Session 6: The International Markets, Networking/Marketing and Selecting the Appropriate Project Delivery System

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Session 6: The International Markets, Networking/Marketing and Selecting the Appropriate Project Delivery System

1. Introduction

In the first five sessions we discussed the broad forces and issues impacting and likely to impact the global AEC field and their implications.

Today we will begin getting into the nitty-gritty details of identifying markets and potential partners, developing appropriate strategies and launching and successfully managing one or more foreign operations or initiatives.

Many AEC managers continue to labor under the mistaken impression that marketing technical, professional and construction services and property globally is not really that different from how one does it at home. In the case of the AEC field, you simply mail out some qualifying material, advertise if you have the resources, make a short visit to introduce the company to prospective clients and then sit by your fax machine or look at your e-mail or website screens. In the property field, one would also seek out investors and tenants as you would in the U.S. or Canada. But, opportunities do not come in over the transom any more - even at home - like it used to in the “good ole’ days.”

2. New Opportunities and Marketing Targets

The Markets

As we discussed in Session 1, the AEC global marketplace is now far more complex. As late as 1980, it essentially included:

- domestic public and private markets;
- the developed/industrialized (OECD) countries’ public and private markets;
- newly industrializing/emerging country markets, essentially multi- or bilateral-funded though host market clients, were increasing in importance;
- the poorer undeveloped nations where the market was limited to multi- or bi-lateral donor-funded assignments or natural resource development;
the command economies, usually host government or export promotion-funded (export credits, etc.) which, except perhaps for Cuba and North Korea, no longer exist.

While this is the classic definition of the post-World War II markets, what other definitions might now apply and what are the implications?

There currently, unfortunately, is no single all-embracing, all-purpose, one size fits all, market strategy when you operate on the global stage. A bewildering number of new market segments or niches have arisen to confuse and cloud strategies.

These include, in addition to the traditional planning, architectural, engineering and construction services:

- program and investment managers for large initiatives formerly the purview of governments;
- advisory services for the sale, purchase, management and operation of public assets;
- construction management, once essentially limited to private clients and a few public agencies, now widely adopted by both governments and concessionaires;
- independent consulting architects and engineers;
- independent design checkers;
- technical advisors to lenders, governments, concessionaires, etc.;
- loan certification;
- concessionaires;
- concession audit specialists; and
- advisors to real estate investor trusts;

... to name but a few.

Furthermore, with the rise of privatization, the private client market once limited to OECD-based clients and third world natural resources exploitation, with few notable exceptions (Taiwan, Brazil and, perhaps Turkey and India), now applies, as my company, The Berger Group readily knows, to even Mauritania, Mali,
Ghana, Jamaica, Ecuador, Laos, Bolivia and Nepal where numerous privatization initiatives are currently underway. The command economies are no longer significant and, with these market shifts, have come, as noted, a bewildering number of opportunities in addition to the traditional planning, design and construction.

Furthermore, each of these discrete opportunities and marketing targets has not simply a need to solve a problem, but often distinctive ideas on how to choose the most appropriate problem solver. To market your or your company’s services or investments internationally – to become the approved “problem solver” - requires the same care and insights that you apply in your domestic markets. But, at home you are so thoroughly familiar with a client’s likely preferences, prejudices, taboos, business practices, legal, moral and cultural constraints, etc., that you sub-consciously incorporate those constraints and considerations into your domestic marketing strategies. But in a foreign environment, comparable elements are also present and they are additionally impacted as we discussed in prior sessions by historic, religious, gender and ethnic concerns which will, and should, influence and guide your approach in each particular marketplace.

b. Peacekeeping and Nation Building

From 1944 to 1988, as we know, much of the world was divided into two separate and antagonistic camps – the Soviet Union-led Warsaw Pact and U.S.-led NATO and SEATO pacts. The balance, often called the Third World, watched in fear as these two atomic superpowers challenged each other with terms such as “mutually assured destruction” and “doomsday strategies” loosely thrown around. This fear of a nuclear war, however, often led many observers to overlook the fact that the Cold War was the longest period of peace in Europe’s history. While there were a number of peripheral conflicts, e.g., Korea, Vietnam, Angola, Eritrea, Sudan, Afghanistan, they were often fought by one or more proxies and, in fact, the two major powers never fought each other. But, given the fear of nuclear conflagration, the world approached the end of the Cold War with great optimism, many hoping humankind was now entering a period of sustained peace and prosperity.

However, much to the surprise of many, the anticipated “peace dividend” proved elusive. The post-Cold War period has been characterized by the re-emergence of a surprising number of communal, regional, religious and ethnic conflicts and strife that had earlier been contained or kept under relative control by the two principal powers.

Such communal/civil strife is arising with increasing frequency and viciousness, often including ethnic cleansing, crimes against humankind, etc., and accompanied by large scale barbarism, e.g., Cambodia, Sierra Leone, Liberia, Rwanda and Bosnia, producing large numbers of refugees and growing humanitarian concerns. Andrew Natsios, the USAID Administrator, estimates, “At
least two-thirds of the world’s population now lives in areas that are unstable or fragile.”

The United Nations and the major powers have had to address these concerns and with it, a large and increasingly important activity and market for AEC providers has emerged – that of peacekeeping and nation building – and it’s important that you understand as future managers of the Built Environment, the causes and complexities of these communal and civil wars, as well as the opportunities they present for major architects/engineers/contractors under the mantle of nation building.

Typically, these activities and opportunities can be separated into three stages. The first is the immediate post-conflict, or even during the strife, when large scale population movements occur and refugees, food, shelter and supply shortages arise. This is accompanied by great attention, concerns and demands for emergency refugee relief, often sponsored by non-government organizations (NGOs), as well as the United Nations, the Red Cross, and individual international relief and bilateral aid agencies. This period requires construction of emergency camps and sanitary facilities and provision of food, supplies, shelter and other basic human needs.

The initial phase is often followed, and they may overlap, by a rehabilitation and reconstruction period where critical facilities and infrastructure must be rebuilt as quickly as possible. Refugee camps become more permanent and efforts are typically made to return many of the refugees.

Finally, the third, and most important phase, nation building, involves political, social, economic and construction initiatives to support reconstruction while fostering long-term economic developments, improving governance and transparency in government, strengthening critical institutions, encouraging further refugee return and building a new society to, hopefully, avoid or resolve the conflicts that created the earlier difficulties.

In each of these phases, there are increasing opportunities for global AEC providers. During the first or refugee rehabilitation period, camps have to be quickly constructed and supplied; water, sewerage, power, roads and airports established or rehabilitated; supplies transported via truck, rail or air to the area, etc. A number of contractors and consultants are increasingly serving the United Nations and other emergency relief providers in these areas. In addition during this period, there is often a need for peace-making or peace-keeping forces and these are increasingly accompanied by contractors, e.g., Kellogg Brown & Root, Perini, Fluor, providing so-called “logcap” or support services to the U.S. military, along with the Corps of Engineers and the Seabees, and comparable non-U.S. military construction groups.
During the second phase, as we’ve seen in Iraq, Afghanistan, El Salvador, Sudan, Bosnia, Macedonia, Kosovo and Croatia often large program management-type contracts to undertake the rehabilitation or reconstruction effort, are issued. Here, critical decisions often have to be made as to speed of reconstruction - the maximum use of foreign equipment and skills vs. cost - use of smaller contractors, breaking contracts down into smaller components, training and strengthening local construction firms, at the very same time when reconstruction is proceeding, etc.

But, these clear trade-offs, often in time vs. cost, must be made at a time those responsible for the reconstruction are typically criticized for delays by observers who often fail to recognize how long it really takes to successfully launch such reconstruction efforts. Here, they need only look at various European and U.S. natural disaster recovery programs (e.g., Katrina) to understand how long such efforts take.

As a result, there is always a tendency to criticize delays and encourage accelerated expenditures. However, such programs can create significant problems and distortions by paying large salaries while the remnants of the former government often either cannot pay salaries or actual wages are lagging after a period of inflation often accompanying warfare. As a result, teachers, government employees, government administrators and professors’ salaries are quite low and when the rehabilitation and even more important, the reconstruction phase is launched, salaries are quickly bid up and significant shifts in the wealth of the country occur. Taxi drivers earn more than senior government employees and professors, bilingual secretaries earn far more than schoolteachers, staff working in restaurants and bars quickly outpace other traditional and more respected fields, often leading to a loss in esteem for the traditional middle and upper-middle class, while distorting the use of resources and slowing the long-term development effort. But, there is a need to mobilize the most qualified staff as quickly as possible during these periods and the emergency refugee support and rehabilitation, as well as the reconstruction community, has come to expect excellent services and support.

Furthermore, as noted during the reconstruction period as well as nation building, critical trade-offs have to be made as to the extent we are going to focus on the immediate reconstruction, often making maximum use of an expatriate workforce and equipment vs. the long-term needs to begin developing institutions, etc., e.g., the time-honored choice of giving a hungry person a fish and feed them for a day, or teach them to fish and feed them for a lifetime.

But, all these take time and governments during this period are relatively weak, corruption and cronyism may be a major concern and isolating the leaders who were contributors or sympathetic to the former regimes is often a difficult (Iraq) exercise and the firms or organizations best equipped to do reconstruction and rehabilitation are not always the best firms to nation build.
Here, priorities become exceedingly important. For example, one must match the public works efforts with the proposed new government structure. Are you going to establish a centralized, federal/state or commune-based governmental structure? If the latter, you are likely to give priority to smaller projects often in rural areas – schools, community centers – as was the model in Macedonia and Kosovo vs. a preference for larger projects, the model in Croatia. Thus, the reconstruction efforts should parallel the government organization one envisions.

The new fledgling government and the host country ministries and construction industry are also initially not likely to be able to handle large projects. To encourage their participation and contribution, the projects have to be broken down into smaller packages, possibly initially raising costs and extending schedules, and certainly raising administrative costs for expatriates and the donor/lending agencies dealing with the government.

Donor/lending agencies, at the same time, face a number of problems. For example, many such as the World Bank and Inter-American Development Bank, need an approved government borrower. One of the problems in Bosnia was that such lenders could not initially find a government borrower. Furthermore, donors typically meet in large donor meetings often led by foreign ministries where they make ambitious multi-million dollar commitments. But, each donor has its own schedules and procedures and marches to its own parliamentary and domestic concerns or, for the multi-laterals lending agencies, their boards and operating procedures. Often, these procedures are incompatible and difficult to merge into a single coherent integrated program and a great deal of time must often be spent merely coordinating the donor and lending agencies rather than addressing the host country needs. All of these occur at the same time the fledgling government is making critical decisions as to whether they are going to encourage free markets with minimum regulation which may trigger higher rates of economic growth, e.g., Russia, often accompanied by the rise of early predatory capitalism; encourage a more equitable income distribution at the price of some economic growth (Vietnam), or maintain state enterprises (China) while fostering private investments. Such issues must be decided while, as noted, addressing such critical policy issues as adopting a presidential vs. parliamentary system; a theocratic or secular state; a central, federal or communal political structure, etc. - all with implications for the nation building effort and for the role of the architect/engineer/contractor.

But, despite these often daunting challenges, nation building is one of the most rewarding and rapidly growing of all the Berger Group’s professional opportunities and we have provided assistance to a number of nations emerging from extended periods of civil strife, including Afghanistan, Angola, Bosnia, Cambodia, Croatia, El Salvador, Eritrea, Ethiopia, Ghana, Honduras, Kosovo, Liberia, Macedonia, Mozambique, Nepal, Nicaragua, Nigeria, Philippines, Romania, Sierra Leone, Sri Lanka, Sudan, Tajikistan, Timor-Leste, Uganda and the Democratic Republic of
Congo. In these nations, we have the opportunity to help develop vital infrastructure, resettle refugees, and train government and private leaders following the development of new government structures.

Here, a firm can provide a full range of multi-disciplinary skills, including economic and social development; humanitarian aid; management; institutional building; finance; environmental; architectural and engineering and construction services for these countries to grow and prosper. This area can be one of the most attractive and rewarding international opportunities for many of you.

To be successful, a nation builder must, as noted, be prepared to work on three different and distinct levels – meeting the immediate humanitarian concerns for food, shelter, health, safety and employment, while addressing longer term development needs – and all within the need to build viable economic, social, political and legal institutions, modern governance and a civil society. Here, the international manager must be guided by the need to carefully balance the immediate humanitarian requirements with those for long-term reconstruction, sustainability and social equity.

c. Natural Disaster Response

Natural disasters seem to be occurring with increasing frequency and severity (tsunami, Katrina, Rita, etc.) in recent years. This might reflect greater awareness (CNN, etc.) in our global village, increased wealth raising damage costs, growing population pressure on potentially fragile areas (mountainsides, flood plains, coastal areas, etc.), global warming or a passing phenomenon.

But, it is creating demand for improved pre-crisis planning and emergency response, as well as opportunities for AEC firms. The opportunities closely parallel nation building, though the primary impacts are more focused on the first stage, the emergency relief period; and the second stage, the rehabilitation and reconstruction effort.

Firms with nationwide or regional “open-end” or “standby” contracts with emergency responders (in the U.S. federal and state agencies like FEMA, SEMAs, the DoD, National and State Guards and other state and local agencies), as well as NGOs like the Red Cross, are in the best position to identify and successfully pursue such opportunities. But, there are also increasing opportunities for improved planning, forecasting, monitoring and early warning communications, management, etc., at all levels. Data bases and management systems must be introduced to quickly identify and mobilize police and public safety services, potential local responders, transportation providers, warehouses, logistics centers, and storage facilities, as well as critical temporary shelters. Rapidly and properly processing uprooted residents and claims is also essential, while improved
coordination between federal responders who can quickly provide supplies and resources, and local responders to:

- Guide and ensure distribution
- Quickly collect the uprooted residents
- Ensure security and safety
- Cordon off or quarantine unsafe areas and services (water, etc.)
- Identify and enforce sacrifice areas (opening dikes, etc.)

...is needed.

And, during the rehabilitation and reconstruction period we must:

- Quickly restore essential services (schools, police, power, water, sewerage) in impacted areas
- Decide which areas are to be rebuilt and to what standards, and which sacrificed or abandoned
- Move residents to more permanent shelter and provide transition services and support
- Establish clear guidelines, standards, advice and supporting finance for the reconstruction and rehabilitation effort

...all demanding and daunting tasks and opportunities for AEC providers.

d. The AEC Providers

As I mentioned briefly in Session 1, until recently, most international architects, engineers and contractors conveniently fell into two categories - general and specialized firms. The general consultants and contractors typically maintained permanent offices abroad offering a wide range of architectural, engineering and construction services. The specialized firms frequently offered services in narrower, highly technical fields such as ports, airports, hydropower design, nuclear power, etc. Specialized firms typically prepare a larger portion of their designs in their home offices, while general firms are likely to execute a larger portion in the host country. But, in recent years, the distinctions are less significant, as most large firms have expanded their range of engineering and construction services, so they can provide a wide range of services to both OECD
and emerging country clients and ensure continuity and maintenance of a permanent presence.

We discussed in Session 1, the origins of many architect/engineering firms. Here, it might be useful to review again the typical characteristics of an A/E, as well as construction firms in their home markets, the available opportunities and how these may differ from the requirements and demands in the global marketplace, so we might better understand the challenges and risks that even the most successful domestically-based consultant or contractor face overseas.

In all three of the AEC fields, the most common characteristic in most domestic markets is the relative ease of entry. The markets are not capital-intensive and a start-up enterprise only needs to have some perceived skills, entrepreneurial ambition or vision, a target market – and it can be a mature market, although ideally it should be a new, rapidly growing one. The firm can initially enter the marketplace as a subcontractor where, for example, one or several professionals offer their services to larger firms at a price in between a salaried employee and the full billing rate the firm obtains for the services, thus building their Statements of Experience. They may not only be subcontractors to a larger consulting firm, but may work on specialized elements of a project such as soils, foundations, structures and recently, security and terrorism threats. They might also test the markets by entering design competitions. Many such firms start while the founders are still at universities, as Dr. Louis Berger was, or even where the founder is working full or part time for large firms (Frank Lloyd Wright). So, there are a variety of ways to enter the field, and with a little luck, a nurturing environment and hard work, grow into a successful and profitable practice or enterprise.

*What is a Nurturing Environment?*

As we've discussed in Session 1, ideally you need an environment that encourages independent consultants, small contractors and subcontractors. The more public and private buyers there are, the more likely they are to avoid organizing large specialized internal staffs and turn to outside consultants or contractors. Even in a field dominated by large EPC or design/build contractors, there are attractive opportunities to provide specialized services, acting as the owner's representative, independent engineer or, as noted, an EPC subcontractor.

As important as the need for a varied and competitive market is the need for staff mobility. By its very nature, service organizations – especially A/Es and property developers and managers – offer services that a client could provide in-house but would rather hire either for their specialized skills, to avoid the ups and downs of maintaining permanent staff or working in non-essential fields where only dead-end or terminal staff positions are available, e.g., the head of facilities for even the largest auto manufacturer is rarely given the opportunity to move into the company's core practice of designing, building and marketing automobiles.
Furthermore, with the trend to “virtual” downsized organizations, outsourcing opportunities are increasing in both the public and private sector, as we’ve noted. But, in order to provide such services, a society and economy must encourage labor mobility and here, the current-day U.S., U.K. and Canadian societies and, to a lesser extent, Holland and Sweden, encourage such mobility, while France, Spain, Italy, Germany and Japan, following older industrial models focused more closely on large enterprises and protecting workers’ rights, have discouraged labor mobility; placing serious constraints on the development of modern service sectors.

Another characteristic of the AEC field is “ease of entry.” You hear that most consulting firms, for example, have relatively low profit margins and the field is unattractive. However, there are two elements to return on investment. One is the margin of profit or profit as a percent of sales, and the other is the return on capital, with the latter quite sensitive to the amount of times an enterprise is likely to turn over or use its capital and debt (enterprise value). Many small- and medium-sized consulting firms and contractors employ a variety of tools that allow them to turn their enterprise value anywhere from 6 to 14 times annually. So even a modest AEC firm earning 2% on sales turning their capital 10 times is, in fact, annually earning 20% on their capital. This can be accomplished in part through partnership, ESOP and bonus systems which defer the payment of what is essentially salary until the following year or, in the case of an ESOP – years, allowing the enterprise use of those funds in the interim.

You will often hear, especially from larger firms, of the need for “growth” capital. But, at Berger we have developed a relatively simple model that indicates that until an architect, engineering or construction firm is growing internally in excess of 8-12% a year, if an AEC firm is properly managing its funds, it is unlikely to need additional capital. This, plus the relative ease of initial entry, helps explain why there are over 7000 engineering consulting firms in the U.S. The same applies in the architectural, as well as construction, fields where, as we discussed in Session 1, of the 700,000 construction firms in the United States, 62% employ under 5 people. The modest size, combined with the ability of many construction firms to front-load bids so payments are often received in advance of the actual work performed allows many firms to minimize their capital requirements. The risk, of course, in both cases is that the same high degree of leverage can work negatively, as we’ve seen, for example, in the case of the Washington Group International, Atkins and IT, one reason the U.S. public capital markets was until recently relatively cautious in valuing AEC firms.

_The International AEC Market Characteristics_

But are these same skills readily transportable to the international field? Here we are looking at long lead-time marketing, development of relationships and establishing relatively expensive overseas offices and training programs. For example, a senior expatriate’s support costs in a location like Hong Kong in the
form of car, driver, secretaries, housing allowance, vacations, school education for children, etc., can easily exceed the total salary a firm would pay in a home office for similar services. And, while these costs are not a difficult burden for a large manufacturer that is not particularly technical or managerially labor intensive, e.g., a large international chemical or auto plant may require 3-5 expatriates, it is quite expensive when you are competing for design work against local firms. Further, firms face more extended payment cycles, compounded by difficulties in dealing with varied and, at times, blocked currencies. Thus, in addition to all the cultural, legal and foreign issues and pitfalls we have discussed, managers must accept the fact that the model of turning capital 6 to 14 times in a developed country with ready access to supplementary bank loans when needed, does not apply, certainly for initial efforts overseas where capital turns can fall as low as 2-3.

In construction, the same limitations apply. Frequently, the successful AEC firm entering the international field has made its name for technical competence, quick response, ability to identify attractive niches, etc., in their domestic markets, rather than relying on the financial, legal, and diplomatic skills and clout, more critical to success in the international markets. But, the opportunities to enter international markets as a subcontractor are more limited; potential partners, often less than robust financially; with greater difficulties in arranging supplier credits, bonds and guarantees than in OECD (North) countries and with often less efficient banks and service agencies charging more to provide comparable documents or instruments. These constraints all increase costs, but more importantly, increase capital requirements for enterprises that initially prospered by quickly turning over their capital while successfully addressing other issues.

Furthermore, many of the emerging markets have within recent memory a history of colonization or invasion and subjugation. The colonial period has brought about two, often conflicting, legacies: loyalties to the ex-colonial power because of historic social interaction, shared cultural values, familiarity and often, most importantly, educational, professional or economic opportunities provided in varying degrees to local elites counter-poised with outright rejection, and harbored or open resentment.

A number of these countries, as we have noted in recent years, are also rent by serious internal conflicts, often fueled by ethnic, religious or other perceived differences (in historic Constantinople, two chariot teams provided the excuse for an extended civil war).

What does this have to do with global marketing strategies for technical and professional services? Quite a bit! You cannot know how to properly establish a local presence and team with local or other non-local partners unless you understand how that nation operates.
Patience, honesty, shared values and respect must be four key qualities in your marketing approach. You cannot rush the process. You have to keep your commitments and promises and you have to show the same respect to your local partners, prospective clients, counterparts and staff that you do in your domestic market. This takes a considerable investment in human and financial resources and a willingness to forego short term advantages for long term gain. For example, in a market where your firm lacks brand recognition or continuity, you should try to cultivate a single local partner who values you as an important and reliable partner. But this prospective partner might have limited resources, lack expertise or, worse yet, might fall out of favor or other firms subsequently look more attractive. All too often (Berger in Malaysia, Kazakhstan, the Caribbean) foreign firms switch partners and damage ties. Alternately, the most attractive potential partner may want to play the field. “I spent 20 years looking for the perfect marriage partner. Unfortunately, when I found one, he/she was also looking for the perfect partner.” But, a newcomer unfamiliar with, and not well known in, the market is best served by initially developing cordial long-term relations with a single firm or group of professionals.

The Enterprise Cycle

The natural cycle of individual AEC enterprises can further complicate an objective evaluation of international opportunities. Consulting and service organizations, as well as contractors, have, or are subject to, a “natural cycle.” When an enterprise or organization is launched, the founders are often important contributors to a new movement, idea, or concern, e.g., the environment, construction management, big box retailing, outsourcing, enterprise software, websites, etc. They may be research professors or graduate students at universities such as MIT; self-educated entrepreneurs or investors, former government employees who wrote the very rules and regulations the new services or industries must address. Many such issues and concerns are often accompanied by extensive discussions and a flurry of publications. A number of large consultancies were originally founded by authors of textbooks (Hazen & Sawyer, TAMS, Metcalf and Eddy, STV, etc.). So, the energy, initiatives and skills of the firm reflect the founders’ interests, avocations and the needs of that period. These are what I call natural consultancies or construction firms.

Alas, all too often we find 10-20 years later that such problems or concerns are successfully solved, viewed as intractable and unlikely to ever be solved, or in fact, never were a problem (Y2K). Hence, enterprises created in response to an era’s concerns must reinvent themselves if they are to retain their vitality or very existence, and Battelle Labs, Booz Allen, A.D. Little, Bechtel and CH2M Hill are examples of this cycle, although the times finally caught up with ADL. This is a much more difficult bar, since many of the principal founders/senior managers now find themselves dealing with subjects they are less familiar with, less concerned about or less competent or comfortable with. This is also typically paralleled by a product or a service maturity cycle accompanied by declining
prices and increased competition. This is a process we will experience more and more in the new global economy as industries, practices and fields quickly mature and converge, testing the skills and commitment of even the most dedicated entrepreneurs and is probably the biggest single reason why even very successful enterprises lose momentum and direction, e.g., consultants specializing in various elements of the energy field, United, Delta and American Airlines, DEC, Compaq, Smith Corona, Wang, Polaroid, etc.

In response to maturing domestic product or service lines, many firms, often flush with cash, possessing a strong and well known brand, with skilled and proven staff and management yet flattening revenues, have looked longingly abroad at international work, encouraging maturing enterprises or consultancies to seek “greener” opportunities abroad by trying to replicate earlier domestic successes while utilizing surplus staff or resources.

3. **Appropriate Policies and Strategies to Adopt in Order to Enter Overseas Markets**

According to one knowledgeable senior manager, Les Buck of Halcrow Group Ltd., a leading United Kingdom engineering consultancy,

“You need to decide either to be a domestic player or an international plus domestic player. The latter costs a lot more in investment and running costs, and in the short time is likely to be less focused and less profitable unless the management effort is greater, but it tends to avoid the worst effects of the peaks and troughs of the domestic economy. Other constraints of a domestic-only approach can be:

- Increasing trend for clients to be global and want you there with them
- Potential for staff shortages in domestic environment when economy is buoyant . . .

Other market forces are in play and are affecting the way we are moving. The trend is toward

- fewer, larger consulting firms (or alliances to create the benefits of larger resource bases and geographic coverage),
- clients using fewer suppliers who receive a larger share of bigger projects.
• Bigger firms can usually respond faster to the investment needs created by these market changes.

Halcrow is aiming for 60% domestic, 40% international, with most of the growth in the next four years planned to be outside the UK.

Has anyone cracked the ‘Global Challenge yet?’ The $64,000 question is, assuming you need a matrix organization, ‘is your dominant axis geographic or market sector/discipline?’

Clearly, Halcrow is giving a good deal of strategic thought to international markets and successfully entered the U.S. market. But, all too often, a construction or consulting firm initially entering the international field does so on an anecdotal or opportunistic basis - someone contacts a principal of a firm, a former employee or student mentions an opportunity, a trade mission contacts the management or increasingly, a potential foreign partner contacts the firm or finds your website. But, such “casual” contacts frequently lead to disappointment. My recommendation for a new entrant is to:

a. **Evaluate your Strengths and Weaknesses**

Know who you are, your strengths, warts and weaknesses –

• Do you offer unique services or a service in growing global demand?

• Do you have a proven “in-house” champion interested and with sufficient time to pursue overseas work?

• Is there demand for your services (e.g., do you have a transportable brand or practice, are you already receiving inquiries)?

• Do you have staff interested in and able (multi-lingual, etc.) to work abroad?

• Do you have the financial resources for the long haul?

• Do you have sufficient throw-weight in your domestic markets and are they transferable to international markets?

b. **Develop a Clear Strategy**

Once you have analyzed your own skills and weaknesses, decide whether:

• you will market a narrow technical skill or a single client,
• target a narrow geographic area,

• prepare a broad-scale marketing effort.

c. Know your Marketing Target

• Where is your market located?

• What is the sector, project or program you propose to pursue?

• Who is the client or clients?

• Who is your competition?

• Who are the lenders or investors?

• What are the client’s historic preferences and favored service consultants and contractors?

• What are the barriers – legal, financial, technical, political, social, etc.?

d. Define your Marketing Effort

How will you market?

• Use existing full or part time staff,

• seek out former employees, students, etc.,

• recruit an experienced expatriate or national marketer

• hire an agent or representative (either an individual or firm)

• look for one or more local partners, and/or

• buy into all of one or more local firms?

Each of the above has their advantages and disadvantages.

e. Carefully Define the Target Project or Program

Is it:

• Design

• Design/build
• Construction management
• Real estate development, investment or management services
• Advisory services
• EPC
• Own/operate/transfer
• Construct/maintain
• Outsourcing
• Reconstruction and/or nation building

or a combination

f. **Who is the Competition**

• Local/well connected

• Multinational with strong financial capabilities

g. **Who are the Prospective Clients**

• Host country agencies

• Private international or local banks, investors or developers

• Pension funds

• Sovereign welfare funds

• Private international or local owners

• Multinational lenders (e.g., World Bank, Asian/African/Caribbean, European or Inter-American Development Banks)

• A bilateral lender

• An entire industrial or financial sector (locally financed, internationally, or both)
h. **What are the supporting Financial Institutions**

- Private or public banks
- International donors and/or financial institutions (World Bank, ADB, IFAD, UN, etc.)
- Regional financial Kuwait Institutes (OPEC, Saudi and Andean funds, etc.)
- Investors
- Infrastructure funds
- Insurers
- Mutual and/or pension funds
- Bilateral lending or export agencies
- Public financial markets

i. **Potential networks**

John Naisbitt in Chapter 1 *From Nation to Network* in his book *Megatrends Asia – The Eight Asian Megatrends That Are Changing the World* claims, “the Chinese network is a network; just like internet that bundles 25,000 networks and the network is always expanding. For example, Chinese parents send their sons and daughters to western prestigious universities where they promote friendly relationships with the elite from all over the world.”

Potential networking may include:

- Family
- Friends
- Professional colleagues
- This classroom
- Former students or employees
- Everyone that you meet
Meetings, conferences and conventions

Partnering

Do you collaborate, and if so, with whom?

- Your competition
- Your client
- A local firm or investor
- Non-AEC groups
  - Trading or Commercial Houses
  - Financiers, Venture Capitalists, Banks or Pension funds
  - Lawyers
  - Auditors
  - Insurers
  - Management Consultants
- Owner/operators
- Vendors and/or suppliers

j. Contacts

How do you expand your potential contacts? Your focus can include:

- Associations
  - Meetings, conferences and conventions
  - Memberships
  - Speeches and papers addressed to such groups
- Government Agencies
- Your country’s Foreign Service Units
4. **Tradition and Future Approaches to Partnering**

a. Introduction

Partnering, simply stated, is an agreement to work together. If there is one single key to success in the international arena – and we know that there are many – it is the ability to create and nurture successful partnering arrangements.

Partnering is a “covenant of good faith” among the project parties. They agree to operate on the basis of shared goals rather than separate organizational agendas for one or a number of projects and assignments.

In a July 8, 1998, article published in the Wall Street Journal, John Carter who was then the Regional President of Bechtel’s European, African and Middle Eastern operation is quoted as follows:

“Bechtel used to be a large U.S. company that did some business abroad. Today close to two-thirds of our business is outside the U.S.” And he stressed that “The key to the company’s development in the region will be its ability to join forces with firms already on the ground. Ten or 15 years ago, we would never have used a local partner, but today it is absolutely imperative, because of the cost of moving expatriate workers around the world.” And Bechtel had always prided itself in going it alone.

But, before you decide to partner, you must first:

- As noted, understand the strengths and weaknesses your firm or organization brings to the international arena. These might include:
  - a recognized brand of growing international demand (e.g. Information Technology, Data Processing, etc.);
  - highly qualified managers and/or employees;
  - outstanding or unique technology or skills
  - higher productivity or lower costs;
  - outstanding professional contacts via professional associations, ex-employees, trainees, classmates, former students, etc.; and/or
- domestic clients investing abroad.

- Ascertain how frequently you have been contacted in the past by foreign firms or potential clients, and how to best evaluate and respond to such contacts.

- Decide whether to focus initially on a country, region or single service line (e.g., aviation, commercial property, hospitals).

- Decide, as we previously discussed, how you should initially organize and launch your proposed initiative:
  - formal marketing through professional contacts - friends, classmates, current or former staff;
  - formal marketing by principals;
  - recruit a full-time, experienced international marketer;
  - rely on agents and/or prospective partners.

- Analyze the likely impact of one or more project wins or successful investments on the firm’s overall practice strategy, and decide whether the firm should:
  - proceed on a project-by-project basis;
  - set up or buy a local wholly- or partially-owned company or branch office;
  - establish a permanent joint venture or rely on “ad hoc” project-by-project partnering arrangements.

b. **Forms of Partnering**

International partnering in the traditional sense takes several basic forms in the AEC communities and your strategy should follow from the above analysis of your own firm’s strengths and weaknesses and goals.

The options will most likely include, as noted, one or more of the following:

- host country firms (which might be a requirement)
- competitors
- non-AEC or real estate service groups
- specialized technical firms
- international firms with a local presence
- law firms, auditors, insurers or management consultants
- construction contractors if an A/E or an A/E firm if a contractor
- suppliers and vendors
- operators/owners/clients
- global or local estate or property managers or developers
- trading or commercial houses
- a government agency or entity
- sovereign welfare funds
- financiers, investors, banks - both local and international, pension funds or venture capitalists

**CLASS, ANY OTHERS?**

What are the advantages and disadvantages of the principal options?

Host country firms or government entities

**Pros**

- minimize start-up costs
- access to superior local professional and marketing staff, as well as government and professional contacts
- facilitate local professional introductions, licensing and registrations
- better guidance on both formal and informal legal, accounting, property taxation and banking issues
- better access to local funding
often can provide office, administrative and logistic support staff

better understanding of regional and local sensitivities

local participation is often required or preferred by host country clients

Cons

potentially differing professional and commercial cultures

need to establish equitable fee structures and division of responsibilities, work and costs

less control of project finances, location of work, local staff, field office, logistics, client interface, etc.

need to install stronger QA/QC or compliance controls and possibly staff training programs

less technical and managerial control and possibly no overhead and profit from local staff, an increasingly important source of income and growth for international AEC providers

likely investments in technology upgrades and training for the partner and partner’s staff prior to deciding on the duration (will it be a single project, multi-project or a permanent joint venture) of the relationship

Competitors

Pros

shared risk

shared responsibilities and less risk of rapid staffing peaks and valleys

better staff fit (pick and choose from each firm)

reducing the short list or competition

Cons

rival, and often competing, company cultures
• they/us mentality

• exposing your marketing, management and financial strategies, partners, contacts, technologies and staff to competitors

• strengthening a competitor in your target market

Specialized technical firms

Pros

• introducing unique, more appropriate or current technologies, and service strategies

• better technical and marketing insights

• better vendor relations and often more favorable vendor and supplier pricing, access to priority deliveries, service and warranties, etc.

• improved contacts with technically-oriented clients and lenders

Cons

• rival, and often conflicting cultures (e.g., agreeing on marketing focus, staffing, scope of work, etc.)

• potential pricing conflicts

• differing approaches to work, location of work (home office vs. field) and commitment and responsibilities to clients

International firms with a local presence

Pros

• reduced staff transfer and start-up costs

• lower local staff and other support costs

• better knowledge of legal, accounting, professional registration, taxation and banking issues

• easier access to government and professional contacts
- likely provision of better administrative and logistic support staff
- better understanding of regional and local sensitivities

**Cons**

- rivals and competitors
- they/us mentality
- risk of exposing your contacts, marketing, investment and financial strategies, partners, technologies, work methods and staff to a current or potential competitor

**Construction contractors and/or architect/engineers**

**Pros**

- essential for design/build or most BOT-type procurements
- expands construction management or A/E skills
- provides additional scheduling/cost control/constructability design skills
- provides bonding and surety requirements for an A/E if needed
- provides broader insurance and risk distribution

**Cons**

- need to establish appropriate fee and/or profit sharing structure, e.g., is the A/E a partner, subcontractor? Is there a success fee, as well as management and control structures? Who can commit? Who can pull out?
- unbalanced front end costs which may be 70% AE-related in preparing the tender, while the AE may only be responsible for 5-10% of the entire project
- if a partner there is increased risk for the AE, e.g., a partner for the entire project while providing only 5-10% of the effort
- need for bid or surety bonds vs. professional design insurance
• differing professional cultures

 Suppliers and vendors

 Pros

• provides broader financial base (e.g., a stronger balance sheet, better opportunities for export or project finance, etc.)

• provides additional technical skills and insight

• provides a broader procurement network

• ensures more reliable delivery schedules (priority deliveries)

• improved systems integration, warranties, guarantees, commissioning, etc.

• may provide broader insurance coverage and risk distribution and superior product updates

 Cons

• need to establish appropriate fee structure, e.g., is the supplier a partner or supplier? Who can commit? Who can pull out?

• costs – how do you establish or ensure arms-length costs?

• the need to avoid discouraging other vendors/suppliers from bidding

• bonding

• debt guarantees

• differing professional cultures

• unbalanced front-end costs which may, as noted, be 70% A/E in preparing the tender, while the A/E may only be responsible for 5-10% of the actual project

 Operators, owners and clients

For major private infrastructure initiatives, A/E}s and contractors must increasingly team with an owner and/or operator or client to successfully execute a concession, BOT, BOOT, DBOM, etc.
Pros

- better understanding of the project and life cycle costs
- a better practical understanding of equipment, suppliers, operating and system integration needs
- better supplier relations and access to more favorable pricing and delivery schedules
- often a stronger balance sheet

Cons

In the infrastructure privatization field, operators, often in great demand, may not want to be the/an owner, or may only want to own a small share, and here, the different concerns, perspectives and orientation must be properly understood. The most important are:

- Difference in perspectives – The designer and contractors are, typically, in and out in 18-36 months. The initial consortium, if contractor-controlled, may want to sell the successful concession as rapidly as possible, while an operator is committed for 20-30 years.

- The operator and long-term owner concerned with the life cycle costs discussed in Session 4, including ease of maintenance and operability, will more readily accept or suggest changes to further improve long-term reliability or reduce operating and maintenance costs. And most importantly,

- a lower willingness to accept risks than the designer/contractor since they have far longer exit periods and are often state-owned or controlled.

In such arrangements, a public client may also become a partner. These fall into two broad categories – government agencies venturing abroad or outside their own host country franchise (e.g., a port authority, airline or railroad participating in a foreign concession as an investor and/or operator) and public/private partnerships that are extensions of their host country franchise and/or authority. There was once great enthusiasm for “true” public/private partnerships, but increasingly, these have proven difficult and impractical, given the differing perspectives, risk profiles, needs, concerns and modus operandi of public agencies and private entrepreneurs. Where public/private partnerships arise, despite much ballyhoo, the public partner’s role, with the
notable exception of airport privatization, is increasingly limited to that of a passive investor/regulator/subsidizer/or protector of the public’s interests in the public partner’s own country.

But, developed, as well as developing, countries are seeing the benefits of establishing such public/private partnerships in host countries to:

- Provide government financial and legal support (lower borrowing rates, right of eminent domain, accelerated environmental permits and approvals, etc.) or subsidies where necessary, and
- Provide needed facilities while reducing pressures on the public purse

The incentive for such partnering is often a government’s lack of capital, limited expertise, or the perception of lower productivity or service satisfaction in the public sector.

Furthermore, the growing economic globalization has encouraged, as discussed in Session 4, increased financial mobility while reducing government opportunities and ability to raise taxes and other revenues. Technological, IT and financial innovations have reduced the importance of place and the ability of governments to legislate, regulate and tax. If a nation state in frustration threatens these new communities with increased intellectual, political, social and financial regulations it further loosens their loyalties and bonds to existing political structures. Such actions, all too often, as Thomas Friedman discusses in recent years, encouraged increased migration from environments that are restrictive or less nurturing, to habitats with so-called “open” societies and governments offering lower costs, taxes, and other, less restrictive, structures (i.e., the U.S. Sunbelt, Monaco, Bermuda, Hong Kong, the Cayman Islands, the Bahamas, Mauritius, etc.). And, these migrations further limit the options available to traditional governments. But, since 2006, tax havens are facing increased scrutiny.

**CLASS, ANY COMMENTS?**

c. Partnering and Privatization

As noted, we often describe many initiatives as public/private partnerships that, in fact, are “privatizations” with relatively passive, though significant, public roles (subsidies and grants, eminent domain, guarantees, access to low-cost loans, etc.). Privatization, defined broadly, is:

- The use of the private sector to provide services usually regarded as in the public sector domain or responsibility.
The sale and upgrading of existing and/or creation of new facilities with little or no tax-based financing, paid by a “user- or access-fee” revenue stream that, hopefully, provides adequate returns on investment.

Why are governments promoting privatization and turning to the private sector to construct and operate facilities instead of providing traditional funding for new projects? The reasons, as we noted in Session 4, are financial, political, and practical.

The first is that traditional sources of funding are declining because:

- there is growing public resistance to tax increases;
- many governments are being downsized; and
- in many areas, limitations on public or parastatal debt have cut off or diminished the possibilities of raising money through borrowing although these borrowing limitations can sometimes be circumvented by introducing innovative off-balance sheet financing via the private sector.

A second reason for growing privatization is that the private sector can frequently construct new facilities more efficiently, more expeditiously and at a lower cost because they bring specialized management experience, focus, and are subject to fewer constraints.

As a result, a large number of infrastructure investment funds were established in the '90s in response to these opportunities by investment banking houses (Normura, Macquarie), insurance companies (AIG, Hancock), well financed developers (Gordon Wu, Vivendi), equipment suppliers (ABB, Lockheed) and non-traditional financial sources (Soros).

**Comparative Advantages**

The key to the success of such privatization initiatives is the ability to take maximum advantage of each participant/stakeholder's skills:

- AEC firms with the technical skills and credibility based on their history of meeting budgets and schedules.
- Financiers or developers with the ingenuity and resources needed to put together financing packages advantageous to all concerned.
- Owner/operators with the understanding, experience, and skills to profitably and successfully operate and maintain the facility, and
the public sector which may own the land, infrastructure or facilities rights and enjoys special privileges, e.g., eminent domain, access to low cost capital, etc.

As a result, there are now privatization opportunities for the creative in almost every sector.

- Water supply and distribution
- Wastewater collection and treatment
- Solid waste disposal
- Highways
- Power generation (IPP’s) and distribution
- Telecommunications
- Rail and mass transit
- Aviation
- Ports
- Correction facilities
- Schools and hospitals
- Office space and facilities

But, there are several strategic issues that you as a manager of an AEC firm must address before entering the world of concessions and privatizations.

First, do you want to be a pioneer and develop one or more concepts or support for pre-targeted sponsors and clients; that is, to be a sponsor or choose to respond to requests for assignments that typically come out once concessions are being prepared by another sponsor? Furthermore, for the latter, you must decide what your firm wants to market - program or construction management, financial or property management services, technical and environmental planning, design and/or construction services, etc., and to whom - the proposed concessionaire, investors, owners/ operators, design/build contractors, governments, one or more lenders, or all.
In all cases, it is important as an initial step to ascertain what the targeted client really wants or hopes to develop. Is the client seeking an innovative approach such as outsourcing or a unique form of concession, or only trying to replace a short fall in funding.

All these become important first steps in seeking higher value markets, while avoiding commoditized price-sensitive service areas. But, you must always keep in mind that functioning within a loose laissez-faire regulatory framework, the private sector is always vulnerable to rapid boom/bust cycles. Frenetic overbuilding and demand for design and construction services during boom periods, as we recently experienced, can prove exceedingly wasteful and counterproductive. Furthermore, opportunistic investment strategies are likely to neglect the poor by discouraging large-scale, long-term investments in socially attractive, but less profitable, goods and services such as low-cost housing, universal health and subsidized public services. As a result, the public/private pendulum will continue to swing back and forth during your careers.

Outsourcing

Two other increasingly popular privatization approaches involve:

- “Contracting out” - the maintenance, operation, staffing and renovation of facilities where the private sector operator assembles teams of engineers, operators, maintenance specialists, equipment manufacturers, etc., to provide a service which may have been previously provided by a public or private sector owner.

- Becoming a preferred provider, hopefully, on an exclusive basis (a master service contract), to meet a client’s needs worldwide under a “strategic partnership.” The preferred provider is most often used in the private sector and may include purchasing or hiring the client’s outsourced department or staff (EDS in IT services, Bechtel and others in the water sector, Deloitte in Telcom, etc.) but is becoming popular in the public (e.g., Indefinite Quantity Contracts, Kellogg, Brown & Root, in support of U.S. peace keeping efforts, Berger for U.S. State Department overseas facilities, etc.).

But, both of these should more accurately be characterized as outsourcing.

5. Project Delivery

Once you have won a major assignment or made a significant investment, you must decide the amount of technical, managerial and sales work you want to
undertake in your home office; to what degree do you want to rely on, train and often supervise your local partner to develop their skills; or use the project as a vehicle to establish a permanent local joint venture or wholly-owned office, staff that office with predominantly local professionals and encourage their technical development as discussed earlier.

a. The Local Office

While my company, The Berger Group, has been one of the most successful exponents of local presence, despite its many supporters this is not a panacea for all problems.

- In the ecstasy of winning a coveted assignment or investment, local and senior management all too often confuse a project office with a permanent office. But, experience has taught me they are quite different. A project office need only be managed by a project manager; the facilities are temporary and may even share a local partner’s office; expensive support staff is minimal; errors in hiring or leasing space (rental payment, staff social security and severance expenses, etc.) are limited by the project’s defined schedule; there is far less need for expensive outside legal, tax and auditing services; and critical elements such as local support staff, vehicles and office budgets and expatriate living allowances, etc., are defined by the project contract, reducing both the pressure on the project manager and the temptation for the project manager to adopt a more salubrious life style.

- In contrast, permanent offices must address all of the above. In addition, such offices are more obvious and attractive targets for local tax collectors and lawsuits. Permanent offices require a country director/manager with far greater skills than a project manager; he/she should typically be a well-tested permanent employee with 5-10 years of company experience, some in middle-to-high-middle management and preferably:
  - speak the local language if other than English,
  - be able to appraise and recruit talented staff,
  - understand finance, risk, local currency management, labor and tax laws,
  - have both technical and managerial skills;

... not an easy job description to fill and typically, such candidates, when they emerge, are quickly incorporated into management-short-home operations.
Furthermore, U.S. management, in selecting overseas managers, is all too likely to focus on 1950-1960 cultural concerns, e.g., language and people skills, desire to live abroad, at the expense of more appropriate current priorities such as prior management experience with the company, financial, technical and increasingly important IT skills, etc. When faced with intimidating local tax and labor authorities, and lacking the protection of a contract or, often the right to reside full time in the country, the culturally- and people-sensitive manager can all too easily produce disastrous results, e.g., a $100,000 salary plus car, housing and education allowance can be taxed locally at $80-$100,000, and well-meaning but poorly planned reimbursement programs for taxes can lead to a never-ending spiral of local taxation, all managed by the recently appointed multi-lingual, culturally sensitive and well connected, if financially inept, country director.

b. Other Concerns

But, this is only the beginning of one’s concerns. A project pie is only so large and how is it best cut up? Decisions have to be made on:

- whether to establish a joint venture company with your then-project partner, and here, such issues as inter-company billing, overhead charges and even use of the company name can have serious consequences (Deleuw Cather);

- tax exposure of expatriate staff, as Union Carbide found in Bhopal, can encourage expatriate management withdrawal (e.g., Coke & IBM vs. Union Carbide & Goodyear in India);

- procedures to monitor staff downtime and provide “full time” local staff with external work during such downtimes;

- the provision of technical support staff from other offices – at what billing rate, who will benefit, who will pay taxes, living allowances, etc.

Such decisions are not easy to make and can have long term implications for a firm’s future in that country and, even more importantly, for overseas work, in general. The decision framework must include:

- size of the market – will it justify a permanent office?

- Technical and quality concerns – is the assignment or investment too difficult technically to manage and/or complete with local staff? If this is a concern, can a gradually-phased transfer be introduced and will repetitive projects be available for the newly trained staff?
• Alternately, can such staff, once trained, be transferred to similar assignments in other countries?

• Is your local partner an appropriate long-term partner?

• Can we control our name, e.g., Deleuw Cather\(^1\), a then-leading engineering consultancy lost control of their name in Thailand, Ireland and Canada (Delcan) when they exited these partnerships, and quality, e.g., will major clients be disappointed with the quality of the work or services produced by a start-up?

• Can you legally and professionally monitor and control the work done locally, (e.g., Union Carbide’s loss of external technical control in Bhopal)?

• Where can the work be done most profitably in the short-term? Long-term?

Hopefully, the local office once established should prove competitive and successful in their own markets. At the same time, they can provide the presence, core resources and outsourcing opportunities for winning and executing other significant commissions. In other words, you “go global by going local.”

Clearly, however, gearing up for projects in uncharted territory can be formidable. There are, as noted, new cultures to adapt to, new ways of doing business, new standards and procedures, new regulatory regimes, etc. Furthermore, staffing up for projects in foreign countries is one thing, but building a successful local office and operation and integrating it into your overall organization is quite another. Berger typically has 70-80 local offices at any given time but only 20-30 stand the test of time (10 years or more).

Once you decide to open a permanent office and decide whether or not to have a local partner (often a legal requirement), you must also consider two other issues if it is an engineering or architecture office:

• Will the office focus on planning, design, program management or advisory services and, if design, will it offer a full range of services?
  
  - Architectural
  
  - Structural

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\(^1\) Now part of the Parson Group.
- Mechanical or electrical, or
- Rely on subcontractors

- In construction, similar decisions must be made.
  - Will it be a construction management office,
  - a general contractor,
  - EPC,
  - Will the office rely on a network of subcontractors or provide its own field staff, etc?

c. Staff Loyalty

Your continuing success will also depend to a great extent on gaining, keeping and maintaining the loyalties of local staff, as well as developing their managerial and technical skills. Full-time employees of the local companies should be eligible for all your normal company benefits, including areas such as key employee stock options. If you are not prepared to ensure the local staffs, especially the local management team, feel a sense of belonging and are a part of your team, then your initial marketing successes will be short-lived and you will rarely achieve longevity. If you don’t share the rewards and your special skills and technologies through training and technical transfers, you will soon be categorized as a colonialist, or worse, an exploiter simply trying to enrich yourself at the expense of the local community.

Furthermore, local managers and professionals are an increasingly important component of global professional practices. With the growing globalization of technical and managerial education distinctions in quality, if they ever were significant, have virtually disappeared. Elite technical schools have arisen in almost every corner of the world and, as many of you demonstrate, graduate education is increasingly global. With the rise of the internet, the web and distance learning, any such distinctions will further disappear. With often less employment competition (e.g., investment banking, IT, etc.), locally trained architects and engineers are also likely to represent a higher intellectual cross-section of students than in OECD countries and, as noted in Session 1, since more new construction is occurring in the developing world, they often have the opportunity to participate in more technically advanced projects. Given the above and the continued, though declining, wage differentials, international firms are increasingly drawing on their local staff to organize and staff new international teams or even more importantly, Global Design Centers. In
addition, given the intense price competition in many international markets, such staff, which often in the past was provided at little or not profit or hired from a local partner to support the higher-priced international staff, is now often a principal source of profit for the major international AEC providers.

Thus, as a matter of enlightened policy, you should encourage, develop and build local staff loyalty supported by well-planned technology and management skill transfer programs. Your client can also become part of the technology transfer equation. Thus, a major challenge is to plan and execute your work to take maximum advantage of local staff assigned by your clients, partners or your own local offices so that they learn new skills to apply in the future on similar projects while meeting quality and performance targets. This approach not only creates a better product, but develops a reservoir of expertise, as well as goodwill, which will pay off handsomely in the continued marketing and delivery of your technical and professional services.

Then spread the good word about your efforts by attending and participating in the growing number of local and regional conferences, seminars and other forums. In presenting papers highlighting your local successes - authored or, at a minimum, coauthored by local professionals- you gain considerable credibility and reinforce your original claims of commitment. The general manager of our 24-year-old successful China joint venture, Mr. Xie Shoazhang, was named China’s Professional Engineer of the Year in 2001 and is a member of FIDIC’s worldwide Board of Directors.

d. Initial Entry

Of course, you must never overlook the tools, in addition to existing clients, that are available to enable you to initially develop your local presence. Those tools are often funding mechanisms such as your own country’s export credits or aid programs and various international lending agency programs. It is extremely useful to market those agencies since their projects can ideally be your "foot-in-the-door," the all-important starter project and often involve teaming with local companies, which gives you the opportunity to learn their capabilities.

Don't overlook your in-house staff with origins in your targeted countries who may have interesting family, school and professional contacts that they have maintained over the years. They can certainly help on language and provide your temporary or permanent staff transfers with informal briefings or even formal training and useful social and professional introductions.

In summary, marketing architectural, engineering and construction services globally is challenging and should also be rewarding. But, you must be patient, you must demonstrate your commitment and you must show respect
for host country culture and professionalism. Flexibility, tolerance and a good sense of humor will ease the way.

6. Class Discussion

“Underestimating Costs in Public Works Projects – Error or Lie”

- Do you agree or disagree with the findings of the three authors?
- How widespread do you think the tendencies to underestimate project costs are? What are the risks for different stakeholders, an architect/engineer, a financier, the owner (public or private) and a construction firm?
- Why the difference in accuracy between fixed link projects and roads?
- What are risks for the internal operations of a construction company? How would you protect your firm?
- Why do rail projects seem to be the highest overruns of the three areas studied and tunnels more difficult to estimate than bridges?
- How do you think water and sewage or aviation projects would compare with the three categories analyzed?
- Do you agree with the first paragraph on page 285?
- Besides the authors’ view that costs were purposely understated, what other facts may have contributed to the significant underestimation of cost and what actions can we take to correct these tendencies?
- Do you agree with paragraph two of page 288 that underestimating costs may save public funds?
- What if any is the “obligation to truth in the democratic process,” page 288?
- How does the “regulatory engineer” issue that we discussed in Session 1 have any bearing on this article?
- What are the implications of this article for privately financed public works projects?
- What are your comments on the four causes: technical, economic, psychological and political, identified by the authors?
- Do you think the writers’ recommendations on:
increased transparency,

the use of performance specifications,

explicit formulation of the regulatory regimes that apply to project development and implementation, and the involvement of private risk capital, even in public projects,

would alleviate or reduce the problem.

“The Lexus and the Olive Tree,” Chapter 7, pps. 109-137; Chapter 8, pps. 141-160; Chapter 9, pps. 161-185; Chapter 10, pps. 187-203; Chapter 11, pps. 205-237; Chapter 12, pps. 239-264.

- What does Thomas Friedman mean by the Electronic Herd? Is it only a financial phenomenon?

- Does the Electronic Herd encourage democracy and how does increased democracy influence corruption?

- Did Malaysia’s former Prime Minister, Dr. Mahathir Mohammad, have a choice on globalization (Did he succeed?)

- Who starts the stampedes?

- Will increased financial transparency help or hurt?

- What are the implications for the AEC fields?

- Is kleptocracy pervasive? And, if so, what are the implications for the global AEC fields?

- Are “distant, faceless markets and herds . . . dictating political lives?”

- What is the Golden Straight Jacket?

- Are Bill Gates and other businessmen as, or more, important than a chief of state or head of government?

- Do you believe in the Golden Arch Theory?

- What is the significance of being a shaper or adaptor?

- How good is your country’s brand?
As we discussed, how is the *Olive Tree* striking back, e.g., the “anti-globalization backlash we have seen in Seattle;” Genoa, the rise of religious fundamentalism; and the attacks on the World Trade Center and Pentagon, etc. What caused it? Ellen Frost, Senior search Fellow at the Institute of International Economics, claims that “globalization has clearly been both oversold and demonized and globalization becomes a scapegoat for things that would have happened anyway. Those who believe in the value of globalization must be cautious not to claim for it more benefits than it provides.”

During the U.S.-Canadian NAFTA negotiations, George Schultz said he could understand why the Canadian AFL-CIO might oppose the agreement. He also could understand why the U.S. AFL opposed it. But, he couldn’t fathom how they both could at the same time!