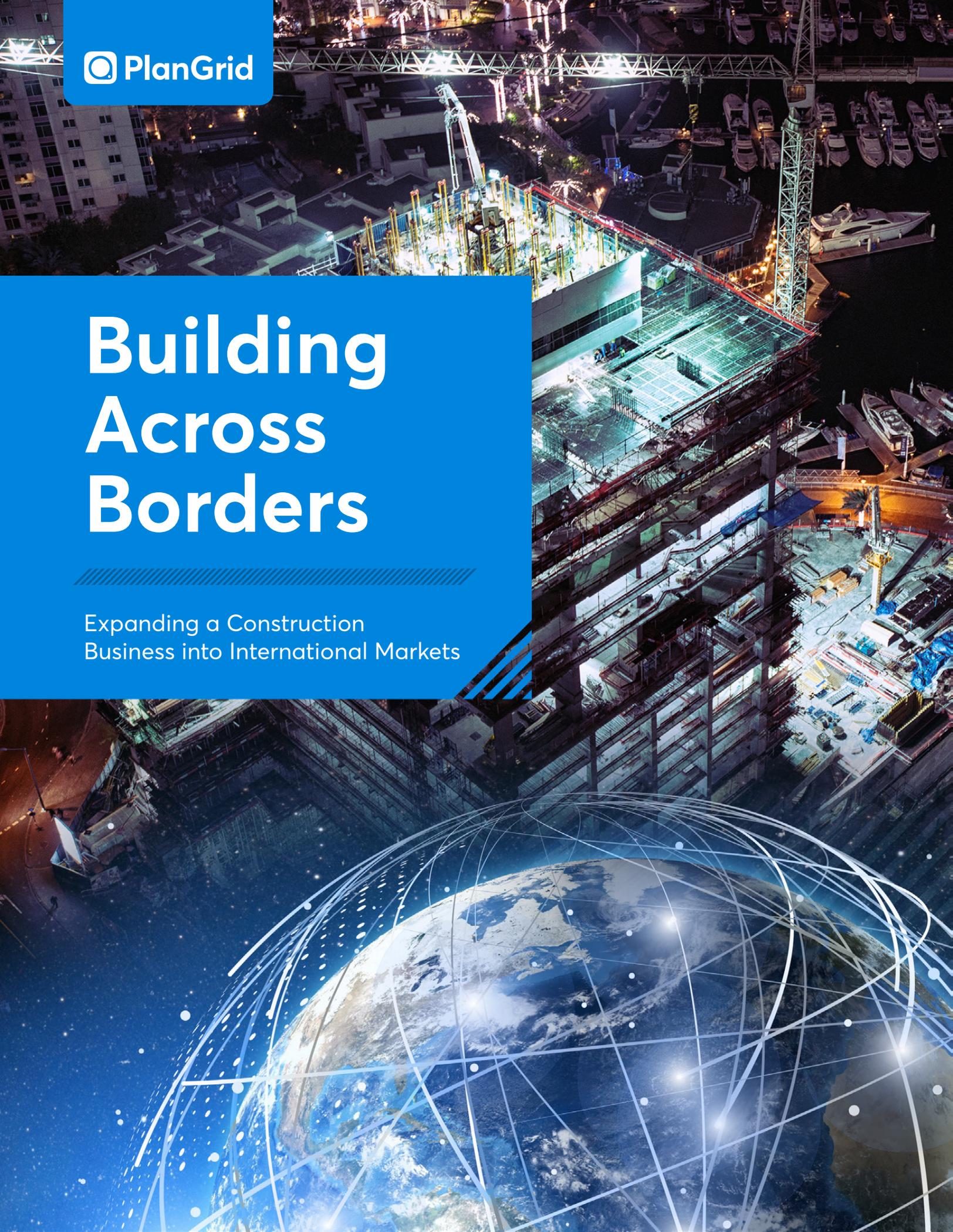


Building Across Borders

Expanding a Construction
Business into International Markets



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Introduction

The U.S. construction market is projected to rise to a total value of over \$1.3 trillion in 2019.¹ Yet that figure pales compared to the \$13 trillion the global construction industry is expected to reach by 2022.² Construction firms wanting a bigger piece of the pie should consider looking outside their home country's borders. Expanding into the global market is certainly a challenge, but the potential for new opportunities and explosive growth make it worthwhile. Before jumping head first into international expansion, make sure the entire construction company is ready.



The Global Construction Industry

Globalization is affecting every industry, but for agile construction firms, this trend is providing opportunities rather than limiting them. Moving outside the domestic market offers distinct benefits to the construction industry.

More Opportunities for Growth

Each domestic construction market can wax and wane along with the general economy of the country. A firm that serves only its home market often finds success reflects rises and falls with the local economy. Expanding into new international markets, however, allows your construction company to go where the money is and follow building booms. If the demand for domestic services dramatically drops off, but international clients are doing better than ever, the company can adapt to the changes at home thanks to the profit coming in from stronger markets. This is especially valuable for construction firms that specialize in infrastructure projects, which often take decades to complete.

Tapping Into Talent

The 2008 recession seriously damaged the U.S. construction industry and caused many experienced and skilled workers to find new careers. Now that there's a building boom in 2019, there's an acute

labor shortage, with about half a million jobs going unfilled, according to the Associated Builders and Contractors trade group.³ There's also a general labor shortage across the construction industry globally, but it's not equally distributed. Some countries are close to supplying enough labor for demand, so expanding into those areas can help a growing firm tap into existing worker pools.

Weathering Economic Storms

Global recessions affect different countries with different degrees of severity. By establishing contracts and partners in at least one other country, firms will be better protected from a repeat of the 2008 recession. Whether or not major infrastructure projects are funded by the government, an international presence allows a construction company to decide where to direct its major focus.



Cultural Adaptations

High-speed connections and advanced communication technology make it easier than ever to manage remote job sites. However, no technology is capable of eliminating the many cultural challenges of breaking into an unfamiliar market. Localization is a slow and sometimes frustrating process, but it can pay off tremendously once the team has established a connection to new international markets.

Language Barriers

Language is an obvious—but often underestimated—barrier to international expansion. Translators and translation software can still run afoul when tackling humor, industry jargon or highly technical engineering terms. Due to the technical nature of the work, a construction company should consider leveraging more than just general translation services to avoid misunderstandings that can end contracts.

Visible and Hidden Hierarchies

Hierarchies are built into every kind of business, but even organizational structures that appear identical or similar are often very different due to subtle cultural influences.⁴ Sending a message to the wrong member of a client organization can cause a complete shutdown of negotiations, while issues like gender

inequality can affect who can work on a project in a specific country. Negotiating the most visible hierarchies is still a challenge if they're unfamiliar to project leaders used to a Western model of workers, managers and executives.

Business Etiquette

It's important to evaluate how unexpected changes in a country's government or political structure might impact business. Are there negative sentiments towards international companies in regions that are targeted for expansion?⁶ Political situations aren't just tricky to navigate; they're also prone to changing and potentially interrupting a successful relationship. It's impossible to predict or prevent political interruptions, but understanding the history and current trends can go a long way in deciding if expansion into a particular country is worth the risk.

Legal Considerations

A cultural mishap may end a business relationship or construction project, but a legal mistake could have far worse consequences. Navigating the rules and regulations of construction in any country is sufficiently complex that many companies still stumble and pay high fines and fees in exchange. Add in an unfamiliar legal system and the need for knowledgeable oversight increases exponentially.

Double Compliance

Don't forget that expanding into a new country increases the company's legal compliance requirements. Once the firm is working in half a dozen different countries, there's often a need for an extensive legal team to stay on top of compliance. Laws from a company's home country still apply to many transactions and business arrangements made outside the country. Unless there are plans to relocate the entire company and cease all domestic efforts, the firm needs to stay on top of all the relevant laws.

Dispute Settlement

No project manager wants to think about what could go wrong with a major construction client. But, if there's a dispute between the company and an international client or partner, where will the case be heard? Operating in multiple countries can create questions of jurisdiction and legal venue.⁷ Arbitration and mediation are

two of the most valuable tools for settling disputes out of court, so the construction firm must know if these processes are even available in an unfamiliar legal system. Failing to determine how disputes and disagreements will be settled before expanding will only make it much harder to deal with an already unpleasant situation.

Legal Systems

Legal systems vary from country to country. For example, the U.S. follows a system of civil law, while many other countries like the UK practice common law instead.⁸ These differences are based on assumptions about responsibility and proper restitution, so they can have far-reaching effects, right down to how minor disputes are handled. The differences between varying legal systems could fill entire volumes, so there's no way to quickly determine how a specific system will affect a company. Request a report from an international business law expert to identify variations between countries the firm is considering entering.



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Tips for Successful International Expansion

The opportunities for greater profits are well worth the risks of international expansion for most medium to large construction firms. Taking extra care during the planning stages of the company's new ventures will help minimize both cultural and legal challenges while ensuring the smoothest possible transition into an unfamiliar market.

Look for Investment Treaties

Some legal protections are available to construction companies expanding globally. Investment treaties are agreements made between countries to encourage trade and new business relationships. These treaties require the receiving state to offer a specific amount of legal protection to expanding businesses.⁸ Expanding into countries with current investment treaties with your own reduces any legal uncertainty.

Use a Multi-Criteria Decision-Making Method

Dozens of criteria drive the decision to expand internationally. These include:

- Can the company afford the costs of hiring consultants and relocating project managers?
- What construction services will we provide and at what cost?
- Will we form a joint venture with an existing construction firm in the new territory, seek out our own independent contracts, or choose another arrangement entirely?
- Do we have the staff to handle these projects, or will we need to hire new talent?
- Which countries offer steady or growing demand, have complementary laws and cultural practices and welcome international businesses?
- What risks do we face from investing in any of our potential choices?



To make a decision without either ignoring important variables or taking years to compare the options, implement a multi-criteria decision-making (MCDM) method beforehand.⁹ MCDM techniques help businesses tackle complex decisions with dozens of criteria to compare, breaking down the needed information into categories and then showing how different factors affect each other.⁹ There are multiple MCDM methods tailored to the specific needs of construction companies. Other MCDM techniques are designed for international expansion in particular, regardless of the company's industry.

Hire the Right Consultants

Some international expansion consultants claim to help with every step and challenge. Unfortunately, that's rarely true since there are so many factors to focus on simultaneously. Build a team of consultants instead, ensuring there's at least one expert on each part of the process. Make sure the consultants are also willing to work closely together. This may include coordination, such as the language and etiquette experts working together to create multi-disciplinary approaches to assisting the project managers on the ground in the new market.

Prepare for Failure

Don't just assume success from international expansion. A plan for gracefully recovering from the potential failure of the expansion can save thousands of dollars; it can also help the company figure out what went wrong and decide what to try next. Addressing the potential impact of the failure of an international approach is essential when deciding if globalization is right for any particular construction firm.



Conclusions

Rather than feeling limited by the whims of the U.S. construction market and economy, a construction firm can break out into the global market with some care and planning. Countries like China and India are experiencing building booms, both in private and public infrastructure projects and it's a prime time for getting involved in the action. Don't forget about upgrading your team's construction management technology along the way as well. Cloud-based systems are accessible globally and keep everyone connected at all times. Introduce a productivity tool like PlanGrid to your organization before tackling the next challenge of going global with new construction and design services.



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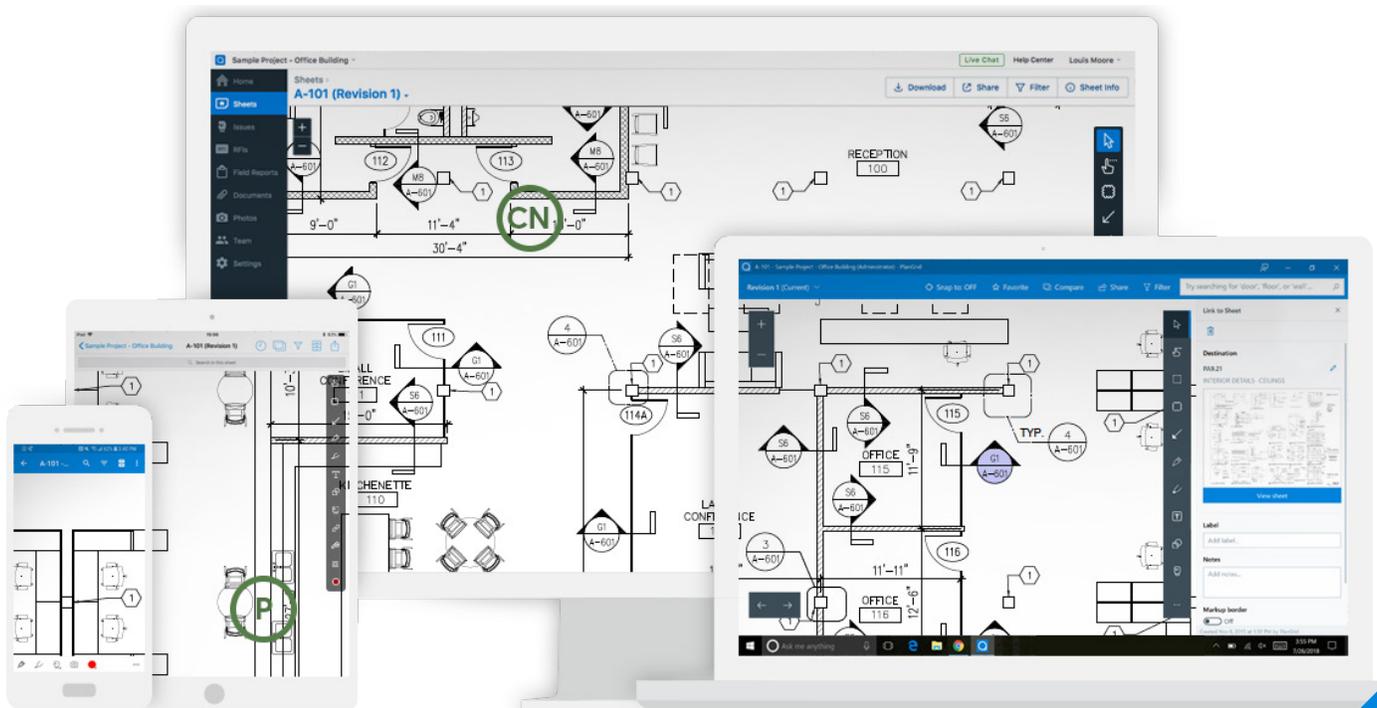
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United States
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www.plangrid.com

Australia
AUS 1800 316 406
www.plangrid.com/au
apac@plangrid.com

United Kingdom
+44 (0) 20 3695 0292
www.plangrid.com/gb
emea@plangrid.com

Canada
(800) 646-0796
www.plangrid.com/ca-en
www.plangrid.com/ca-fr

Hong Kong
+852 5808 3598
www.plangrid.com/zh
apac@plangrid.com