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Challenges of Entering International Markets for Russian Construction Companies

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Abstract: The paper reviews key challenges faced by Russian construction companies while entering the international markets. International construction company ratings demonstrate that the amount of work performed by Russian companies is several times less than the ones performed by international contractors. At the same time the world level companies successfully work overseas. Instead of waiting for beneficial investment climate changes, Russian companies must shift the focus from national market towards foreign expansion and extending operations abroad. That would allow extension of foreign operations and positive changes in the system of values and mentality of Russian contractors.

Keywords: global investment and construction sphere, investment attractiveness, investment and construction expansion, organization behavior.

1. Introduction

International construction market has great potential for Russian construction companies. Analysis of TOP-200 world construction companies (Table 1) performing construction overseas [1, 2], and a similar rating of largest Russian construction companies developed by the Top-RF.ru agency using 2014-2015 data (Table 2) [3] demonstrated that it is impossible to compare Russian and international companies by the amount of revenue Russian. For example, top four Russian companies demonstrated revenue within the range of 260-105 bln roubles according to Forbes, while top four companies from TOP-200 list demonstrated overseas revenue within the range from 2.6 to 1.2 trillion roubles.

Table 1. TOP-10 of the Construction companies providing international construction services (2013 data).

Rating	Name and location	2013 revenue, mln USD
1	Grupo ACS, Spain	44053.80
2	HOCHTIEF AG, Essen, Germany	34845.0
3	Bechtel, San-Francisco, CA, USA	23637.0



Rating	Name and location	2013 revenue, mln USD
4	VINCI, Rueil-Malmaison, France	20292.6
5	Fluor Corp., Irving, TX, USA	16784.3
6	Strabag SE, Vienne, Austria	15392.0
7	BUIG, Paris, France	14789.0
8	Saipem, San-Donato Milanese, Italy	12137.6
9	Skanska AB, Stockholm, Sweden	14141.1
10	Communications Constructions Group Ltd, Beijing, China	13162.50
11	Veletstroy, Moscow, Russia	1070.0

Table 2. Largest construction companies of Russia: 2016 (Forbes).

	Position in Forbes rating	Name and Headquarters
1	21	Stroygazmontazh (Moscow)
2	46	Mostotrest (Moscow)
3	79	LSR Group (St. Petersburg)
4	82	Renaissance-Construction (St. Petersburg)
5	96	Veletstroy (Moscow)
6	112	Globalstroy -Engineering (Moscow)
7	122	Morton (Moscow)
8	123	FSK Leader (Moscow)
9	124	Stroygazconsulting (Moscow)
10	136	PIK Group (Moscow)

Leading Russian companies are “Stroygazconsulting”, “Stroygazmontazh”, “Mostotrest” and “Tamir”. Leading foreign construction companies are “Grypo ACS” (Madrid, Spain, “HOCHTIFE AG” (Essen, Germany), “Bechtel” (San-Francisco, CA, USA) and “VINCI” (Rueil-Malmaison, France).

TOP-200 rating included large number of construction companies from different countries (table 3). Rating analysis demonstrates that Spain, US, China, Italy, South Korea, Japan and Turkey occupy more than 70% of the world construction market. Other countries are also trying to keep their positions in the rating.

Four last lines of the rating for Russian Companies working in Russia (Forbes rating 156-192) were occupied by ARKS Group (34.1 bln rubles), Veletstroy (332 bln rubles), Inteco (30.0 bln rubles), and Capital Group (27 bln. rubles).

Table 3. Results of analyzing TOP-20 of international construction companies (2013 data).

	Country	Number of companies in the rating	Range of positions in the rating		Country	Number of companies in the rating	Range of positions in the rating
1	Spain	13	1-159	16	Turkey	27	52-200
2	Germany	5	2-106	17	Portugal	2	59-125
3	USA	17	3-192	18	Belgium	1	69
4	France	4	4-165	19	Ireland	1	80
5	Austria	2	6-72	20	Lebanon	2	99-144
6	Sweden	2	8-32	21	Canada	1	100
7	China	47	9-196	22	Egypt	1	105
8	Italy	15	11-199	23	Israel	1	109
9	Brazil	4	12-141	24	Greece	3	24-156
10	South Korea	12	13-189	25	Iran	2	118-197
11	Netherlands	3	18-67	26	UAE	2	119-161
12	Great Britain	3	21-193	27	Mexico	1	122
13	Japan	13	27-182	28	Taiwan	1	131
14	Austria	4	33-190	29	Denmark	1	151
15	India	4	47-173	30	Thailand	1	186

Four last lines of the global rating (lines 197-200) were occupied by “SUNIR Co” (Tehran, Iran), TACA Construction Ink (Istanbul, Turkey), Impresa Costruzioni Giuseppe Maltauro SpA (Italy), and “Metag Inssaat Ticaret AS” (Ankara, Turkey) with annual revenue from 15.6 to 14.3 bln. rubles. In general the spread of revenue for construction companies is quite substantial and is close to 2.6 trillion rubles.

According to rating data most of the revenue of the construction companies was obtained from the operation overseas. At the same time these companies also implement local projects with the quantities similar to international projects, but they display only local performance.

This difference is probably due to expansionism of international construction companies, and local orientation of the Russian ones.

There are the following questions – why did it happen, what are the issues, and what can be done to fix the situation?

2. Expansion of Russian construction companies in the world market as a new paradigm

There are external reasons – political, financial and economic reasons that cut expansion ambitions of Russian constructing companies. Expansion was also limited by the trends in construction related the way construction resources are allocated across the country.

In order to counterbalance this international market trends it is important to form expansionist mindset of Russian construction companies' top management and staff. Internal investment-related problems of construction companies can be resolved only through competition on international markets. The amounts of work required for development of construction companies and regional economy can be located both within the country and outside of it. All it takes- is intent and

qualification to bid against the international players in their field of operations, because today technologies, equipment, materials, prefabricated elements and components are available on the market, along with generally accepted international project management standards that are used in construction in Russia and other countries.

It is now necessary to combine increasing the investment attractiveness of local markets with the trend of expanding operations abroad to the attractive markets. For example, TOP-10 of the attractive countries for direct investments include countries that are actively working on foreign construction markets, namely, US, China, Canada, Germany, Great Britain, Japan, Australia, France, India, and Singapore [4].

If almost all of the construction companies are working abroad, the Russian companies shall also move in this direction.

In order to do that there are changes to be made in two aspects – both internally by changing the company operations model, and externally by considering specifics of competition and investment environment on global markets.

In terms of internal changes, it is necessary to rearrange operation strategy and management values, rules of organizational behavior, and existing approaches to values within the companies towards the creative organizational and economic expansion. The companies will also need to change mentality of the workforce in general, of the personnel groups, and specialists.

3. Main problems of the construction services export and their solutions

Russia has examples of using successful expansion approaches to solving industry level or national level problems. That includes space exploration, higher education institutions attempting to enter international education markets, construction of nuclear power plants, railroads, bridges, and GLONASS nodes abroad.

Construction companies are to start that work on their own, here and now. The main strategy of changing management and workforce mentality is the combination of nonstandard creative approaches, unchaining and support of creative thinking with strict production discipline, and real devotion to profession on all levels of management and operations.

It is possible to implement these changes by basing upon primary (family, colleagues, and friends), and secondary (non-commercial organizations, trade unions, and religious bodies) referent groups that really affect operations of construction companies. Habermas [5] stated that the combination of social relations for the person (family, relatives, and friends) with the systematic world of business and anonymous relations occurring on the markets, in the society and its institutions, creates internal models of interacting and interconnecting stakeholder mentalities within each company. All construction company operation actors affect each other, intentionally, or without such an intention, and finally affect mentality of a worker – a person acting as a member of a family, and a circle of peers.

Worker personality and its formation within a company are generally affected by owners, other stakeholders, and staff members of different levels that act upon the person within the system of worker's business relations. The system shall be transparent, and implemented through organization ethics and values. At the same time social relations of a person with family, friends, and colleagues can affect personal values and behavior either positively, or in a negativistic, and opportunistic way [6].

The correspondence of the values system with external and internal environment can be described by the efficiency of company operations. Acceptance of the values by the staff allows formation of the new company mission meanings, and new approaches to resolution of actual problems. In general that would signify transition from organizational ideology to strategy, and efficient management procedures.

It is known that organizational theory is based upon the hypothesis of correct relationships and positive motivations of the people. The real company forms a spectrum of interrelations, and multivector motivation motives, and values aimed at same and different directions.

Owners, stakeholders, top managers, management, and workers shall determine the corresponding formats of interactions, and determine motivations for achieving stable development of the company and solving the appearing problems.

Some reasons for unsuccessful company adaptation to the occurring changes in competition include outdated value-based approaches, rules and assumptions acting as a base for organization, management approach that does not fit the strategy and external challenges, lack of high-order goals that unite the personnel, failure to resolve current issues, and skills of the staff unsuitable for the selected development strategy.

The necessity to move away from technocratic approaches to management is evident. All experience from USSR and Russia demonstrates that without some invisible virtual delta of spiritual culture all material resources of the company supported by its assets, history record, technologies, machinery, and equipment do not allow company to compete internationally.

Spiritual culture includes the values, social norms, meanings, skills and knowledge that are usually ignored by the management. Also the national economy displays the trend of recreating unfavorable conditions for modern social and economic systems.

Speaking about the external expansion vector for construction companies, it is necessary to note the following. Crisis will affect operations of construction companies for years to come. That would definitely cause the decreased in amount of capital investments and construction activities on a local market, increase in amount s of unfinished construction [7, 8], and bankruptcy of construction companies [9].

In order to overcome the trend it is necessary to increase level of efforts in the area of foreign expansion for companies and corporations [10].

One of the strategic directions of expansion is the development of regional and national mechanisms for supporting export of construction services. International experience shows successful private companies and non-commercial partnerships that support construction companies in terms of financing and expanding construction services export by assisting in establishing contacts with foreign partners. It is necessary to form a system of tools (foundations, programs, and financing lines) that would provide targeted financial and administrative support for Russian companies participating in international construction projects and acting as general contractors abroad. Support mechanisms must be created with involvement of specialized companies, and use public funds or funds of public-to-private partnerships. Specialized organizations must create favorable conditions for national construction companies on foreign construction markets, and assure compliance with international construction market requirements.

For general contract market the requirements can include the following:

- Financial stability and ability to take responsibility for project risks;
- Use of up-to-date construction technologies;
- Internal design force aimed at providing financial, technological, technical and schedule optimization for investment and construction activities;
- Qualified and skilled workforce possessing experience and equipment required to implement construction projects;
- Access to international financing
- International marketing.

For Russian companies the solution may be in the plane of creating joint ventures with international construction companies to take part in international bidding procedures. In case the international partner has requisites necessary for bidding, the joint venture will also be allowed to participate. In case of success, and successful project execution, the experience and financial results will be credited to the Russian company too. Later on the national company can take part in international tenders, possessing required experience and money. It is important that tender procedures and bidding requirements are quite uniform, so after gaining experience in a joint venture regional construction companies can take part in international tenders on their own.

4. Conclusion

Thus, it is possible to formulate the following goals and priority directions of operations for construction companies in crisis conditions – expansion to international markets, and corresponding changes of management models and methods.

Investment attractiveness of a territory and construction industry has an infinite time lag until the current collisions will somehow resolve. At the same time expansion is the action that depends upon its initiator. Attractiveness and expansion do not oppose, but supplement each other.

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