for construction industry. Demand condition is one aspect in the Porter's Diamond Model which will determine country's competitive advantages. Other aspects included in this framework are factor condition, firm's strategy, structure and rivalry and supporting industry (Porter 1990).

In terms of human capital, China has huge number of workforce -there are 919.54 million workforce in 2013 (CNBC 2014)-. However, some issues such as declining workforce population and rising wages should be anticipated by any foreign
company investing in China especially in the long term (Federal Reserve of Australia 2011).

The recent development in China’s construction industry has enabled the occurrence of a pool of specialised suppliers and buyers which in turns increase agglomeration level. The development of China’s construction industry which has enabled the increase in the level of rivalry. As a consequence, supporting industry has been developed as well. Moreover, recent government actions have supported the development of supporting industries for constructions business, for instance the government subsidy toward steel and cement industry (Reuters 2014).

In terms of economic institution, there are much improvements in the economic openness in China (The Heritage Foundation 2013). It reflected by the fact that currently China has became major global FDI recipient (UNCTAD 2014) and has entered Stage 3 in terms of Investment Development Path (IDP) (Zhu et. al. 2011).

However, there are some challenges regarding legal institution. Bureaucratic reform still becomes a major challenges in China (THF 2013). In the context of construction industry, difficulty in obtaining licence has reduced the presence of foreign company in China’s construction industry (EU SME Centre 2013). This is the challenge that will be discussed more detail in the other part of this paper.

3. SKANSKA’S COMPETENCIES

Skanska has been placed by Fortune Magazine in the World’s Most Admired Companies in Construction and Engineering list in 2012 (Fortune, 2012). This company which has been operating since 1887 and originated from Sweden, is the
biggest construction company among those which operate in Nordic Countries which consists of Sweden, Norway, Finland and Denmark. This fact is shown in Table 1.

At the beginning, Skanska established it’s own business in Sweden and then became a prominent player. After that, Skanska established itself in other Nordic Countries which are culturally close. In 1950, it expanded to South American countries and in 1971 it established it's business in the United States. The history of Skanska's internationalisation seems in-line with the prediction of the Uppsala Model which suggests that company will take gradual stages in terms of internationalisation process (Johanson & Vahlne 1977).

When creating international business plan for a company, it’s important to analyse company's resources since company's performance will be fundamentally driven by it’s own specific resources such as suggested by the resources-based view concept (Peng & Mayer 2011). Table 2 shows the analysis regarding primary resources owned by Skanska.

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<thead>
<tr>
<th>Tangible Resources</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Financial</strong></td>
<td>total current assets of USD 10,647.1 million, total equity of USD 3,300 million, investment in joint-ventures and associated companies of USD 480.6 million</td>
</tr>
<tr>
<td><strong>Physical</strong></td>
<td>properties plants and equipments of USD 1,152 million which are placed in 17 countries</td>
</tr>
<tr>
<td>Tangible Resources</td>
<td>Description</td>
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<tr>
<td>Intangible Resources</td>
<td>Description</td>
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<tr>
<td>Technological</td>
<td>R&amp;D Department supported by cross country R&amp;D networks, implementation of Building Information Modelling (BIM) and Virtual Design Construction (VDC), mastery in green and high-tech constructions, innovations such as Supply Chain Sustainability School and Deep Green Cooling System, high budget allocation for R&amp;D (SEK 1 billion has invested in R&amp;D in 2012)</td>
</tr>
<tr>
<td>Reputational</td>
<td>Fortune Fourth World’s Most Admired Companies in Construction and Engineering in 2012, Green Developer of the Year and Office Developer of the Year from The Euro Build CEE Award in 2013, highest ranking in Nordic 360 Climate Change Report and some other awards</td>
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<th>Human Resources</th>
<th>Description</th>
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<tr>
<td>Skills and know-how</td>
<td>well developed employees which are developed through programs such as Skanska Management Institute (has been operated since 1995), routine employees survey to measure HRM strategies, annual Talent Review, Skansa’s Leadership Profile (SLP), global talent recruitment, Skanska Stretch (leadership training), risk management</td>
</tr>
<tr>
<td>Communication and collaboration abilities</td>
<td>enhanced collaboration and communication because of some efforts such as employees exchange program across countries, Skanska Development Institute (provides cross cultural training for employees) (Howess &amp; Tah, 2003)</td>
</tr>
<tr>
<td>Organisational culture</td>
<td>enhanced inclusiveness because of some cross-cultural programs, code of conduct; values internalisation (Five Zeros Vision)</td>
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Another framework that can be used to analyse Skansa’s resources is O-advantages of OLI Paradigm. O-advantages are any transferable resource owned by company (Dunning 1980). Notable O-advantages owned by Skaska are capabilities arising from organisational structures and culture as well as transferrable skill and technology. The examples of the first are operation manual, code of conduct,
organisational norms and practices (e.g. Five Zeros Vision) as well as global HRM system. The example of the latter are the know-hows in building green construction and enhancing performance in construction project built by Skanska (e.g. Risk Management practice, BIM and VDC). These advantages are transferable across borders.

4. OVERCOMING CHALLENGES

Despite many opportunities in entering China, there are some challenges that Skanska should overcome. Current construction industry in China is dominated by local players such as illustrated in Figure 7. Only 1% Western companies operate in China nowadays. This situation is due to a difficulty in getting licence or a long time needed to obtain the licence, business best practice in China which influenced by ‘guanxi’ culture and price competition (EU SME Centre, 2013).

The firstly mentioned challenge is related with legal institution aspect. Chinese regulations are very conservative in receiving new materials and new construction technologies because the country is lack of capabilities in utilising those things (EU SME Centre 2013). However, the concern of Chinese government toward green and high technology construction is increasing and it is predicted will remove current legal obstacles (EU SME Centre 2013).

The ‘guanxi’ culture which encourage Chinese business people to rely on relationship rather than product and
service quality has created a cultural distance (CD) especially for Western companies. Using International Joint Venture (IJV) as an entry mode and hiring more Chinese especially in sales and marketing positions will be a beneficial strategy for Skanska. Cross-culture training for expatriates is also needed.

As the number of middle class in China increases, the demand for high quality constructions will also increase because the buying power and the consciousness toward safety and design rises. In the near future, design and quality oriented contractors will be more demanded and will challenge price-oriented contractors.

5. SUITABLE ENTRY MODE

The most suitable entry mode for Skanska to enter China is IJV. It is because by using this mode of entry, Skanska will be able to reduce the outsider liabilities and transaction costs especially when dealing with high level of CD. Kogut and Singh (1988) found that in high CD situation, IJV is more favourable than Wholly Owned Subsidiary (WOS). Another reason is that IJV will allow Skanska to access public-private partnership project because IJV is more politically acceptable. The opportunity to share costs and risks are also important reasons underlying this choice, since the market is still dominated by local players. Without sufficient knowledge about host country market, business will be costly and full of risks. Knowing local knowledge of Chinese construction companies is important and it could be done through IJV. Establishing WOS can be a good choice at the next step, since long experience in host-country will decrease CD (Stopford & Wells 1972), and it will enable Skanska to gain more Internalisation Advantages (I-Advantages).

6. FURTHER DEVELOPMENT STRATEGIES
To successfully operate in China, there are some strategies to develop further market that can be proposed based on previous analysis:

1. **Marketing and networking**: aggressively leverage brand awareness and brand image through significant amount of marketing budget, actively engage in consortium projects, develop network consists of government people, construction business people and industry strategists, develop good reputation in serving niche market-a market which seek design, quality and environment-friendly constructions.

2. **HRM**: continue current HRM system which emphasises on cross-cultural and competencies development of people, internalise Five Zeros culture, hire Chinese for external positions.

3. **Operation management**: develop strategic partnership with local suppliers such as cement and steel company, maintain operational quality

4. **Financial and Risk Management**: be conservative when assessing tenders, implement proper risk management when assessing partner candidates, always keep up-to-date with changing regulations, realise momentum for establishing WOS to minimise transaction costs.

7. **CONCLUSIONS**

China’s construction market provides many opportunities for Skanska. However, some challenges still remain while Skanska want to enter China such as legal constraints, price competition and CD. The legal constraints and price competition are predicted to be exist only in the near term since in the future, industry landscape in China is predicted to improve. The CD problems can be tackled through rapid adaptation. In order to minimise these risks especially in the near term, Skanska can use suitable entry modes as well as some business function strategies.
Since the share of foreign companies in China’s construction business is still low currently, it will be challenging when Skanska want to grab huge revenue during short term period. The decision to enter China is more related with the effort in gaining long term business revenue.

Skanska need to anticipate longer term risks that may appear, such as the rising wages of China’s workforce and the ups and downs of China’s economy. Risk diversification through establishment in other emerging countries like India, Indonesia, and Philippines can be a good strategy in the long term. In the case of declining revenue because of tight competition or political and economical turbulence, Skanska can downsize it’s operation or become more selective in choosing IJV projects. In the event of the occurrence of the need to exit from China, Skanska can sell it’s equity and assets to someone else.