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INTERNATIONALISATION OF TANZANIAN CONTRACTORS

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ABSTRACT
The construction industry in Tanzania has been growing very fast especially in the last decade. Despite this growth the level of Tanzanian contractors of investing overseas is still low. The research sought to identify the characteristics of contractors with overseas investment, the factors that hinder Internationalisation of Tanzanian contractors and the strategies for Tanzanian contractors wishing to invest overseas. The approach used included literature review, personal interview and questionnaires administration to 60 Tanzanian contractors based in Dar es Salaam. The findings suggest that the internationalisation of Tanzanian contractors is good as 41.7% of the respondents have carried assignment outside the country. Regarding the factors affecting the internationalisation of Tanzania contractors it was found that among the selected five strengths and weaknesses attributes, the technological ability was the most critical attribute according to the respondents having a mean score of 3.96 followed by cost differences with a mean score of 3.50 and financial ability with 3.33. Regarding the threats for internationalisation of Tanzania contractors it was found that among the three threats social & political environment, and economic environment are more revealing having mean scores 3.67 and 3.67 respectively. In addition, the market and competition is also a force to reckon with recording a mean score of 3.58. Regarding the strategies for internationalising the contractors, it is recommended that Tanzanian contractors wishing to export their services should, as a strategy, put more focus on strategy like use of easier & comparatively cheap technologies which had a mean score of 3.17 followed by controlling construction costs and delivering quality performance with a mean score 3.00. The quality of performance will increase Tanzanian contractors' reputation and help them to secure a number of large scale construction projects internationally.

Keywords: Construction industry, internationalisation, strategies, Tanzania

1. INTRODUCTION

The Tanzania real GDP has grown at an annual rate of about 6.3% with the construction industry being a major contributor to this growth, contributing about 5.6% to the GDP (CoST, 2010). The construction sector has been growing at a rate of 7.5%. The growth is attributed to increased construction of roads and bridges, residential and non-residential buildings and land developments. In year 2010, the construction sector contribution to the national GDP was 7.9% compared to 7.7% in 2008 (The Contractor, 2010). The registered Tanzania contractors as at 2007 were 4,630 out of which 167 or 3.6% were foreign contractors. Out of 4,463 Tanzanian contractors only 8 managed to secure jobs outside Tanzania (CRB, 2008). By January 2011 the registered contractors were 6,082, foreign contractors being 209 or 3.44%.

The benefits of investing overseas include higher returns, diversification and increased investment opportunities. Despite all these benefits the level of overseas investment by Tanzanian contractors is still low. Many studies have been done on Internationalisation of firms, however, most of these studies were on Internationalisation of SMEs (Matambalya and Wolf, 2001; Albaum et al., 2002) and on performance of international contractors (Zhao et al., 2009; Ofori, 2006). The question regarding the factors that affect Internationalisation of

Tanzanian contractors remains unanswered. Therefore there is a need for identifying factors that hinder the Internationalisation of Tanzanian contractors.

The main objective of the research was to assess the pattern of Internationalisation of Tanzanian contractors. Specifically the study was investigating the characteristics of contractors with overseas investment; identifying the factors that hinder Internationalisation of Tanzanian contractors, and establishing strategies for internationalisation of the contractors. The approach used included questionnaires, personal interviews as well as literatures reviews.

2. SITUATIONAL ANALYSIS

The economic activities in construction grew at the rate of 9.7 percent in 2007 and the contribution of construction activities to GDP was 7.8 percent in the same year. In 2011 Tanzania has 6,082 registered contractors, among them 4,003 are small contractors registered in class six and seven which is equivalent to 65.82% of all contractors (see Table 1).

Table 1: Registered Tanzania Contractors in 2011

Type	Class of Registration									Total
	I			II	III	IV	V	VI	VII	
	L	F	T							
Building	52	28	**80**	26	40	118	378	351	1479	**2472**
Civil	21	29	**50**	16	37	97	351	583	1230	**2364**
Electrical	14	19	**33**	5	6	29	95	47	259	**474**
Mechanical	5	10	**15**	1	2	8	15	13	41	**95**
Temporary	0	53	**53**							**53**
Sub Total	**92**	**139**	**231**	**48**	**85**	**252**	**839**	**994**	**3009**	**5458**
Specialist	**I**			**II**			**III**			
	L	**F**	**T**							
Building	9	7	**16**	5			5			**26**
Civil	16	20	**36**	15			167			**218**
Electrical	33	22	**55**	29			88			**172**
Mechanical	38	21	**59**	26			123			**208**
Sub Total	**96**	**70**	**166**	**75**			**383**			**624**
Total										**6082**

Key: L = Local, F = Foreign, T = Total

Source: Contractors Registration Board (CRB, 2013).

A number of researchers (Rwelamila, 2002; Ngowi and Ofori 2001; Mashamba, 2001) agree that an outlook of the SME sector in many Southern African construction industries needs serious attention because estimates show that foreign contractors and consultants have about 70% of the construction market share in the Southern African region (Ofori, 2001).

2.1 Theories of Internationalisation

The concept of Internationalisation is built on the two groups of theories, which are economic and behavioural theories. The theory of growth draws heavily from industrial economics, and

international economics. Economic fundamentals dictate that one of the ways firms seek growth is through Internationalisation. Another theory is Product life cycle (PLC) approach, which explains why a product that begins as a nation's export eventually becomes its import.
The theory of transaction cost economics (TCE) explains the behaviour of multinational enterprises, and their preference for hierarchical to market exchange transactions. The three key conditions of transactions that affect the choice of governance mode are: asset specificity, frequency and size of transaction, and uncertainty. The eclectic approach (Dunning, 1981) explains the existence of multinational corporations (MNC) and the reasons for their expansion and growth. Dunning's model is based on three propositions related to location specific advantage, ownership advantage and internalization advantages. Another theory is the network perspective, which posits that Internationalisation is a process that takes place through networks of relationships.
The internationalisation of SMEs takes a gradual process, which is determined by among other things capital investment and intensity of management in a firm. There are seven (7) stages of internationalisation (See figure 1): import, export, license, co–operation, joint venture, foreign distribution and foreign manufacturer (Pleitner, 1998).

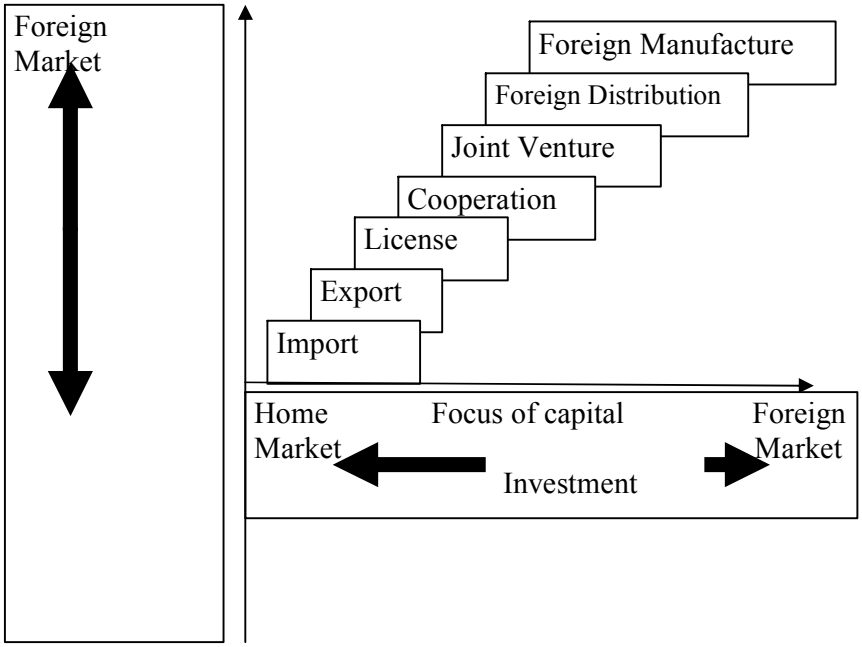

Figure 1: Dimension in Firms' Internationalisation Process Source: Pleitner (1998)

According to Pleitner, (1998) small firms in developing countries are claimed to be in the early stages of the internationalisation ladder. Their relevant form of internationalisation is export and import of goods and services.

2.2 Characteristics of Contractors with Overseas Investment
Among the dominant characteristics that can enhance the internationalisation of firms are: Management skills intensity (MSI), experience and commitment (EC), size and age of the firm (SA), investment in Information and Communication Technologies (ICTs), and the

firms' external environmental factors (EEF) (Crick and Spence, 2000; Matambalya, 2000; Matambalya and Wolf, 2001, Matambalya, 2002; Albaum et al, and 2002).

A study by ITC (1997) demonstrates the relevance of the MSI as the most critical factor facilitating the export activities of a firm. Albaum et al., (2002) argue that the firm cannot fully realize potentials in exporting without the top management being wholeheartedly committed to it. The export involvement and its success are associated with characteristics such as the operator's knowledge of foreign languages, previous export experience, foreign work experience, travel, world mindedness, education and interest.

A study by Crespo and Simoes (2002) identified factors for internationalisation as size, product development as well as investment in R&D. The firm size, measured in number of employees, can discriminate between exporting and non-exporting firms. A study by Subramanian (1997) observed that age of a firm as one of the success factors for internationalisation. The reason behind this is that it is related to business skills acquired and developed through practice. Burgel and Murray (2001) indicated also that there is a positive relationship between age of the firm and export intensity.

Investment in ICT has a positive relationship with internationalisation as it facilitates web – based sales, Internet marketing and communication networks. Therefore, ICT investment is a crucial resource for international entrepreneurship. A study by ITC (1997) identified the location related benefits as a catalyst in small firms' internationalisation. Byford and Hennebery, (1996) examined the role of networks on internationalisation and the results identified business links as having a significant direct influence either on the choice of international market or the internationalisation process..

2.3 Factors that hinder Internationalisation of Tanzanian Contractors

Literature on internationalisation reveals a number of barriers small businesses face in their attempt to enter foreign markets, which include: poor infrastructure, competition from international market, and market entry costs (ITC, 1997; Birley, 1995).

2.4 Strategies for Tanzanian contractors to Invest Overseas

Strategies for Tanzanian contractors wishing to invest overseas can be developed by identifying the Tanzanian contractors' strengths, weaknesses, opportunities and threats (SWOT) with respect to international construction market.

A study by Salewi (2003) indicated that the overall Tanzanian construction industry performance rating in terms of cost, productivity, reliability, quality, safety and environmental conformance was between poor and fair, an unsatisfactory performance. This low performance is attributed to lack of enough management ability.

Even for leading contractors, financing difficulties have been one of the major barriers to securing overseas projects (Chen and Mohamed, 2002). In some cases, Tanzanian contractors are often rejected from bidding because they have lower annual turnover. To overcome this weakness, local contractor can form joint ventures among themselves or with foreign contractors.

Having a special expertise is one of the major strengths for a company that looks for opportunities in the international market (Gunhan and Ardit, 2005). Science and technology contribute towards the improved competitiveness of contractors. Construction cost has a

profound effect on contractor's business, particularly in developing countries where the price is more important criterion for selecting contractors (Thomas, 2002).

The diplomatic relationship between Tanzania and other African countries is one of the significant opportunities for Tanzanian contractors to bid for projects in these countries. The re-establishment of East African Community with now five member states should also be taken as an opportunity for Tanzanian contractors to invest in these countries.

3. RESEARCH METHODS

3.1 Sampling and Sample Design

The total number of registered contractors in all classes is 6,082 as shown in Table 1 and the contractors are grouped into seven (7) classes. The size of the contractors can further be regrouped as follows: small contractors (class VI & VII), medium size contractor (class III, IV & V), and large contractors (class I & II) with 70.8% being large contractors, 20.9% medium and 8.3% small contractors. In that consideration, the researchers used purposive sampling in order to get representative of contractors in all seven (7) classes. Within each of the grouping of the contractors, the researcher adopted probability sampling of the population of contractors to select 60 contractors (about 10% of the population).

3.2 The Approach Used

A total of 34 questionnaires were distributed to big contractors, 18 to medium contractors and 8 to small contractors, making a total of 60 questionnaires. The questionnaires respondents were 48 in total out of which 34 were big contractors, 10 medium contractors and 4 small contractors. Most of the responded companies were incorporated between 1951 and 2008. The years of incorporation were categorized into three groups: before 1990; 1991 to 2000; and 2001 to 2010. Contractors incorporated before year 1990 were considered in this research as being old, those incorporated between 1991 and 2000 were considered medium aged and those after 2001 were taken to be young contractors.

4. FINDINGS AND ANALYSIS

4.1 Characteristics of Contactors with Overseas Investment

In the questionnaire a set of questions were designed to test the six characteristics found from the literature review, which were MSI, Size, Age, ICT, Location and Network. Respondents were also given room to mention any other characteristics they knew. Prior to questions regarding the six characteristics, contractors were asked whether they have ever carried out any work outside Tanzania. This question was asked in order to examine the characteristics of contractors who answered "Yes" against those who answered "No". The findings regarding this question show that 41.7% of all respondents have carried out work outside Tanzania while 58.3% have not.

The findings suggest that the internationalisation of Tanzanian contractors is good as 41.7% of the respondents have carried assignment outside the country. The percent of contractors who had carried assignment outside the country could have been even lower had it been that samples were drawn from upcountry regions as well, where location and infrastructure variables would be considered. Further, the size variable may also have contributed to the

large number of those who responded "Yes" as the majority of those who responded (70.9%), were large contractors.

On how they managed to acquire a contract in a foreign country the responses show that all contractors who had carried work outside the country said it was by direct award by the client. The fact that all contractors said it was by direct award justifies the importance of networking in international contracting. Direct award by client means that the client knew the contractors after probably doing a previous good job or was directed by others who knew the performance of the contractors.

4.1.1 Management Skill Intensity (MSI)

Respondents were asked whether MSI has influence towards export of construction services. The responses show that the characteristic of MSI was considered by 75% of all respondents as having influence on export of construction services while 25% were undecided. 83.3% of the respondents rate the skill intensity of their management as being between high and very high while 16.7% consider their MSI level to be very low.

The 40% of all contractors who considered their MSI level to be high had invested outside the country and also the 50% of all who considered their MSI level to be very low had invested overseas. This signifies that in addition to top management education, knowledge and experience, willingness of the top management to invest outside the country is also very important. These findings support Albaum et al. (2002) argument that a firm cannot fully realize potentials in exporting without the top management being wholeheartedly committed to it and ready to face the risks involved. MSI was also considered as the most significant characteristic of international contractors out of the six characteristics.

4.1.2 Firm's Size

The findings regarding size characteristic show that big and medium contractors had at one time or more offered construction services outside the country while small contractors did not. The percentage of those who said they have already carried out work outside the country were 38.5% for class one, 50% for class two, 100% for class three and four, and 33.3% for class five. These results matches other findings by Subramanian (1997) and Crespo and Simoes (2002) which observed that as the firm grows in size, it enjoys economies of scale including market expansion. The respondents also ranked "size" as the second most dominant characteristic of international contractors, just behind MSI. These findings imply that size has a positive effect towards Internationalisation of contractors.

4.1.3 Firm's Age

The findings show that the "age" characteristic was considered by the respondents as affecting positively the export behaviour of contractors with 75% agreeing to that. However, as shown in figure 2, cross tabulation of age against export indicates that, of the interviewed contractors, only 25% of older contractors had exported their services compared to 50% and 75% of the contractors incorporated in 1996 – 2000 and 2001 – 2005 respectively. On the other hand, 33.3% of the young contractors had exported their services.

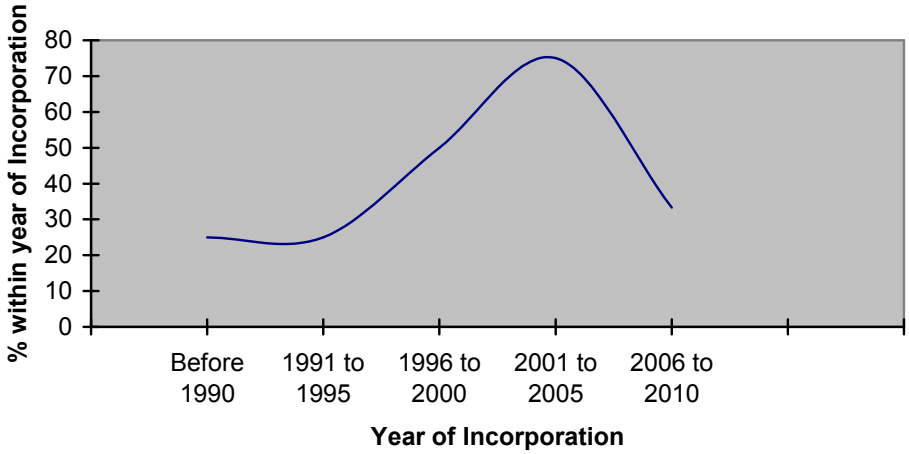

Figure 2: Age against export of construction services

The "age" characteristic can therefore be said to be inconclusive in explaining its relationship with export of construction services. While age in some firms is observed as one of the success factors in export performance, other firms observe a negative relationship between age and Internationalisation. This can be attributed to a number of reasons. The first reason can be related to the influence of ICT. The second reason can be related to born-global perspective. It can be concluded therefore that age variable does not necessarily influence the export activities of a construction firm. These findings are similar to those of Wegner (2002) and Crick and Spence (2000) which shows a negative relationship between age and Internationalisation.

4.1.4 Investment in Information and Communication Technology (ICT)

All of the respondents agreed that investment in ICT is one of the dominant characteristics of international contractors with 83.3% saying they strongly agree and 16.7% just agreeing. In the overall ranking of all 6 characteristics, the influence of ICT was ranked as number 4. A cross tabulation between Investment in ICT and export of construction services indicates that 50% of all contractors who consider their investment in ICT as being high had already carried out work outside the country while all contractors who said their investment in ICT were average or low had not. This implies that ICT has great influence to export of construction services. Other empirical evidences like Matambalya and Wolf (2001) and Crick and Spence (2000) also came out with the same conclusion that ICT is a major initial catalyst for pursuing an international strategy.

4.1.5 Location of the Firm

Results of location variable reveal that 50% of respondents agree that location of a firm contributes to export of services of a construction firm. However, in the overall ranking with the other 6 characteristics, it was ranked number 3. Regarding cross tabulation, it was not possible to observe the relationship between export and location due to the fact that all respondents were based in one region, which is Dar es Salaam. This characteristic is therefore subject to further study.

4.1.6 Networking

The results regarding the networking show that 50% of all construction companies with between high and very high networking had already exported their construction services while only 33.3% of all who consider their networking to be on average have exported their services. No contractor who rated himself as having very low networking had done any work outside the country.

This is also supported by the way in which projects were obtained by respondents who said they have done work outside the country. All respondents said they were directly approached by the client. This implies that they were known to the client in one way or another. This variable is therefore a catalyst for contractors' Internationalisation.

4.2 Factors that hinder Internationalisation of Tanzanian contractors

Three factors, namely infrastructural facilities, competition and market entry costs were studied. Respondents were also given room to mention any other factors they knew.

4.2.1 Public Infrastructure

Respondents were asked to indicate the extent to which they agree or disagree to the statement that inadequacy and unreliable supply of public infrastructure is barrier towards export of construction services. Responses show that 66.7% of respondents consider public infrastructure as being a barrier to internationalisation out of which 16.7% agree strongly and 50% just agree.

Only 8.3% disagree that public infrastructure is a barrier to export of construction services. Overall, this variable is ranked second just behind competition. Although the findings show that inadequacy infrastructural facilities is barrier to export of construction services, further study which include different areas as well, rather than Dar es Salaam only is required to be able well compare the effect of this variable.

Respondents were also asked to give their views on the position of infrastructural facilities in Tanzania. Almost 50% of the respondents consider the position of infrastructure facility in Tanzania as being on the average, 33.3% consider the facility to be good while only 8.3% said it is bad. It can be said therefore that the level of infrastructural facilities in Tanzania is on the average. This therefore could be one of the reasons why Tanzanian contractors fail to internationalise. This is also in line with other studies like Suttle (1996) who observed that poor state, inadequacy and unreliable supply of infrastructural facilities as impeding factors to firms internationalisation.

4.2.2 Competition

Competition has been ranked number one among the other variables. 91.7% of all respondents agree that competition in foreign market hinders contractors to work outside the country, out of which 25% agree and 66.7% agree strongly. Only 8.3% disagree. It can be concluded that competition in terms of quality and price has been an obstacle for Tanzanian contractors to secure projects outside the country.

4.2.3 Market entry Costs

All respondents see market entry costs to be between average and very high with most of them (41.7%) saying the costs are very high, 33.3% high and 25% average. However, this variable has been ranked last among the other variables affecting internationalisation. This obstacle can also be linked to capital problem because size, which include amount of capital accumulated, has been found to have positive effect towards Internationalisation of contractors.

4.3 Strategies for Tanzanian contractors wishing to Invest Overseas

4.3.1 Situational Analysis Tanzanian contractors

The situational analysis presents the SWOT analysis of the Tanzanian contractors with consideration of internationalisation. The responses of the Tanzanian contractors in regard to the position of their companies with respect to selected five strengths and weaknesses attributes are as shown on table 2.

Table 2: Response on Strengths and Weaknesses of Tanzanian contractors

Strength - Weakness Attributes	Rating					Total Score	Mean
	Very good (5)	Good (4)	Fair (3)	Bad (2)	Very bad (1)		
Management ability	0(0)0%	16(64) 33.30 %	24(72) 50%	4(8)8.30 %	4(4)8.3 0%	148	3.08
Financial ability	8(40)(1 6.70%	12(48) 25%	16(48) 33.30 %	12(24)25 %	0(0)0%	160	3.33
Technological ability	33.301 6(80)%	41.702 0(80)%	6(18)1 2.50%	6(12)12.5 0%	0(0)0%	190	3.96
Cost differences	16.708 (40)%	12(48) 25%	24(72) 50%	4(8)8.30 %	0(0)0%	168	3.50
Resource differences	0(0)0%	33.301 6(64)%	24(72) 50%	4(8)8.30 %	4(4)8.3 0%	148	3.08

Therefore, in respect to selected five strengths and weaknesses attributes Technological ability was the most critical attribute according to the respondents having a mean score of 3.96 followed by Cost differences with a mean score of 3.50 and Financial ability with 3.33.

Generally therefore, the position of Tanzanian contractors regarding strengths and weaknesses attributes can be said to be on the average. This is similar as argued by Ofori (2006), Chen and Mohamed (2002), Gunhan and Ardit (2005), Thomas (2002), and Njuguna (2008), any firm wishing to internationalise must highly be competitive in these attributes.

Regarding the issue of the threats and opportunities 25% of the respondents see social & political environment to be very good, 16.7% see it as good and while 58.3% found it to be fair (see Table 3). No one consider social and political environment to be bad or very bad.

This signifies that, this attribute is not a threat but rather an opportunity to be explored by Tanzanian contractors.

Table 3: Response on Threats and Opportunities for Tanzanian contractors

Threat - Opportunities Attributes	Rating					Total	Mean
	Very good (5)	Good (4)	Fair(3)	Bad(2)	Very bad(1)		
Social & political environment	12(60) 25%	8(32) 16.70%	28(84) 58.30%	0(0) 0%	0(0)0%	176	3.67
Economic environment	4(20) 8.30%	24(96) 50%	20(60) 41.70%	0(0) 0%	0(0)0%	176	3.67
Market and competition	12(60) 25%	8(32) 16.70%	24(72) 50%	4(8) 8.30%	0(0)0%	172	3.58

Among the three threats depicted in Table 3, Social & political environment and Economic environment are more revealing having mean scores 3.67 and 3.67 respectively. The Market and competition is also a force to reckon with recording a mean score of 3.58.
These attributes can hinder the Internationalisation of Tanzanian contractors.

4.3.2 Strategies

Regarding the strategies for Tanzanian contractors to internationalize it was indicated by all respondents that reducing competitors by controlling construction cost and delivering quality performance as the best strategy. The other strategies that were ranked high include: training and continuous professional education; Joint ventures with fellow Tanzanian contractors; Owning plant and materials manufacturing bases; Cooperation with foreign firms; Government support; as well as Market analysis to understand competition (See Table 4). The least ranked strategy was low workforce cost with mean score of 2.23.

Table 4: Strategies for Tanzanian contractors to go international

No	Strategy	Good (3)	Neutral (2)	Poor (1)	Total	Mean
1	Controlling cost & delivering quality performance	48(144) 100.0	0(0) 0.0	0(0) 0.0	144	3.00
2	Training and continuous professional education	35(105) 72.8	4(8) 9.1	9(9) 18.2	122	2.54
3	Joint ventures with fellow Tanzanian contractors	32(96) 66.7	16(32) 33.3	0(0) 0.0	128	2.67
4	Own plant and materials manufacturing bases	32(96) 66.7	12(24) 25.0	4(4) 8.3	124	2.58
5	Cooperation with foreign firms	32(96) 66.6	8(16) 16.7	8(8) 16.6	120	2.50
6	Government support	32(96)	12(24)	4(4)	124	2.58

		66.6	25.0	8.3		
7	Market analysis to understand competition	32(96) 66.6	4(8) 8.3	12)(12) 25.0	116	2.42
8	Knowledge of foreign language	28(112) 58.4	8(16) 16.7	12(12) 25.0	140	2.91
9	Use of easier & comparatively cheap technologies	28(112) 58.3	20(40) 41.7	0(0) 0.0	152	3.17
10	Low workforce cost	19(57) 39.1	21(42) 43.5	8(8) 17.4	107	2.23

It can therefore be said that Tanzanian contractors wishing to export their services should as a strategy, deploy the strategies shown in table 5 but with more focus on the leading strategies. A strategy like Use of easier & comparatively cheap technologies which had a mean score of 3.17 followed by controlling construction costs and delivering quality performance with a mean score 3.00 will increase Tanzanian contractors' reputation and help them to secure a number of large scale construction projects internationally. Quality performance may as well attract clients in awarding contracts through negotiation.

Training and continuous professional education is also a very good strategy in that it does not only increase the skill intensity of the management but also that of employees. Joint ventures will help in increasing the size and capacity of contractors. Other characteristics of international contractors may also be attained through joint ventures. The same findings are found in Zhao et al. (2009) and Salewi (2003).

5. CONCLUSION

The main objective of this study was to assess the pattern of Internationalisation of Tanzanian contractors. The study sought to know firstly, the characteristics of contractors with overseas investment. Secondly the study was to establish the factors hindering the Internationalisation of Tanzanian contractors and lastly it was to develop strategies for Tanzanian contractors to internationalize.

The research findings show that five out of the six studied characteristics of international contractors have positive influence towards Internationalisation of Tanzanian contractors. It can therefore be said that contractors with overseas investments are what they are because of the management skill intensity (MSI), the size of the company, investment in ICT, networking, and location of the company. The age characteristic does not necessarily influence contractors to invest outside their country. The most influential characteristic is MSI followed by size, location, investment in ICT, age and lastly networking.

Regarding the factors that hinder Internationalisation of Tanzanian contractors it was found that competition, market entry costs and infrastructural inadequacy are the main factors hindering Tanzanian contractors from investing outside the country, the leading obstacle being competition followed by infrastructure and lastly market entry costs.

Strategies that were established for Tanzanian contractors to internationalise include: Use of easier & comparatively cheap technologies and controlling construction costs and delivering quality performance; Knowledge of foreign language; joint venture with fellow Tanzanian contractors; owning plant and material manufacturing bases; government support; and cooperation with foreign contractors.

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