Political Risk Factors Influencing Export of Construction Services into African Markets: A Preliminary Survey

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Abstract
International risks influencing overseas construction markets were examined by earlier studies, political risk factors influencing export of construction services into African markets motivated this research due to recent political events in the continent. To investigate the impact of political risk on export of construction services, the paper examines whether there are significant political risk factors influencing export of construction services into African markets. The paper is a preliminary convergence mixed method research. Stratified random sampling of 597 construction companies with work categories in civil engineering and general buildings, and on grades 7, 8 and 9 of cidb in South Africa was made. This research design was adopted to explore South Africa construction companies exporting construction services into African markets. Data collected from 58 construction companies who responded to the online survey and interviews were analysed using descriptive (mean score) and inferential (factor analysis) statistics. It emerged that the key political risk factors influencing entry decision into African construction markets are red tape (legislative bottlenecks), unstable government, corruption, administrative delays, and political uncertainty. The paper concludes that there are significant political risk factors influence exports of construction services into African markets. The paper will provide international construction companies with the checklist of significant political risk factors in making strategic entry decision into African construction markets.

Keywords:
Africa, construction, export, market, risks

Introduction

Construction market has amalgamated to become world (global/international) market due to the implication of globalization (Ngowi, Pienaar, Talukhaba & Mbachu, 2005). The continuous growth of the global construction market along with its growing openness to international firms has created new business opportunities for many international engineering and construction firms (Park, Lee, Jeong & Han, 2014). The World's construction market was US$3 trillion in 1998 (Reina & Tulacz, 2010) and grown to approximately US$ 4.6 trillion as at 2006 (Global Insight, 2007). The revenue of the Top 225 international contractors from projects outside their home countries was 383.78 billion in 2009 and the biggest increases in international contracting revenue came from Africa. International revenue in central and southern Africa for the top 225 grew by 31.7% to $27.52 billion in 2009 from $21.04 billion in 2008. North Africa grew by 30.8% among the Top 225 to $29.29 billion in 2009 from $21.04 billion in 2008 (Reina & Tulacz, 2010).

This implies that African construction market is becoming a significant share of international construction markets. However, construction markets in Africa is dominated by contractors from developed nations like US, Europe, Asia and other regions (Bon & Crosthwaite, 2000; Ofori, 2003; Reina & Tulacz, 2010; Deloitte & Touche, 2013) while participation of African-based contractors on the continent is low (Reina & Tulacz, 2010). The reason why international contractors from other continents dominate African construction markets demand investigation. Overseas development projects are risky compare to typical risks that domestic project face; and overseas development projects have unique risks and tend to have high possibility of loss/failure (Han *et al.*, 2007; Li, 2009). Risk is a critical issue for overseas business which affects every aspect of firms' internal and external operations, and decision to expand to international markets (Gunhan and Arditi, 2005; Park et al., 2014). Previous studies have categorized risk factors in international markets into political, economic/financial, social/natural, cultural and project environment risks (Nawaz & Hood, 2005; Li, 2009; Park, *et al.,* 2014). The impact of political risks are often more critical and sensitive to international construction markets (Al Khattaba, Anchorb & Daviesb, 2007; Ozorhon *et al.*, 2007; Li, 2009; Xiaopeng & Pheng, 2013), and political risks are unfamiliar to foreign firms compare with those in the domestic environment (Xiaopeng & Pheng, 2013). Political risks should not be overlooked when managing overseas projects (Wang *et al.*, 1999). Alas, previous studies pay little attention to political risks in making strategic entry decision into international construction markets and there is dearth of researches on overseas construction and international risks in African construction markets. This paper forms part of a preliminary investigation on export of construction services among South African construction companies with a view to exploring those exporting construction services into African markets. The paper identifies and explores the political risk in African construction markets with a view to establishing whether there are significant political risk factors influencing export of construction services into African construction markets.

Review of Political Risk Factors

Political risks management remains a significant business and project issue today in international business context (Jakobsen, 2010; Quer *et al.*, 2011). Political risk is factors associated with the political decisions, political events or societal events in a country. Political risk factors have been classified into various groups namely the risks of adverse consequences arising from political events (Root, 1972) or government action(s) (Aliber, 1975) known as "intervention" (Zhuang *et al.*, 1998) and the risks of change or discontinuity in the government business environment as a result of political change (Robock, 1971). The political events identified in previous studies (Bing et al., 2005; Al Khattab et al., 2007; Han et al., 2007; Sachs et al., 2008; and Ling & Hoang, 2010) include: (1) political events (e.g. revolutions, demonstrations, wars, civil strife, terrorism); (2) government action or inaction (e.g., expropriation, confiscation or nationalization, restrictions, bribery and corruption, discriminate treatment, change in law, regulation and policy); and (3) power group's action (e.g., union activists and environmental activists). Political risk factors emanated from government action(s) or intervention(s) could also be attributed to discriminatory actions/inactions in the host country that would result in unexpected changes or discontinuities in the business environment and unwanted potentials effect on the profit or other goals of an enterprise (Xiaopeng & Pheng, 2013). However, political factors could also be in forms of inconsistency in policies, changes in laws and regulations, restrictions in fund repatriations and import restrictions that will impact the business climate (Howell, 2001; Ozorhon *et al.*, 2007).

Xiaopeng & Pheng (2013) reported a comprehensive list of 85 political risk factors that could influence entry decision into international construction markets. These factors originated through the review of quite numbers of the earlier studies (Hastak and shaked, 2000; Frynas and Mellahi, 2003; Al Khattab *et al.*, 2007; Agarwal & Feils, 2007; Han et al., 2007; Alon & Herbert, 2009; Rios-Morales *et al.*, 2009; Ozorhon *et al.*, 2007). These factors were categorized into five groups which include those related to international environment, host country, industry specific issues, project specific issues and firm specific issues. Identification of the most significant political risk factors from the preceding studies was made for the purpose of this study. These include corruption, administrative delays, red tape (legislative bottleneck), unstable government, political uncertainty, and political orientations in form of dictatorship, inhumane practice and shortage of qualified administrators. Others include unsatisfactory tax administration, excessive government intervention in business, insufficient coordination between government agencies, lack of institutional capacity in government agencies, restrictions against foreign personnel, excessive local content regulations, discrimination against foreign construction companies, excessive price controls, insufficient coordination between government agencies and excessive requirements for purchase of supplies from local companies. These political factors formed the basis in designing research instrument to explore the experiences of South Africa construction companies in export of construction services into African markets.

Research Methodology

This paper identifies and examines the political risk factors influencing the export of construction services among grades 7, 8 and 9 construction companies in South Africa into African construction markets. Construction companies on grades 7, 8 and 9 are those whose revenues are in the ranges between R13, 000,000 to 40,000,000, R40, 000,000 to 130,000,000 and R130, 000,000 to no limit; and these are approximately equivalents of 1.3-4MillionUSD; 4-13MillionUSD and 13MillionUSD to no limit respectively. Data for this paper were collected through convergence mixed method research approach which combines the survey and interview of construction companies registered on grades 7, 8 and 9 on the Construction Industry Development Board (cidb) register. Those on the largest grades were selected for this study since Engineering News Record (ENR) ranking of international contractors is often based on those with the largest international revenues. Review of literature was undertaken to identify the significant political risk factors on international construction studies. These formed the constructs of the survey and interview questions. The study population comprised of construction companies registered on grades 7, 8 and 9 on the cidb contractors register. Selection of construction companies across provinces in South Africa was made using stratified random sampling technique since the highest grade of these companies were selected because of the focus of this study. A list of 707 construction companies as unit of analysis was obtained from cidb register in 2013 although work categories of some companies are more than 1. Those whose construction works category fall into civil engineering and general building were selected for this study**.** A total of 597 copies of questionnaire were sent to those on this grades using survey monkey since statistics on those actually exporting construction services was not available. 58 construction companies spanned across the three grades responded to the survey and were used for analysis. The response rate of 10% was obtained which provides insight into the proportion of South African construction companies exporting their services within African construction markets. From this same unit of analysis, a call was sent for interview and 8 construction companies volunteered to participate in the interview, which was conducted at different offices of the

responding companies in March 2014. Data collected were analysed using descriptive (mean score) and inferential statistics (factor analysis). Mean score ranked the perception of construction companies on the significant political risk factors influencing export decision while factor analysis was employed to reduce the identified political factors into major components.

Findings and Discussion

Background Information of the Construction Companies

The capabilities of South African construction companies on grades 7, 8 and 9 in terms of their revenues were presented in the earlier section. Interviews conducted shows that, the 8 interviewed construction companies specialized in civil engineering (CE) and general building (GB). The level of involvement of South Africa construction companies in export of construction services from interview conducted shows that out of 8 construction companies, 1 company is an expanding exporter, 3 are continuing exporters, 3 new exporters and 1 non-exporter respectively. The construction services export of these construction companies was highly concentrated in Namibia, Botswana, Swaziland, Mozambique, Angola and Ghana. These countries are from Southern African Development Community (SADC) excluding Ghana. Countries where they have moderate operations are Tanzania, Congo DR, Kenya, Nigeria, Sierra Leone, Mauritius and Madagascar while their operations in other countries are low.

Political Risk Factors influencing Export of Construction Services

Table 1 shows the ranking of the identified political risk factors influencing export of construction services by South African construction companies into African markets. The top rated factors include red tape (legislative bottlenecks), unstable government (government term and change), corruption, administrative delays and political uncertainty. Other factors were also ranked high and are perceived to be significant to construction services export decision into African construction markets. These include extreme political orientation (dictatorship and inhumane practices), excessive government intervention in business, insufficient coordination between government agencies, lack of institutional capacity in government agencies, unsatisfactory tax administration, shortage of qualified administrators, restrictions against foreign personnel, excessive local content/pressure for local participation in foreign owned companies, discrimination against foreign construction companies, excessive price controls and excessive requirements for purchase of supplies from local companies.

These findings were supported by Howell (2001) and Ozorhon et al. (2007) who established that political risk originates from country political decision in form of inconsistency in policies, changes in laws and regulations; and import restrictions. Root (1972) also affirmed that political risks arise from political events; and government action(s) or intervention (Aliber, 1975; Zhuang et al., 1998) and political change/discontinuity in the government business (Robock, 1971). Political risk is further buttressed to be embedded in political events, discriminatory actions or inactions (by government or power groups) in the host country (Xiaopeng and Pheng, 2013). The possible political events identified by previous studies also include government action or inaction in form of expropriation, confiscation or nationalization, restrictions, bribery and corruption, discriminate treatment, change in law, regulation and policies (Ashley and Bonner, 1987; Wang et al., 1999; Hastak and shaked, 2000; Howell 2001; Bing et al., 2005; Al Khattab et al., 2007; Han et al., 2007; Sachs et al., 2008; and Ling and Hoang, 2010). Xiaopeng and Pheng (2013) also highlighted significant

political factors to include degree of stability of the government, project desirability to the host country, policy uncertainty, racism and xenophobia, unfavourable attitude towards foreign businesses, adverse legal rulings and strong relationship with governments which also support the findings of this paper.

Table 1: Political Factors influencing Construction Services Export to African Market

Political Factors	**Mean**	**Rank**
"Red Tape" (Legislative Framework Bottlenecks)	3.63	1
Unstable government (government term & change)	3.58	2
Corruption	3.56	3
Administrative delays	3.54	4
Political uncertainty (insufficient confidence in the political system/commitment of successive governments)	3.50	5
Political orientation in form of dictatorship, inhumane practices etc.	3.50	6
Excessive government intervention in business	3.50	7
Insufficient coordination between government agencies	3.49	8
Lack of institutional capacity in government agencies	3.44	9
Unsatisfactory Tax administration	3.34	10
Shortage of qualified administrators	3.26	11
Restrictions against foreign personnel	3.24	12
Excessive local content regulations	3.11	13
Discrimination against foreign construction companies	2.97	14
Excessive price controls	2.97	15
Excessive requirements for purchase of supplies from local companies	2.97	16

To further explore the political risk factors, the list of factors identified and ranked in Table 1 were subjected to factor analysis with each item treated as variables with the aim of reducing them to few significant factors which will be used in the description of closely related factor and those sharing the same features (Odediran and Babalola, 2014). The appropriateness of the list of political risk factors was tested using Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (MSA) and the Bartlett's test of sphericity. The KMO value of a set of scores should be close to 1 for factor analysis to yield distinct and reliable factors (Field, 2005) and KMO measure of sampling adequacy should be greater than 0.5 for satisfactory factor analysis to proceed. The result obtained satisfied these conditions and is presented in Table 2. KMO value was 0.813 showing that factors analysis is appropriate for the type of data collected for this study, and Bartlett's test of sphericity showed that the result was highly significant ($\chi^2 = 4.839E3$, $p < 0.01$).

Table 2: Test of Sample Adequacy, Appropriateness and Reliability

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.813
Bartlett's Test of Sphericity	Approx. Chi-Square	573.545
	df	120
	Sig.	.000

The result of factor rotation yielded three (3) components as shown in Table 3 which classifies the identified political risk factors into various groups sharing equal and relevant features, and factor analysis also reduces a large number of factors to a smaller number of groups for modelling purposes. Each of the political risk factors was grouped as sub-factor under the three (3) components identified from factor loadings as shown in Table 3. The loading scores ranges from 0.565 to 0.940 which is averagely high compare to absolute

loading of 1. The closer the loading value is to 1, the more suitable and the strength of that particular factor. The rotated component matrix produced three (3) components and based on the common features of the factors within each of the groups, the components were named as political and officials obligations, local content requirements; and institutional and administrative system (Table 4). Component 1 named *political and officials' obligations* and the yielded rotated factors under this component are seven (7) which include unstable government, extreme political orientation, and political uncertainty, excessive government intervention in business, excessive price control and discrimination against foreign personnel. Five (5) out the seven (7) factors listed under this component were ranked high by the respondents in Table 1. This further confirms the perception of the construction companies who participated in the survey and interviews on how these political factors influence and are significant in the export of construction services into African construction markets.

Component 2 was named *local content requirements* and the yielded rotated factors under this component are three (3) which include excessive requirements for purchase of supplies from local companies, excessive local content regulations/pressure for local participation in foreign owned companies and restrictions against foreign personnel. These factors were ranked low on the Table 1 but their mean scores were high. The third (3) component was named *institutional and administrative system* and the yielded rotated factors were made up of six (6) which comprises of lack of institutional capacity in government agencies, insufficient coordination between government agencies, administrative delays, shortage of qualified administrators, unsatisfactory tax administration and red tape (legislative bottlenecks). Two (2) out these factors were ranked high by the construction companies on Table 1 and they include administrative delays and red tape which shows that institutional and administrative system is significant to export of construction services within African markets.

Table 3: Rotated Component Matrix[a] of the Political Factors

Factors	**Component**		
	1	**2**	**3**
Unstable government (government term & change)	.824		
Extreme political orientation - Dictatorships, inhumane practices	.940		
Political uncertainty (insufficient confidence in the political system/commitment of successive governments)	.883		
Excessive government intervention in business	.929		
Excessive requirements for purchase of supplies from local companies			.565
Excessive price controls	.586		
Excessive local content regulations/pressures for local participation in foreign owned companies			.888
Discrimination against foreign construction companies	.666		
Restrictions against foreign personnel			.739
Corruption	.652		
Lack of institutional capacity in government agencies		.803	
Insufficient coordination between government agencies		.823	
Administrative delays		.790	
Shortage of qualified administrators		.848	
Unsatisfactory Tax administration		.765	
"Red Tape" (Legislative Framework Bottlenecks)		.740	
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization a. Rotation converged in 5 iterations.			

Table 4: Reduced Component Political Factors

S/N	Component Factor	Sub-Factors
A	Political and Officials Obligations	Unstable government (government term & change)
		Extreme political orientation - Dictatorships, inhumane practices
		Political uncertainty (insufficient confidence in the political system/commitment of successive governments)
		Excessive government intervention in business
		Excessive price controls
		Discrimination against foreign construction companies
		Corruption
B	Local Content Requirements	Excessive requirements for purchase of supplies from local companies
		Excessive local content regulations/pressures for local participation in foreign owned companies
		Restrictions against foreign personnel
C	Institutional and Administrative System	Lack of institutional capacity in government agencies
		Insufficient coordination between government agencies
		Administrative delays
		Shortage of qualified administrators
		Unsatisfactory Tax administration
		"Red Tape" (Legislative Framework Bottlenecks)

Conclusion and Further Research

This paper identified and examined the political risk factors in African construction markets with a view to establishing whether there are significant political factors influencing the export of construction services by South African construction companies into African construction markets. Sixteen (16) political factors were identified from literature that constitute the construct and design variables for this paper. The top rated factors include red tape (legislative bottlenecks), unstable government (government term and change), corruption, administrative delays and political uncertainty. The principal components classification of these factors was made into political and officials obligations, local content requirements; and institutional and administrative system. The most significant numbers of these factors are associated with political and officials' obligations, explained by factors such as instability in government, uncertainty in politics, political orientation, government intervention in business and corruption. This indicates that the basis of the influence of political risk factors on export of construction services is due to the actions/inactions and *political will* of African leaders and *the degree of sincerity, openness and commitment* of government officials in public administration and management. This is followed by institutional and administrative system enlightened by factors such as administrative delays, tax system, legislative bottleneck, lack of institutional capacity and human resource ache. This shows that a strong and sustainable institution framework is *a sine qua non* for effective cross-border trades in construction services within African markets.

It becomes evident that the political officials' (elected or appointed) obligations, responsibilities, willingness and sincerity are imperative in the export of construction services into African construction markets otherwise the political risk factors revolting consequences will continue to hamper infrastructural investments and economic growth in African economies. Based on the perception and international experience of South African construction companies, the paper concludes that there are significant political risk factors

that influence the export of construction services into African markets. This paper is a part of feasibility study on export of construction services among South African construction companies. It is also a pilot investigation for future research on influence of international risks and construction company capabilities on entry decision into African construction markets.

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