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Iemants Steel Construction: Asian strategy

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1. The beginnings

ISC was established in 1962, when Jef Iemants Sr., a local Flemish entrepreneur, set up a metalworkshop in the centre of the village of Arendonk, Belgium. For more than 15 years, ISC remained a small steel construction company that focused its subcontracting activities on the construction of civil and small industrial buildings in Flanders and Belgium. The company operated as a traditional contractor of steel constructions, limiting its involvement in the "project life cycle" to the construction phase itself (see Box 1.).

BOX 1 DESCRIPTION OF THE PROJECT LIFE CYCLE

Traditionally, from the client or purchaser's point of view, construction projects comprise seven major stages or phases: *Idea/Concept, Feasibility studies, Design, Procurement, Construction, Commission, and Use/Operation*. In this model the client is effectively the owner of the whole process, although a firm of consulting engineers might be brought in to assist with design and a contractor would normally be employed to deal with the construction phase.

As clients began to appreciate their limitations in terms of funds and skills, and as companies tried to escape from the intensity of competition in mainstream activities, traditional construction companies started to take on other roles, such as the design, the procurement of equipment, together with the construction itself of projects. In order to develop their strategic interests, companies are even becoming increasingly active in negotiating deals with potential clients whereby they provide turnkey projects or even total solutions involving the financing, planning, design, procurement, construction, and operation of facilities. These changes imply that a more sophisticated and complex range of tasks will have to be undertaken by the contractor, but also offer greater differentiation among competitors and the prospect of greater potential profits (accompanied by greater risks).

Source: International Labour Office, 1995

In 1979, when Jef Iemants Sr. decided to retire as the founding manager and left the business to his sons, ISC moved its operations to the industrial estate of Arendonk, conveniently situated near the highway to the Netherlands and the port of Antwerp, and built a new production unit with a total surface of 135,000 m² and a covered workshop area of 25,000 m² equipped with the most sophisticated machinery available at that time. With its new resources and increased capacity ISC was immediately confronted with a new and much more competitive situation and decided to enter into the production of heavy industrial steel constructions for the petrochemical, automotive, and chemical industry (see Table 1.).

Table 1: Product and geographical diversification of ISC (1962-1990)

Period	Region	Products
1962-1979	<ul style="list-style-type: none"> • Flanders • Belgium 	<ul style="list-style-type: none"> • Steel parts for civil buildings, e.g. windows and doors for houses, schools, etc. • Small industrial steel constructions
1980-1985	<ul style="list-style-type: none"> • Belgium • Netherlands 	<ul style="list-style-type: none"> • Larger industrial steel constructions
1985-1990	<ul style="list-style-type: none"> • Belgium • Netherlands • Germany • UK 	<ul style="list-style-type: none"> • Large industrial steel constructions • Design-and-build projects

Source: Iemants Steel Construction

Because the slumping Belgian construction market no longer provided the necessary volume of activity, ISC also diversified geographically and no longer confined itself to the Belgian market but penetrated the adjacent European countries. During the first half of the 1980s, ISC expanded to the Netherlands, where it engaged in international subcontracting for some large Dutch construction companies. In the second half of the 1980s, ISC also entered the English and the German market (see Table 1.), and respectively set up "Iemants UK" and "Iemants Stahlbau und Konstruktion" in order to organise its activities in those countries.

In order to lessen the intensity of competition in traditional construction activities, ISC also decided to no longer limit its activities to the construction phase as most competitors, but to diversify into additional project phases, by taking on project design and procurement (see Box 1.). As such, ISC delivered fully worked-out design-and-build projects. The engineering department, for instance, gradually became a source of competitive advantage for ISC, because it regularly came up with better and more economical solutions for the design of structures.

With the bulk of its clients situated in the growing European petrochemical industry ISC was able to steadily increase its turnover during the 1980s (see Table 2.). ISC acquired a market share of 6 to 7 percent of the petrochemical market in Europe and between 40 and 50 percent in Belgium. With a productive capacity of 50,000 tons a year and a lifting capacity of 100 tons, ISC had become one of the ten largest companies in the structural steel sector in Belgium.

Table 2: Excerpt from the financial statements of Iemants Steel Construction (in mio BF)

Year	Turnover	Net profit	Cash flow
1980	151	(12.5)	(0.1)
1981	159	3.5	10.4
1982	172	2.4	9.5
1983	203	3.2	10.9
1984	412	4.3	14.6
1985	494	10.1	23.1
1986	486	14.87	35.43
1987	603	13.72	34.77
1988	762	13.30	49.89
1989	1,050	9.33	39.63
1990	1,274	11.98	68.41

Source: Iemants Steel Construction and National Bank of Belgium

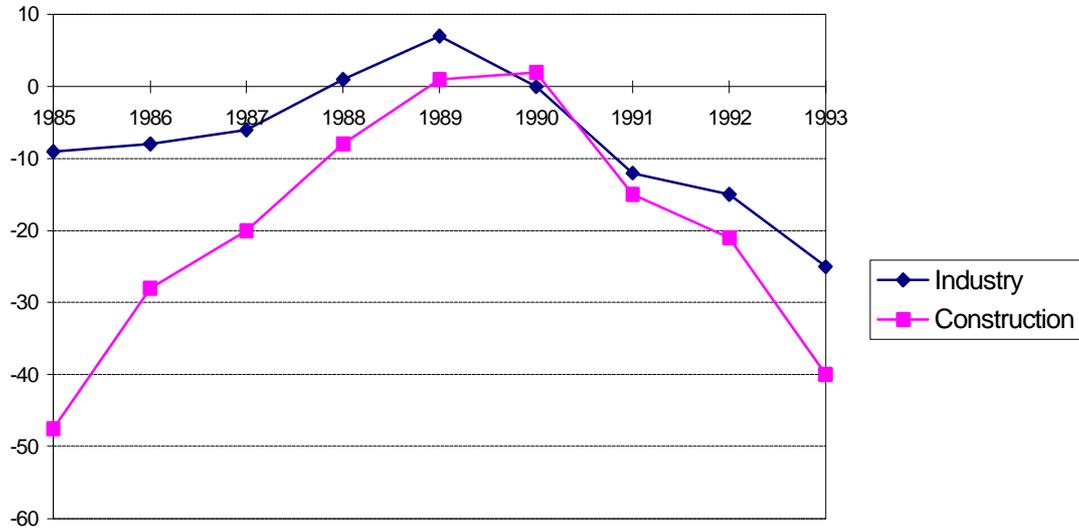
ISC was able to finance its growth on the basis of the system of progress payments, which is typical for construction contracts in the petrochemical industry, and allows for gradual payment on the basis of the progress of the work, i.e., either on set calendar dates or in predetermined stages of progress of the construction phase. As such, ISC only needed to finance two to three months of its turnover. As a result, and contrary to what may be expected in other construction sectors, ISC's financial resources were not frozen for very long periods and serious cash flow problems could be avoided.

2. The turnaround of the 1990s

After five years of rather strong growth, the European economy started to decelerate at the beginning of the 1990s. As it became evident that the underlying forces of the economy had been overestimated,

business confidence deteriorated (see Figure 1.) and gave rise to fears that the European economy might be entering a serious economic recession. The decline in real GDP growth in Europe hit the industry and especially the construction sector quite hard.

Figure 1: Evolution of business confidence in the EC



Source: European Commission, 1994

The petrochemical industry was also greatly affected not only by the economic downturn but also by political events (see Box 2.). ISC therefore decided to diversify into other subsectors of steel construction, especially bridge building, in order to be less dependent upon the market fluctuations of the sub-sector in which it was operating. This tactical decision was taken in order to maintain a sufficient volume of activity and a position in the market so as to have the necessary capacity and credibility with clients in place to take advantage of future opportunities in the preferred market when they eventually emerged. It also wanted to further establish itself as a steel constructor of high technological products and eventually as a contractor of turnkey projects in order to improve its competitive position and increase its turnover. ISC therefore rented a production plant located on the waterfront in the docks of the port of Antwerp to be able to compete more efficiently in bridge building. In contrast to petrochemical projects, bridges require several months of prefabrication in the production unit before they can be shipped to final destination for assembly on site, requiring an increased lifting capacity.

BOX 2
DESCRIPTION OF ENVIRONMENT OF PETROLEUM AND RELATED INDUSTRIES IN 1990

The Iraqi invasion of Kuwait on August 2, 1990, shocked the world and created an uneasy period of uncertainty for the petroleum and related industries. For five years, the steady rise in demand and the gradual return to profitability in the refining industry had ensured the sector's progress in a favourable economic climate. As political events deprived the market of seven percent of world output capacity, the industry started questioning the security and cost of its supplies.

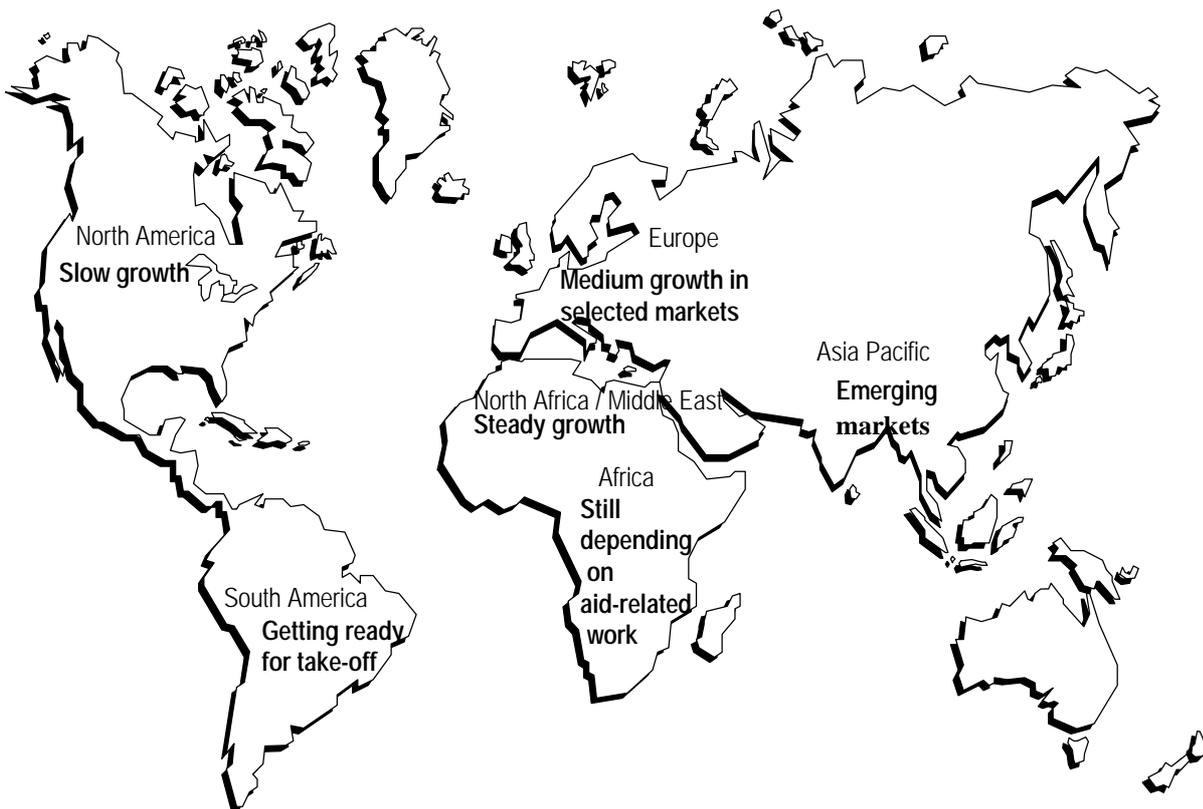
Source: Petrofina, 1991

However, ISC considered that it would be impossible to continue to expand its output and turnover (required to take on turnkey projects) and maintain its current rate of growth on the West-European

market indefinitely. The structural economic slowdown, which started in the 1990s, had shaken the construction industry to such an extent that ISC decided instead to internationalise its activities outside of Western Europe.

The North American market was expected to expand in two ways up to the year 2000, i.e., first by an increase in expenditures on environmentally related projects and secondly by the substantial increase in projects in Mexico where many new industrial plants would try to take advantage of the low wage economy. The forecast for the European market up to the year 2000 was that it would expand in certain segments, such as bridge construction and high-rise buildings, and in particular areas, such as Central and Eastern Europe, where many major infrastructure projects were needed. It was anticipated that the Asia Pacific region would see an expansion in infrastructure, as well as in commercial and industrial projects in line with its enormous economic growth. The Middle East and North Africa were thought to realise only limited growth, mainly based upon oil- and gas-related work. Latin America was seen as getting ready for take-off and would show a small growth, while Africa would continue to struggle and be dependent upon international aid-related work (see Figure 2.).

Figure 2: Description of the construction industry's future up to the year 2000



Source: International Labour Office, 1994

3. Lemants Middle East

Jef Lemants Jr., the president of the company decided to establish an international department to research international opportunities. He was convinced that the most feasible way for ISC to internationalise would be to follow Belgian contractors in their international expansion. Belgian contractors had been active in the international market for many years, especially in the Middle East. They had suc-

cessfully taken advantage of the booming market in the oil-rich Arab countries in the 1970s and early 1980s. Most of them were familiar with the activities of ISC in the Belgian market. ISC decided to contact the major Belgian contractors it had previously worked with and expressed its interest and intention to engage in international projects.

ISC's contacts with Belgian construction firms resulted in a first opportunity when the Belgian construction contractor Besix awarded ISC a chemical plant construction contract in Al Taweelah, in the United Arab Emirates.

**BOX 3
MIDDLE EASTERN ECONOMIC PROFILE**

Despite the small growth expected in the Middle East, due to the fall in oil prices and the declining USD, there remained a need for construction projects as a result of the ongoing industrialisation and privatisation process in this region. As a result of this policy to diversify the economy from oil exports towards industrial activities, the local governments demanded that value must be added locally as much as possible.

Source: Flemish Board for Foreign Trade (BDBH), 1994

When ISC agreed to act as the subcontractor of Besix for the steel construction of the plant, it accepted the requirement to produce locally as much as possible in order to create local added value (see Box 3.). The fact that ISC was obliged to ship the rolled steel from Belgium and carry out the sandblasting, painting and assembly work in the United Arab Emirates itself did not constitute an insurmountable obstacle, however. It set up a local company to take care of the local production. On the one hand, the local assembly plant would allow ISC to save on the transportation cost, because it is easier and cheaper to ship rolled steel than finished parts. On the other hand, the plant could also be used for possible future projects in the Middle East.

ISC therefore set up a production unit, Iemants Middle East, in Al Taweelah (Abu Dhabi), United Arab Emirates, with a total surface of 35,000 m² - of which 12,000 m² were covered workshops - on the premises of the chemical plant project. ISC's engineering department made sure that the plant could be easily disassembled and - if this would be necessary - even moved elsewhere.

However, as a result of the lack of experience, ISC had not negotiated a sound international contract and was unaware of certain practices on the international market (see Box 4.). ISC had signed an agreement with the contractor Besix based on trust, but in the end was faced with its back to back obligations with the general contractor. For instance, it had to undo unapproved improvements which in Europe were normally not only accepted but even welcomed by its customers. It also had to wait for months, while the construction lay idly in the desert, until the foundations were belatedly laid by another subcontractor before it could erect the construction on site and receive payment for its work.

**BOX 4
FINANCING CONSTRUCTION COMPANIES AND PROJECTS**

When most construction companies are created, the initial sources of finance are usually provided by private individuals and retained profits. As the company grows and takes on larger contracts, these initial sources become insufficient to fund the required heavy capital investments which are often beyond the means of an individual or a company. A need for finance from external sources arises, and there are many

different approaches that can be taken, so long as the company has gained the confidence of the money-lenders through a proven track record.

However, a contractor's principal physical assets are subject to rough treatment and has a useful life of just a few years. These assets provide a narrow collateral base. Therefore, when assets are examined together with other problems, such as one-sided contracts or delays in payment, the argument for financing construction projects is substantially weakened. Furthermore, the main barriers for entry into foreign markets are access to financial resources needed for the required bonds, such as performance and warranty bonds, and for working capital to finance the lags between the expenditure and payment (90 percent upon completion). Most international construction projects still face additional problems, for example fluctuating exchange rates or import restrictions. These additional risks make international projects a difficult and complex process.

Source : International Labour Office, 1995

4. Lemants International

In March of 1993, Mr. Guy Van Damme, who had a degree in engineering, was hired by Jef Lemants Jr. to manage Lemants International, previously the international department of ISC. He was then 43 years of age with 17 years of experience with Boelwerf, one of the major Belgian shipbuilding companies, where he had been marketing director. Jef Lemants Jr. had briefly worked together with Guy Van Damme when ISC had rented a production site from Boelwerf on the waterfront to compete in bridge building. The most important projects Guy Van Damme had been responsible for included nuclear power stations, an exploration drilling platform, several cooling ships, chemical tankers, and bulk carriers for international clients of Boelwerf. He had also been responsible for the reorganisation and strategic business plan of Boelwerf. He had as such contacted investors, including ISC, to take an equity participation in Boelwerf. Jef Lemants Jr. had learned to appreciate Guy Van Damme as a dynamic manager with a strong technical background and international experience.

Guy Van Damme believed that Lemants International was ready for more important expansion projects. On the one hand, he wanted to take advantage of Lemants Middle East to penetrate other countries in the Middle East, especially Saudi Arabia, the largest market of this region. On the other hand, he wanted to spread the international risk and decided to prospect the booming markets of the Far East (see Box 5.).

BOX 5 ECONOMIC PROFILE OF THE ASIAN AND PACIFIC REGION

Over the last decade, the economic performance of the Asian and Pacific region had exceeded that of any other region of the world. GDP in the Asian and Pacific area grew by an average of almost 8 percent per year during the 1980s, although there were considerable differences between the growth rates of the individual countries. In the beginning of the 1990s, regional GDP continued to expand at a rate of 6 to 7 percent annually, again with considerable variations among countries. This strong economic growth was expected to continue in most of the countries in this region over the medium term, resulting in an enormous increase in the demand for infrastructure.

Investment in infrastructure in this part of the world was estimated to be about 5 percent of GDP per year and expected to expand even more rapidly in the coming decade. To keep up with demand, the supply of infrastructure investment in the region would have to rise by an additional 2 percent over the next decade, which meant that the annual infrastructure investments in the region would reach USD 130 billion by the end of the decade. The energy sector alone was estimated to require investments of USD 300-350 billion until the year 2000. In the sector of the telecommunications USD 150 billion would be needed, as compared with about USD 300-350 billion during the same period for the transport sector. Although the specific rate of growth in the demand for infrastructure in each country depended on a variety of factors, it was generally believed that the region as a whole would see a substantial increase over the next decade.

Source: Asian Development Bank, 1993

After having done his desk research and having come to a positive decision about the Asian market, Guy Van Damme felt that it was time to prospect the region in a more active way. He was aware of the fact that as a country moves from a developing country to the stage of a newly industrialised country, it spends more of its GDP on construction. Once a developed status has been reached, there is typically a levelling off of construction expenditures as a percentage of GDP. The booming Asian market (see Table 3.) therefore represented the land of opportunity for a technologically oriented construction company, especially since the demand for higher quality infrastructure was increasing in all countries irrespective of their level of development.

Table 3: Growth rate of GDP for some selected Asia Pacific countries (%) (1981-1995)

Country	1981-1990	1991	1992	1993	1994	1995
Cambodia	n.a.	7.6	7.0	4.3	4.9	n.a.
China	10.4	8.0	13.2	13.4	11.8	9.8
Indonesia	5.5	7.0	6.5	6.5	7.4	7.1
Laos	n.a.	4.0	7.0	5.9	8.0	n.a.
Malaysia	5.2	8.7	7.8	8.3	8.5	8.5
Myanmar	-0.1	-0.6	9.3	6.0	6.4	n.a.
Philippines	1.0	-0.6	0.3	2.1	4.3	5.0
Thailand	7.9	8.4	7.9	8.2	8.5	8.6
Vietnam	7.1	6.0	8.6	8.1	8.8	8.5

Source: Asian Development Bank, several years

Guy Van Damme was especially interested in, on the one hand, four of the seven member states at that time of the Association of Southeast Asian Nations (ASEAN-4): Indonesia, Malaysia, Thailand, and the Philippines and, on the other hand, in "Indochina", i.e., Vietnam, Laos, and Cambodia. He thought that in these newly opening markets there were still abundant opportunities for smaller international companies to take on projects. As a matter of fact, Victor Buyck Steel Construction (VBSC), one of ISC's strongest Belgian competitors, had been awarded a large construction project in Kuala Lumpur, Malaysia, in the beginning of 1993 and had set up a joint venture construction company to take on the project locally and to be able to bid for other projects more successfully.

For many years, the Asean-4 countries had been characterised by an economic structure typical of developing countries. In recent years, however, the massive inflow of FDI from Japan and the Asian Newly Industrialising Economies (NIEs), e.g. Korea, Singapore, Hong Kong, and Taiwan had paved the way for radical change. Thailand's economic structure should reach the emerging NIE stage in the next few years and the mature stage NIE stage before 2000. Thailand was also strengthening its ties with its neighbours in Indochina. Malaysia and the Philippines, but not Indonesia, should reach the emerging NIE stage by the turn of the century (see Table 4.).

By the mid 1990s all three countries in so-called Indochina were also officially pursuing economic reform strategies based on the successful Chinese model of an open door policy that was launched in 1979. Rapid development in Indochina was seen to not only benefit the constituent countries but also ASEAN, which would enjoy the spill over effects through the virtuous circle of expanding intraregional trade and investment. Guy Van Damme considered officially organised trade missions by the Flemish Foreign Trade Board (FFTb) to be an ideal way to establish the first contacts in the South East Asian markets. To prepare for the trade mission of November 1993 to Thailand and Indonesia, he decided to

pay a reconnaissance visit to South East Asia in advance in order to do some field research on the construction market. During this preparatory visit, he was invited by the Thai Refinery Contractors (TRC) to tender for the steel construction of a petrochemical refinery for Shell at Thailand's Eastern Seaboard.

Table 4: Selected Asian Countries' Stages of Economic Development

	Developing Country	Emerging NIE	Mature NIE	Industrialised Country
South Korea		1965-----1992-----		2000
Taiwan	1965-----		1992-----	2000
Hong Kong		1965---1992---	2000	
Singapore			1965-----1992-----	2000
Thailand	1965-----1992-----			2000
Malaysia	1965-----1992-----			2000
Philippines	1965-----1992-----			2000
Indonesia	1965---1992---			2000
China		1992-----		2000
Japan			1965-----1992-----	2000

Source: Nomura Research Institute, 1995

lemants International went along with this suggestion and introduced a tender for the construction of the Shell refinery (see Box 6.). However, it was warned by TRC that its bid would not be seriously considered as long as it did not meet certain "eligibility requirements" (see Box 7.), for instance, the necessity of having Thai subcontractors for projects supported by the Board of Investment (BOI) such as this one.

**BOX 6
COMPETITIVE FACTORS IN THE INTERNATIONAL CONSTRUCTION INDUSTRY**

Costs and prices are major competitive factors in the international construction industry due to the use of a bid and tender system. Many factors may contribute to the ability of firms to undercut their competitors on price, including low labour costs, superior labour productivity, lower materials costs, lower transportation costs for equipment and personnel, less costly financing and/or willingness to accept a lower rate of return.

The provision of project financing may be one of the most important factors in the competitiveness of the OECD construction industry in bidding on projects in the developing countries, which account for more than 60 percent of OECD exports. The technical qualifications of construction and design engineering firms are also an important competitive factor in the bidding process. The ability to provide a total package is becoming a more important competitive factor in the international construction market.

Source: ILO, 1995

TRC subsequently suggested to Guy Van Damme to contact local companies, such as Sinothai, Slot Nankai, and Soecon Engineering to be able to respond to the requirements of eligibility. According to TRC these companies might be interested to subcontract with lemants International as offshore contractor, in order to assemble the structural steel construction of the petrochemical refinery on site. While Sinothai informed Guy Van Damme that it was tendering for the project itself, Slot Nankai and Soecon Engineering were actually willing to engage in some subcontracting activities for lemants International.

BOX 7
INDUSTRIAL POLICIES AND TRADE POLICIES IN THE CONSTRUCTION SECTOR

Improvements in construction capacity has been a major goal of the development process and a cornerstone of industrialisation in non-OECD countries who have followed import substitution and export promotion strategies with regard to construction. Governments in these countries have enacted regulations requiring foreign construction and design engineering firms to subcontract with local companies, form joint ventures with national firms or procure local materials and supplies. Most prevalent trade barriers in construction are: administrative obstacles, technical regulations, labour restrictions, equity requirements/restrictions, employment requirements/restrictions, source materials requirements, exchange control requirements, and tax and payment regimes.

Source: OECD, 1992

However, after some time Guy Van Damme was informed by TRC that the contract had been awarded to Sinothai, the Thai steel construction company. The initial price advantage of Lemants International had been undone by a total import tariff of 65 percent, such as a 35 percent tariff on the import of semifinished construction products, a 5 percent harbour charge, etc., despite its BOI support. These "usual" rates were applied because Lemants International did not have a written proof delivered by at least two Thai companies stating that the designed plant construction products could not be supplied by a Thai company. As a result and despite its superior design, better quality, etc., the authorities no longer considered Lemants International as a contender for this project.

5. Lemants in Thailand

The top management in Belgium had concluded from this missed opportunity for the tender of the petrochemical plant in Thailand that it was crucial to invest in South East Asia in order to avoid similar setbacks in the future. ISC's interest to internationalise was mainly directed towards Thailand for reasons, such as, on the one hand, its expected economic growth, its satisfactory record in terms of financial and political stability, its investment and trade in Vietnam and other neighbouring transition economies, its membership of ASEAN and AFTA, and, on the other hand, the awareness in Thailand for Belgian expertise in steel constructions, and the longstanding involvement of ISC's clients in petrochemical and chemical projects in Thailand.

Guy Van Damme had signed up for the November 1993 trade mission organised by the Flemish Foreign Trade Board (FFTB) to Thailand and Indonesia, and was reading the newspaper on the international flight from Brussels to Bangkok. He noticed an article about actor Jean-Claude Van Damme making it big in South East Asia once again: "Muscles from Brussels strikes back!", and wished he was as successful as his namesake on his mission. During this mission, Mr. Dirk Vandenberghe, the Flemish trade commissioner working from the Belgian Embassy in Bangkok had arranged meetings with a number of Thai companies, such as importers of construction steel, construction companies, general contractors, and state owned enterprises such as the Petroleum Authority of Thailand and the Public Works Department.

A minority joint equity venture was perceived to be the first-best cross-border ownership and organisational strategy for Lemants, in order to facilitate Lemants International's entry on the market, to avoid legal restrictions on foreign enterprises, and to limit the financial impact of the investment. Several companies expressed interest in working together with Lemants International as they also believed that

the time was ripe to actively promote steel constructions on the Thai. The Thai construction market had until now relied primarily upon concrete constructions. As a result, the larger steel construction companies, such as Sinothai and Italthai believed that the Thai steel construction market could be supplied by local companies and informed Guy Van Damme that they were not interested to cooperate.

The companies which had expressed an interest in setting up a joint venture with lemants International were Lee Thai Mui, Slot Nankai and Soecon Engineering. Lee Thai Mui, in its capacity as a steel trader, only sold steel to local steel constructors and general contractors, but believed that steel construction represented a special niche in the steel market that could be offered as a substitute to concrete construction work. The round steel constructor Slot Nankai had its main contacts within its specific sector but intended to diversify into the growing steel construction market. Soecon Engineering was well introduced in the steel plate construction market and was willing to expand in the structural steel construction sector in order to meet the growing demand for steel constructions.

BOX 8
PARTNER SELECTION PROCEDURE

In general, firms seem to utilise, either implicitly or explicitly, a two-tiered screening process. First, they evaluate prospective partners for complementarity on task-related dimensions, i.e., critical success factors, competitive position, and difficulty of internal development. Examples of these variables include patents, financing, trademarks, technically skilled personnel, marketing and distribution systems, etc. For instance, market access is viewed as one of the most important critical success factors, particularly within the context of a local or regional target market. However, firms should seek partners not only embodying marketing-related capabilities, but also a given minimum level of technology-related capability.

If one or more prospects satisfies the screening requirements for complementarity on task-related dimensions, they generally are also screened for their ability to satisfy partner-related dimensions. The determination of complementarity on partner-related dimensions appears to be a more complex endeavour. Partner-related criteria may include such variables as national or corporate culture of a partner, compatibility of and trust between partners' top managers, and the size or corporate structure of a partner.

However, the on-going nature of negotiations within a joint venture and the continuing need to interact with a partner often result in a short honeymoon period followed by a rapid onset of interorganisational conflict, despite a good fit in terms of task-related dimensions. An example of this tendency is the negative correlation between the difficulty of internal development factor involving financial capability and the partner-related criteria, suggesting that firms having difficulty accessing financial resources tend to de-emphasise the selection of a compatible partner.

Source: Geringer, 1988

When Guy Van Damme returned to Thailand in February of 1994, he visited the different production units and concluded that setting up a joint venture with the Thai steel construction company Soecon Engineering (best construction plant) would be the best of the available partners for lemants, despite its outdated technology and old-fashioned overseas-Chinese owner. (For an overview of the different visits by Guy Van Damme to Thailand: see Table 5.)

Guy Van Damme got the go-ahead from ISC's board and entered into negotiations with Soecon Engineering about the establishment of a joint venture when he went back to Bangkok in June of 1994. Both companies signed a "letter of intent" in which they agreed to join efforts in the field of steel construction. They consequently discussed the market definition, the financial and business plan of the new company, the relation of the new company to Soecon Engineering and lemants International, the

type and legal form of the co-operation, the technological co-operation, etc. Both parties subsequently investigated, by means of detailed feasibility studies, all aspects of a future co-operation and joint investment in the production and construction of specific steel products.

Guy Van Damme returned to Bangkok in July 1994, together with the engineers from Soecon Engineering that had visited the ISC facilities in Belgium, to sign the joint venture agreement between Soecon Engineering and Lemants International. It is important that all partners come to a complete agreement about the main points, e.g., the objectives of the joint venture, the resources, the transfer of technology, the management, the form and direction of the company's growth, and the pattern of diversification. The different articles of the shareholders agreement should list all the different elements the shareholders should agree upon. The parties agreed and approved most of the items of the proposed agreement, but still a few issues remained. Lemants International, on the one hand, wanted not only the new joint venture company but also Soecon Engineering to sign an agreement of technical co-operation with Lemants International. Soecon Engineering, on the other hand, did not want to sign such an agreement, and stipulated that only the new company should sign it. Besides, Soecon Engineering only accepted that the new company should pay a royalty of 5 percent on the value of high-tech projects, i.e., when engineering or technological assistance from Lemants International was explicitly required. Soecon Engineering did not want to bring in its existing operations into the joint venture either and insisted on continuing its current operations separately, instead of producing under a new joint venture label. Soecon proposed to Lemants International to develop their businesses on the different markets on the basis of mutual exclusivity and co-operation, and non-competition. However, Lemants Engineering wanted a broader range of activities for the joint venture and a more aggressive expansion plan.

Table 5: Overview of different visits by Guy Van Damme to Thailand

Date	Objective	Results
9/1993	Reconnaissance	<ul style="list-style-type: none"> • Positive evaluation of Thailand's economic performance • Positive information on construction sector • Failed bid for TRC project
11/1993	Trade mission	<ul style="list-style-type: none"> • Company contacts • Positive reactions to steel constructions
2/1994	Company visits	<ul style="list-style-type: none"> • Follow-up on contacts • Soecon plant is "best" equipped despite outdated technology
6/1994	Letter of intent Trade mission	<ul style="list-style-type: none"> • Both partners are positive about future co-operation • Trade mission shows potential of steel construction sector
7/1994	JV agreement	<ul style="list-style-type: none"> • Difficulties arise between the two partners

After Guy Van Damme had returned to Belgium, a special board meeting decided to call off the joint venture negotiations between Lemants International and Soecon Engineering. They were convinced that Soecon Engineering was more interested in using ISC's expertise and technical know-how to its own advantage rather than to realise an expansion of its activities on the basis of a joint venture. ISC assumed that Soecon Engineering had been unable to develop into a high-grade operation on its own and wanted to use ISC's technology to achieve their long term objective. As it was reluctant to integrate its existing business activity within the joint venture, ISC decided to stop the negotiations with Soecon Engineering.

6. Siam lemants

They were therefore obliged to reconsider ISC's screening process and realised somewhat belatedly that Soecon Engineering did not meet either task-related nor partner-related criteria. They believed that the Thai steel construction sector was in dire need for high quality products and turnkey projects. As a result, lemants International should specifically profile itself on the Thai market as a constructor of high quality steel products, which demand a high degree of technology, and as a contractor for turnkey projects. lemants should therefore be looking for a technology- and quality-oriented partner who has excellent marketing contacts on the steel construction market and the necessary relations to lobby the market, and had a compatible corporate culture and similar ideas. lemants could subsequently take care of the training of the workforce, the engineering, the production and the construction on site without "interference" from the local partner, who would be in charge of marketing and sales.

Guy Van Damme resumed his search for partners on the Thai market and contacted Mr. Daniel Chaudière, whom he had met during the trade mission for steel construction companies, to help him in his search for a suitable joint venture partner. Daniel Chaudière had excellent information on the Thai construction industry as the Belgian managing director of Eurosiam Services (ESS) (see Box 9.). Daniel Chaudière suggested three potential partners, i.e., Siam Industrial Corporation (SICORP), Thai Model Engineering (TME) and Sino-Thai Engineering & Construction (STECON). STECON had previously informed lemants that it was not interested to set up a joint venture, as it believed that the Thai steel construction market could be supplied by STECON itself and other larger Thai construction companies, such as Ital-Thai. Guy Van Damme subsequently contacted TME and SICORP (see Box 9.).

Guy Van Damme considered SICORP to be the best choice to set up a joint venture. Mr. Krishna Sivakrskul, the main shareholder of SICORP and chairman of the SICORP group, was an experienced manager with extensive contacts in the construction business. He got an engineering degree from Bangkok University and obtained an MBA from Harvard. He had been a managing director of Sinothai and project manager of Pa Daeng Industry - a zinc exploration, mining and refining company for the Belgian company Union Minière in Tak, Thailand - where he had met Daniel Chaudière. He was also a shareholder in several other companies, such as Sinothai and Pa Daeng Industry. He had set up Siam Industrial, a trading company for Sinothai, and later purchased the company together with several other persons.

lemants International started negotiations with SICORP to set up a joint venture called Siam lemants. Both partner understood that each partner brings to the joint venture a different and complimentary set of resources and capabilities, and quickly came to a consensus on the main issues of the shareholders agreement of the equity joint venture. All parties agreed upon the shareholders agreement, including the corporate purpose of the joint venture company, the conditions for the provision of the technological services, the repatriation of profits, the corporate bodies of the company, etc. Both parties agreed that lemants International would subscribe to 49 percent of the equity capital, because there are a number of strict limitations on foreign owned companies in Thailand, such as the number of expatriates the foreign owned joint venture can employ, the prohibition to purchase factory grounds, etc. However, how much equity capital lemants felt it needed in order to control the technical man-

agement, depended upon the distribution of the other shareholders. Lemants therefore made an appeal to SICORP to find other Thai partners with the necessary qualifications and contacts to take limited equity stakes, in order to allow Lemants the amount of ownership share necessary to retain control.

BOX 9
DESCRIPTION OF POTENTIAL JOINT VENTURE PARTNERS

Eurosiam Services (ESS)

ESS was established in 1989 as a joint venture consultancy agency of Mechim Engineering, a subsidiary of the Belgian multinational non-ferrous holding group Union Minière, and a number of Thai companies, such as banks and insurance companies. Daniel Chaudière was the Belgian managing director who acted as a consulting engineer in industrial projects in Thailand and other countries of South East Asia, involving project management and co-ordination, industrial engineering, equipment supply, contracting for installation and construction works, and assistance and supervision services. The company's business activities also included marketing surveys, client and partner research and selection, and joint venture or acquisition agreement negotiations. Its sales amounted to 135 million baht for the fiscal year 1993.

Thai Model Engineering (TME)

TME was established in 1991 as part of the Santhad Group of Companies (SGC). The group is involved in 8 major lines of business, e.g. mining, trading, shipping, engineering and construction. TME was established to offer a variety of services, such as designing and construction, fabricating and erecting steel structures, tanks, pressure vessels, columns, towers, silos, heat exchangers, piping systems, and boilers. TME - a dynamic construction company with machinery and equipment of a high technological level - follows a diversification strategy into the market for high technology. It is located at a deep sea port with excellent infrastructure to ensure regular import and export of structural steel. TME is interested to diversify into offshore construction projects. In 1992 its turnover was approximately 250 million baht.

Siam Industrial Corporation (SICORP)

SICORP was founded in 1973 as a member of the Sino-Thai Group of Companies, namely Sino-Thai Industrial Corp. Ltd. In the beginning, the company was only involved in sales, distribution and installation of high quality heavy equipment for the construction industry. In 1985, the company decided to reorganise in order to be able to benefit from the enormous growth potential of the market. Consequently, the company was reformed into an independent firm called Siam Industrial Corporation. SICORP is today a well known supplier of industrial equipment and specialised products. In order to cope with the rapid changes in the demand for professional service facilities, an affiliated company Siam Industrial Installation and Service Co. Ltd. was also established. SICORP had also invested in several other companies to diversify its business activities. The company had steadily grown over the years, from a turnover of just over 100 million baht in 1983 to a turnover of over a billion baht in 1992.

Source: Million Baht Business Information Thailand, several years

Both parties agreed to take care of the necessary funding for their part of the equity capital. Siam Lemants would subsequently purchase a factory site near the Gate City Industrial Estate in BOI Zone 2 from SICORP at market prices, where the factory supplied by Lemants International could be constructed. A taskforce would be set up to take all preparatory actions in view of the start-up of the plant. The machinery of Lemants International would also be purchased at market prices. Lemants International would also provide the joint venture with services, such as predesign, conceptual design, and assistance in the fields of production, erection, organisation, etc. These services would be made available to the company on a commercial basis according to the terms and conditions of said services.

Krishna Sivakrskul agreed to take care of the fronting vis-à-vis other possible Thai partners in the joint venture in order to finance the required Thai majority share (51 percent), while Guy Van Damme would look for the foreign equity capital (49 percent).

As most construction projects in Thailand are promoted and financed through Japanese firms, and as Japan was investing heavily into Thailand, especially in the construction industry, Guy Van Damme suggested to involve a Japanese company in the joint venture. Krishna Sivakrskul consequently proposed to invite either Itochu Thailand Ltd. or Mitsui Thailand Ltd. as joint venture partner. Table 6. illustrates the financial statements of both of these Japanese subsidiaries in Thailand, which operated as distributors of iron, steel, chemicals, etc. While Mitsui Thailand was already actively involved in the construction business and had an equity stake in a Thai shipyard, Itochu Thailand had not yet invested in the Thai construction industry.

Table 6: Excerpts from the financial statements of Mitsui and Itochu in Thailand (in ,000 Baht)

1992	Mitsui	Itochu
Revenues	4,794,137	926,018
Profits	129,234	47,398
Assets	4,333,198	1,530,871
Equity	1,367,076	222,987
Liabilities	2,966,122	1,307,884

Source: Million Baht Business Information Thailand, 1993

Box 10

Extract from the BOI Investment Promotion Act

The Board of Investment maintains a policy of giving special consideration to investment projects which strengthen the balance of payments, especially through export production, support the country's resource development, increase employment, conserve energy, establish a base for further industrial development, or are considered important and necessary by the Government.

In determining the economic and technological appropriateness of a project, the BOI considers the demand for the product, the production cost, the value added, the efficiency of the production equipment, and the company's debt to equity ratio.

Several tax and/or duty privileges are granted to promoted projects, depending upon the location of the project. However, several procedures and criteria have to be adhered to, such as procedures for setting up, expanding and operating a factory, criteria and procedures for importing machinery and raw materials, etc.

Source: Board Of Investment Thailand

The company decided to refrain from an application for BOI support, because the strict procedures and criteria in case of BOI application might impede its operations and diversification.

In order to finance its minority share in the capital of the joint venture, Iemants International wanted to apply to the European Community Investment Partners (ECIP) facilities to subscribe in the equity capital of the joint venture (see Box 11.). Iemants International wanted to apply for facility 3 in order to limit the capital it had to put up itself to finance the foreign part in the equity capital. The EU financing can be up to 20% of the capital of the joint venture project with a maximum limit of 1 million ECU. The EU relies on approved financial institutions (FI) from the home or host countries to act as a compulsory intermediary and to cofinance the foreign investment with the same amount as the EU and on similar terms and conditions. By imposing this matching obligation, the EU ensures that the FI is involved with the project on a permanent basis. The EU finances the company during its start-up phase and its intention is to sell its share of the equity capital after a period of about 5 years, or sooner if the joint venture partners are interested to do so. The EU does not interfere with the management of the foreign subsidiary even if its position is that of a registered shareholder.

BOX 11
DESCRIPTION OF THE EU'S ECIP FACILITIES FOR ECONOMIC CO-OPERATION

The economic co-operation policy of the EU seeks to improve the economic environment in the Asian, Latin American and MEDiterranean (ALAMED) countries by promoting such activities as trade, investment, research, and human resources development.

In doing so, the EU tries to associate private sector operators and to look for activities that benefit both the EU and its partner country. Within this framework, the European Community Investment Partners (ECIP) programme has as its goal to increase direct investment in the ALAMED countries by EU firms in joint operations with local companies.

Support can be given to direct investment projects in which EU and local companies cooperate either in joint ventures or through licensing agreements. Such co-operation is mutually beneficial for the companies and it has important positive side effects for the economy of the host country.

ECIP Facility 1 covers the preliminary phase. As such it provides grants for projects having as their goal the **identification** of partner companies in the EU and in Asia, Latin America or the Mediterranean, which are interested to enter into joint investment operations.

ECIP's **Facilities 2, 3 and 4** deal with the subsequent stages in the joint venture creation process. **Facility 2** is concerned with the analysis and other preparations made prior to the investment. **Facility 3** provides for EC cofinancing of the investment itself. **Facility 4** facilitates any subsequent expenditure on human resources or technical development related to the investment project.

Source: European Community Investment Partners

lemants International applied to the Belgian Corporation for International Investment (BMI-SBI) (see Box 12.) to take an equity part in the joint venture and act as a FI to apply for ECIP financing. Due to a restructuring, the BMI-SBI was at that time unable to consider an equity participation into the joint venture, however. To apply for ECIP funding, which in case of an agreement could have gone through the BMI-SBI, it suggested to contact the Industrial Finance Corporation Thailand (IFCT) instead. The Thai Government held about one third of IFCT's shares in 1993. Besides credit financing services, IFCT sometimes invested in the equity capital of industrial ventures which offered potential benefits to the economic and social development of the country in order to enable certain projects to be launched and to be operated in a more efficient way. However, although the EU used to have a signed agreement with the IFCT as a FI eligible to apply for ECIP funding, it had recently been removed from this list of FIs. As a matter of fact, there were no other Thai FIs on the list at that time. Yet, IFCT was interested in taking an equity participation, even if it could not act as an FI to apply for ECIP funding anymore.

lemants International was in dire need for financial support to finance its minority share (49 percent) of the equity capital. It applied to the Flemish Governmental Investment Company (GIMV) for a loan to allow lemants International to finance the Thai joint venture. The loan was positively assessed and as soon as the issue was put on the ministerial agenda, the Thai partner was invited to sign the contract the day after the ministerial council would approve the loan.

However, when Krishna Sivakrskul arrived mid December 1994, the Board of Directors had to inform him that the majority of the ministerial council had voted against the loan and that it was impossible for lemants International to sign the joint venture agreement at that time. Both Guy Van Damme and Krishna Sivakrskul were devastated by the news as they had put a lot of energy into the project. The

Board reassured them that the lemants group would restructure and that it was only a temporary setback for the project.

BOX 12

DESCRIPTION OF THE BELGIAN CORPORATION FOR INTERNATIONAL INVESTMENT'S FACILITIES

BMI-SBI's objective is to contribute to the medium- or long-term financing of business ventures abroad, the activities of which foster the development of economic relations between the host countries and Belgium.

BMI-SBI may employ any form of medium- or long-term financing, with the exception of export credits. BMI-SBI also assists in finding additional resources and in putting together financial packages as needed. BMI-SBI's role encompasses seeking out contributions from other firms or organisations -national, foreign or international- interested in the projects it finances, especially in developing countries.

In order to be able to offer all these services, BMI-SBI has developed a network of relations with international, regional and foreign development organisations, as well as with numerous Belgian and foreign industrial, financial and service firms.

BMI-SBI respects the management autonomy of the financed companies. Without intruding on the company's organisation, it follows up on the venture's development, not merely out of a legitimate concern for information, but also to be at hand to recommend desirable contacts and measures and to assist in their implementation.

Source: BMI-SBI

Instead of equity capital, Guy Van Damme suggested to the Thai partner SICORP that lemants International bring in a prefabricated factory as its contribution to the joint venture. For its part, SICORP could contribute the factory site at Chachoengsao (BOI Zone 2) near the Gate City Industrial Estate, where the prefabricated factory could be erected. However, Krishna Sivakriskul believed it was an untenable proposition towards the other partners, that still had to contribute their part of the equity capital.

Guy Van Damme alternatively suggested that SICORP set up the Thai construction company with the other Thai partners on their own and that they hire a team of ISC's managers and engineers to implement the up-to-date technology and take care of the management of the Thai company. The Thai partner again felt it was impossible to propose a management contract to the other Thai partners instead of an international equity joint venture. He believed it was necessary for the foreign partner to have an equity share in the ownership of the company in order to assure his commitment to the venture.

In the end, the organisational and financial restructuring of the lemants group of companies was unsuccessful. Due to various dubious debtors, they lacked the necessary working capital to finance the construction work in progress. When they were unable to find new equity capital, they were forced to declare bankruptcy in November of 1995.

7. Conclusion

The case study 'Iemants Steel Construction: Asian Strategy' describes the internationalisation process of a Belgian based steel construction company, and in particular its failed entry on the Thai market.

The case study deals with issues such as internationalisation strategy, country and partner selection, and negotiating, withdrawing and launching international joint ventures.

When Lemants Steel Construction was faced with the declining European market, it decided to internationalise its operations. After setting up a production facility in the Middle East, it set its sights on the booming Asian market. After doing the necessary background research, the president of Lemants International prospected different Asian countries in order to determine their strategy. He believed that Thailand represented the best of the available opportunities. He joined a trade mission organised by the Flemish Foreign Trade Board in November of 1993 to Thailand in order to find interested companies to set up a joint venture with Lemants International.

As Lemants had difficulties accessing financial resources, they tended to de-emphasise the selection of a compatible partner, i.e. the negative correlation between the difficulty of internal development factor involving financial capability and the partner-related criteria (Geringer, 1988). Lemants International therefore entered into negotiations with the first best available company to set up a joint venture. Because there was not the necessary compatibility and trust between the partners, the on-going nature of negotiations of the joint venture and the continuing need to interact with the other partner resulted in a rapid onset of interorganisational conflict, despite a possible fit in terms of task-related dimensions. Both partners ended up demanding unacceptable requirements of the other partner.

After these failing negotiations with one Thai company, Lemants International entered into negotiations with another Thai partner to set up an international joint venture. This time they had given considerable thought to the task- and partner-related criteria in order to facilitate the joint venture negotiations. All went well except for Lemants International's inability to find the required capital for its minority stake in the equity capital. It alternatively suggested to bring in a prefabricated construction plant instead of capital, but this was untenable vis-à-vis the other Thai partners. A management contract was also suggested to the Thai partner but he wanted Lemants International to be committed to the venture and not just involved.

In the end, the joint venture agreement was never signed and Lemants Steel Construction went bankrupt.

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