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How do the political constraints of the host country affect the choice of a new geographical market in the construction sector?

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Abstract

MNEs, before taking a decision to internationalize, should analyze the macro environment factors affecting a foreign market, which avoids/decreases uncertainty. Hence, understanding the political constraints when choosing the geographical market is imperative. This is true, especially for the construction industry because it is a regulated industry, which means that companies need to have a permit from the government in order to operate in this industry. Furthermore, companies working in the heavy construction industry have the government as their main client because most of the projects are public. In order to understand the political factors affecting the choice of a new geographical market we did participant observation and conduct four interviews to the managers of a Portuguese scaffolder services provider company. Our findings suggest that the relationships between companies and governments are particularly important in countries characterized by political instability. In countries with high policy discretion, in which the ruling body can change the law suddenly according to their preferences, it is essential to establish close ties with the government. If the company is able to establish stronger ties, it has competitive advantage, if not, managers are risk averse and tend to not invest in that country. Companies that invest in a foreign country, without that capability, may fail due to the institutional distance and the lack of managerial training. Furthermore, the stability of the country influences the commitment and confidence of a firm in that market.

Resumo

Previamente à decisão de internacionalização, as empresas multinacionais devem analisar os fatores macroeconómicos dos potenciais mercados, de modo a prevenir/reduzir a incerteza. Perceber as restrições de índole política na escolha de um mercado geográfico é imperativo. Isto é especialmente verdade para empresas de construção: por ser uma indústria regulada, uma vez que é necessário um alvará atribuído pelo Governo para que uma empresa esteja apta a operar nesse sector; e porque, se forem empresas que trabalhem em projetos de grande especialidade e dimensão, terem o Estado como o seu principal cliente, pois a maioria destes projetos são obras públicas. De modo a compreender os fatores políticos que afetam a escolha de um novo mercado geográfico, fizemos uma observação qualitativa e realizámos quatro entrevistas a gestores de uma empresa portuguesa que fornece e instala andaimes. Os resultados obtidos sugerem que a relação entre empresas e governos é particularmente importante em países caracterizados por instabilidade política. Em países em que os governantes detêm o poder de alterar leis repentinamente de acordo com as suas conveniências, é essencial estabelecer relações próximas com o Poder. A capacidade de estabelecer esses laços fortes confere vantagem competitiva à empresa. Caso contrário, os gestores são adversos ao risco e tendem a não investir nesses mercados. Empresas que investem num país estrangeiro, sem essa capacidade, podem vir a fracassar por não estabelecer laços de proximidade institucional e por falta de experiência dos gestores. A estabilidade de um país influencia o empenho e a confiança da empresa nesse mercado.

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1) Introduction

One of the main worries of a company when they are crafting a plan to internationalize, is to gather as much information as possible regarding host countries. In this way, companies will be better prepared to face a completely new environment for them. Hence, understanding the institutional environment of a country, specially recognizing the singularities each country has, is extremely important for a company to have long-term success in a foreign country (North, 1990). This helps managers to improve, not only, their decision-making and their choices, but also, to decrease the risk involved with the choice. Risk is present in most firm's long-term decisions (Baird and Thomas, 1985). Therefore, considering the institutional environment of a country decreases the uncertainty, making it easier for managers to take the best option.

For this reason, firms need to be aware of the political constraints affecting a host country in order to make a better decision regarding investing or not in a country. Besides taking into account market factors, MNEs need to consider political factors (Hillman and Hitt, 1999). It gives managers a better understanding of the institutional environment and the risks involving the investment decision.

This is important, especially, for the construction sector which is a regulated sector, meaning, the government is the one responsible for attributing a license to operate in this market, facilitating the entry or giving better conditions to firms that are linked with the state. Furthermore, usually, firms have in the government their best client. Most of the companies operating in the heavy construction industry rely on public works to keep in the business. Constructions such as bridges, roads, airports among others are all ordered by the government. Consequently, it is a sector that requires close ties with the government or public entities.

Although there are several studies regarding the political constraints affecting a country (Boubakri et al., 2013; Darendeli and Hill, 2016; Rivoli and Salorio, 1996), there are few applying those findings to the choice of a new market (García-Canal and Guillén, 2008). Therefore, the goal of this thesis is to understand the impact of political constraints in the choice of a new market. It will help managers to be better prepared when choosing a new market and also recognizing potential mistakes they have done in the past. It will give them more experience/knowledge to detect those mistakes and avoid them in the future.

To answer the research question we have used a qualitative method, and more specifically, a case study. The case study is about a scaffolder services provider with more than 50 years of existence. This company operates in the construction sector and after some restructurings it

started its internationalization process in 2011. Within that company we compare two cases of internationalization: Angola and Saudi Arabia. The first, because the company, after understanding the risks involved, decided not to invest. On the other hand, in Saudi Arabia, despite the risks involved, the company decided to invest. In the case of Saudi Arabia we describe what went wrong with their decision.

Due to a confidentiality agreement the name of the firm cannot be revealed. However, this company seemed to be an appropriate choice for two main reasons, it has recently internationalized and it works in the construction industry. Regarding the first reason, the company have internationalized to Colombia, Saudi Arabia, Angola and France. Since this happened recently, managers have still present in their memories all the political constraints and challenges they have encountered in this process. Moreover, the political situation of the countries analysed have not changed significantly, thus the political constraints enumerated are still present. Concerning the second reason, as it is a company that works in the construction industry, it is desired for them to establish close ties with the local government, and hence it is easier to understand the main political constraints it has to face when entering a foreign market.

The structure of the thesis is the following. In the first section, we provide an overview of the literature regarding internationalization, the choice of a new market, political constraints affecting that choice and an overview of the construction industry. The political constraints section is divided in six sub-sections: 1-Formal and informal institutions; 2-Political instability; 3-Political connections; 4-Influence that governments have on companies; 5-Effects institutional distance; 6-Effects of experience in the decision-making process. In the second section, we describe the methodology used to collect and analyse the data. The third section provides the case study. The case study comprises the description of the firm, an overview of the history of the company and their internationalization process. After that comes the findings section, where we make a link between the research and the case study. It is explained how political constraints affected the choice of a new market. Furthermore, how the political instability of Angola, was a decisive factor not to invest in this country, and what lead to the failure in Saudi Arabia due to all the political uncertainty involving that country. Lastly, we present our conclusions.

2) Literature Review

This section starts with insights from the internationalization literature concerning the process of internationalization of a company, taking into consideration the political risk literature. After that, it is described the process of market entry and market choice in countries where political instability is present. Then it is explained how political constraints can affect a company's decision. Finally, there is a brief explanation of how the construction industry works and its closeness to governments.

2.1) Approach model to internationalization

Internationalization brings several benefits for companies such as, spreading fixed costs, achieving economies of scale, among others (Kobrin, 1991). The rise of globalization and the liberalization of the market makes it easier for companies to discover opportunities. However, countries still have differences between each other (Hillman and Keim, 2008), so companies need to take that detail into consideration when crafting an internationalization strategy.

One way to analyse the process of internationalization of a company is the Uppsala model. The main assumption of this model is the fact that companies have lack of knowledge of foreign markets (Johanson and Vahlne 2009). When the company decides to expand internationally, usually, it has little or no experiential knowledge. This is seen as the main obstacle of the internationalization process. In the beginning of this process, companies slowly enter in new markets by making small investments. They are not prepared yet, to make large investments and increase their commitment to the market. This slowly progress helps firms overcome the liability of foreignness (LOF), which is "*the costs of doing business abroad that result in a competitive disadvantage for an MNE subunit*" (Zaheer, 1995:342). Liability of foreignness happens when multinational corporations (MNCs) face political and institutional differences while operating in an overseas market (Sojli and Tham, 2017).

However, García- Canal and Guillén (2008) explain that in some industries, companies need to go faster and create a stronger impact in the country, in order to gain legitimacy more rapidly. In this way the firm will be able to show higher commitment to the host market, meaning, spending more money in acquiring resources in that location. According to them, this approach increases the risk of internationalization and it is, normally, done in regulated industries due to restrictions that the government sets up, as the licenses. Frequently, the government has their share in some companies of those industries.

These options differ in their commitment to the market. According to Johanson & Vahlne (2009), market commitment is the extent to which a firm is entrenched in a market. They mention two dimensions: the quantity of resources affected and the irreversibility of those resources. If there are plenty of resources allocated to a market it shows that the firms' commitment is high on that market, it is highly invested in that market. The opposite verifies as well, if the firm as low investment in a market it shows that they have little commitment. Regarding the irreversibility of those resources, it depends on how easy it is to liquidate them, meaning, reverse them if there is a drastic environment change. As example, a plant is harder to liquidate than a car. If there is a change in the environment and the company needs to divest, it is easier to let go or transfer the car than to find a solution to divest in the plant, the fixed costs are high. By this analysis, one can understand that if a firm has more irreversible resources its commitment is higher than the opposite, the roots are bigger.

2.2) Evaluation of a new market and political factors affecting its choice

Baird and Thomas (1985), stated that there is one word that goes along with almost every decision-making process of a manager/company: risk. Therefore, when a company decides to internationalize it is increasing the uncertainty of its business due to the lack of knowledge on the host country and the costs involved with the complexity of the operation. When analysing the host market, the company needs to study the external factors, such as political, legal, social and economic factors. Those are not in the control of the managers neither of the organization (Boubakri et al., 2013). That analysis gives managers a better understanding of the opportunities and threats of a market. Understanding them provides the firm with the ability to craft a decent and thoughtful strategy for the moment and future of the company (Hillman and Keim, 2008). Within those external factors lie political institutions and the political environment. Managers need to understand how government decisions (legislative and executive) may affect their business (Hillman and Keim, 2008).

In some countries, the entry is either, blocked or constrained by the government, especially in industries where governments own significant part of the firms (García Canal and Guillén, 2008). This is one of the reasons that make firms invest less in countries where political risk is higher (Delios and Henisz, 2003). Companies want to mitigate the risk by choosing countries that are politically stable and avoid the political instability (Henisz and Zelner, 2005). Previous studies suggest MNEs to not enter political unstable countries (Meyer et al., 2009; Rodriguez et al., 2005). As MNEs expansion increase, the aversion to risk increases. Companies become

more experienced, having the capacity to avoid potentially risky countries, where policy risk is high (García Canal and Guillén, 2008).

Based on the political dimension, each market has different constraints. Every country will be affected by different factors such as political stability, norms, laws, practices, economic situational, among others. Due to the several factors influencing the political dimension of a country and their singularities, firms need to follow a multidomestic strategy, meaning, it needs to adapt their practices and rules to the country's practices and rules, having higher local awareness. Companies that follow a multidomestic strategy craft a different strategy for each country, it is a one-country-at-a-time approach (García Canal and Guillén, 2008), engaging in limited cross-border coordination (Bonardi, 2004).

Formulate strategies taking into consideration political factors will give the company an opportunity to achieve superior performance (Hillman and Hitt, 1999; Bonardi et al., 2005). It is important to be aware of the degree of government intervention and policy risk affecting the host country (Gárcia-Canal and Guillén, 2008). Furthermore, having experience in recognizing, not only, the patterns of international expansion in a given industry, but also, the exposure to regulatory risk in different countries will reduce the company's uncertainty and risk (Bonardi 2004).

The following sub-sections will address the different political constraints that might affect the choice of a host market. Firstly, companies need to have an understanding of what are the key formal and informal institutions in a country, which organizations have an important role on the decision-making process (Keim and Hillman, 2008) Furthermore it is explained the influence of institutional distance and institutional profiles (Hoorn and Maseland, 2016). Besides that, it is vital to analyse the political stability of a country and how can it affect businesses (García-Canal and Guillén, 2008). Thirdly, countries characterized by weak political systems tend to have government connections inside firms. Understanding their importance and how they can affect the decision-making process of a foreign firm is essential to have a good political strategy (Sojli and Tham, 2017). Then firms need to be aware of how governments can have control over them and when do governments use their bargaining power to exert that control (Stulz, 2005). Lastly, it is detailed how market knowledge and experience of managers and firms can have an influence in their success (Stikin and Pablo, 1992). A company that fully understands these factors is able to craft a good political strategy and have competitive advantage in that foreign country (Sojli and Tham, 2017).

2.2.1) Formal and informal institutions

"*Institutions are humanly-created constraints that limit choices and shape the incentives of a society*" (Keim and Hillman 2008:48) and, as every organization, they are dynamic and they interact with others which makes them evolve and change over time (North, 2001).

North (2001) makes a distinction between two kinds of institutions: formal and informal. Formal institutions are laws, regulations, constitutions and contracts, these are explicit and easy to observe. He states that "*a system of effective formal institutions reduces uncertainty*". Whereas informal institutions include social norms, mental models and codes of conduct of a society. Most of the times informal institutions are harder to grasp, especially if the company/manager does not have experiential knowledge. The manager with more experiential knowledge is able to perceive mental modes and social norms of a country easier. These norms became easier to grasp, to understand. While formal institutions, in less developed countries where there is political instability, might change easily, informal institutions are harder to change. It takes more time. Doing a parallel with an iceberg, the formal institutions are the part of the iceberg that is above the surface, consequently, easy to study them. Whereas the informal institutions are below the surface, so as managers get more experience in that country, they are more capable of understanding informal institutions.

In order to fully understand the external environment it is important to understand both, informal and formal institutions (Darendeli and Hill, 2016). Most of the managers care about understanding formal institutions, "*the rules of the game*", and neglect the informal institutions, this is a vital mistake (Hillman and Keim, 2008). It is important for managers to identify what are the behaviours expected by decision-makers in executive branches of the government (Hillman and Keim, 1995).

To have a better understanding of the environment surrounding the organization it is vital to distinguish which are the most important institutions of a country and how can those affect the political environment around them (North, 2001). These key institutions will influence the strategy of the company and how the business will be operated. Firms that are politically connected have the goal to change and/or shape these formal institutions to their interests. If they recognize that a policy change could lead to an increase in productivity and profit, politically connected firms will try to influence the government to change policies and, consequently, take advantage of that resource (Hillman and Keim, 2008).

In previous studies, Hillman and Keim (2008), argue that in weak political environments, governments have the capacity to change rules and public policies in a far less explicit and transparent way. These actions are most of the time unpredictable and can happen overnight, influencing directly a company's business. Firms that are not prepared for these changes can lose their competitive advantage easily. They give the example of nationalization. This action would prevent further investments, in that country because, other companies that could be probably planning about investing there, would change their mind. The risk of expropriation would be present in their minds (Hillman and Keim, 2008). Firms have two options: adapt to the countries policies or do not invest in that country (Khanna et al., 2005).

In order to adapt and tackle those risks companies can adopt three different reactions: 1- passive reaction; 2-positive anticipation; 3-proactive public policy shaping (Weidenbaum, 1980). When managers react to legislation and rules only after they came out, they are having a passive reaction. They are reacting to new changes, adjusting and adapting to the new environment. Managers can be more active and anticipate what can or will the government change by crafting strategies that could prepare the companies to new laws or rules. In this situation managers are having a positive anticipation reaction. Lastly, managers can have a proactive public policy shaping reaction. Here managers and firms try to be involved in the decision-making process of the government. This involvement will give them the ability to shape legislations and rules according to their preferences (Boddewyn and Brewer, 1994; Oliver and Holzinger, 2008). Usually the companies that are able to do that are politically connected firms.

Firms should be prepared with a good political strategy and they should act according to their interests, taking, also, into consideration the moves of the competitors. Whoever moves better wins the political arena and has competitive advantage (Keim and Hillman, 2008).

2.2.1.1) Effects of institutional distance

Institutional profile is "*the institutional environment of a home or host country*" (Hoorn and Maseland, 2016:374). Companies face threats and challenges that arise from the institutional environment of a country. For this reason, it matters to study the country's institutional profile (Meyer et al., 2009; Wan, 2005). For companies that are looking for internationalization, it is imperative to study the institutional distance between the home and the host country. Institutional distance is the difference between the institutional environments of two or more different countries where the MNE has operations (Guemawat, 2001; Xu and Shenkar, 2002; Zaheer et al., 2012). MNEs have business in different institutional environments which can create difficulties for transferring knowledge and practice between subsidiaries (Zaheer, 1995).

These challenges are greater or more difficult to handle if the institutional distance between both countries is higher (Xu and Shenkar, 2002).

Studying the effects of institutional distance is seen as useless in countries of weak political systems where corruption prevails. In this scenario, companies may fail due to the lack of political strategies, and not due to the lack of knowledge about local environments or the lack of managerial training (Hoorn and Maseland, 2016).

2.2.2) Political instability

In this sub-section it is going to be explained which are the factors and the risks affecting the political stability of a country. The importance of political institutions, the levels of corruption, the legitimacy the firm gains in a host market and the level of policy discretion are all influencing the stability of a country and they are vital for this study. Besides the factors already mentioned there are risks the MNEs face when they internationalize as the risk of expropriation and the risk of repudiation contracts.

Political institutions, such as governments and other public entities, of a country are a decisive factor when considering the political stability of a country (Rajan and Zingales, 2003). Political instability refers to "*the likelihood that the government might change the rules of the game in a way that adversely affects the interests of the foreign entrant*" (García-Canal and Guillén, 2008:1100). Companies prefer governments that are not unpredictable and change laws suddenly (Murtha and Lenway, 1994). Countries where corruption and political extraction prevails, are countries where the impact of political institutions will be greater, which will affect negatively corporate risk-taking. Previous studies have shown that managers in countries with these characteristics become more risk averse (Stulz 2005). Furthermore, it is extremely difficult for foreign firms to be perceived as legitimate in countries characterized by volatile politics and conflicts (Fitzpatrick, 1983; Getz and Oetzel, 2009; Khanna and Palepu, 2000).

Policy discretion affects the political stability of a country. Countries where policy discretion is high are the ones where the executive branch of the government, meaning, the one responsible to apply and execute laws, is not constraint in the decision making by other branches (Henisz, 2003; Henisz and Zelner, 2005). Countries characterized by high policy discretion are countries where political risk is harder to assess due to the unpredictability of changes, corruption prevails which ends up affecting policy implementation (Khanna and Palepu, 2000). Changes can happen overnight, without any previous explanation, making it

harder to predict, so MNEs find it difficult to understand what the actual political risk is (Luo, 2006).

García-Canal and Guillén (2008), explain that firms that are prepared to make huge investments and have valuable resources prefer high policy discretion when entering that country. This happens because companies are able to exploit the opportunities, making strong connections with the government in place, giving them competitive advantage by obtaining preferential treatment. These authors show after being established in the market the same companies prefer low policy discretion because they no longer want rules and regulations to change easily. Companies are already used to local practices, so a government able to change rules without major constraints brings more risk to the industry.

Governments are able to affect prices or expropriate the assets of the firm. For these reasons, firms prefer countries where governments are not able to change the rules and practices of a country easily (García-Canal and Guillén, 2008). Institutionally constrained countries are more stable and, as a consequence, more credible to receive foreign direct investment (FDI) (Murtha and Lenway, 1994; Henisz and Zelner, 2005).The stability of the country influences the confidence and the commitment of a firm in that country (García-Canal and Guillén, 2008).

Besides the risk of expropriation, there is the risk of repudiation of contracts, which means that "*private actors cannot count on the government to respect the contracts it has with them, they will also not be able to count on the government enforcing contracts between two private parties*" (Boubakri et al., 2013:198).

Under weak political institutions, where the government extraction is high, firms will prefer to retain their assets so the investment stays at firm level, in order not to increase the risk of losing those assets, the propensity to take risks is affected negatively (Stulz, 2005).

A company that fully comprehends political policies and their impact on firms has more probability of long-term success in a foreign country (Henisz and Zelner, 2005; Oliver, 1991).

2.2.3) Political connections

"*Political connectedness is a concept that describes, if and to what extent a firm is affiliated to politicians*" (Sojli and Tham, 2017:248). The literature defines two types of political connections: explicit direct and indirect. An explicit direct politically connected firm is linked to the government by having a Politician in the management team or in the board of the company, or by having a corporate insider in the government (Boubakri et al., 2012). Whereas

indirect political connections happens through lobbying expenditures or campaign contributors (Stratmann and Kroszner, 1998).

A firm that has strategic political management has competitive advantage and an increased performance (Sojli and Tham, 2017). Previous studies show that politically connected firms have higher leverage, stronger market power and lower tax rates, than firms that are not politically connected (Faccio, 2006), being more likely to be rescued by the government in events of distress (Faccio et al., 2006). These types of MNEs benefit by having economic favours (Fisman, 2001; Johnson and Mitton, 2003). Under authoritarian governments, politically connected firms tend to have higher stock returns and cash flows compared to associations with democratic governments (Belo et al., 2013). Politically connected firms have a higher propensity to take risk, making the earnings volatility higher (Boubakri et al., 2013), this is due to the help of the government that gives them access to resources, access to information and political favours (Frynas et al., 2006; Peng and Luo, 2000; Peng et al., 2008). Other studies show that firms that have the ability of developing close political ties with governments have better chances of survival in political risky countries (Cuervo-Cazurra, 2006; Sun et al., 2010; Zhu and Chung, 2014). Besides this, in addition to managerial and organizational training of overseas managers (Zaheer, 1995), being connected to the power structure of the government lowers the liability of foreignness (Johanson and Vahlne, 2009).

On the other hand, politically connected firms show, usually, lower earnings quality, coming from external factors (Channey et al., 2011; Faccio et al., 2006). Additionally, political connectedness can also bring negative consequences to the company due to the agency problems, having a bad allocation of investments (Sojli and Tham, 2017).

In the construction industry, companies need to establish close ties with the government in place in order to secure contracts. Exemplifying, Libyan companies needed to have close relationships with the Qadhafi regime (Darandeli and Hill, 2016).

Firms tend to associate with the leading government of a country. When this government loses power or acceptance by their people, the firm will suffer. The relationship in place affects their business, in this case, negatively (Leuz and Oberholzer-Gee, 2006). Deep and close bonds with the leading regime can turn out to be a liability when political scenery alternates suddenly (Jiang and Cui, 2012; Siegel, 2007). This deep connections can make companies dependent on the government which increases their bargaining power (Sun et al., 2006; Kivleniece and Quelin, 2012) .This effect, of being a liability, is enhanced if the ruling party is an authoritarian

one and, as a consequence, firms' credibility is based on the credibility of the government. In this scenario, companies will face risk of guilt by association (Bucheli and Kim, 2012), their legitimacy will decrease (Siegel, 2007). Especially, if the new leading regime reacts against MNEs allies of the previous government (Leuz and Oberholzer-Gee, 2006). All the benefits that MNEs were enjoying are loss overnight (Johnson and Mitton, 2003).

Associations with the government are not enough to establish long-term success, MNEs need to create bonds with social-sector actors because those are the ones that can support foreign firms if the government starts to fall. These links will secure MNEs against political risk (Darandeli and Hill, 2016).

In general, the literature suggests that direct political connections are good while it is still unclear the effect of indirect political connections (Sojli and Tham, 2017).

2.2.4) Impact of government policies

Stulz (2005), in his "*twin agency model*" explains the link between risk expropriation, managerial diversion and decision-making. Stulz states that the environment is affected by the decision of governments, it can be through solicitation of bribes, over-regulation and expropriation of the company's' assets, among other actions. When these risks are dominant in a country, managers are risk averse. Rules can change frequently and easily. Other studies reinforce that when the intervention of the state is high, it will affect the managerial risk-taking behaviour, having lower propensity to take risks (John et al., 2008).

However, under authoritarian governments, ownership control is higher. Governments will force managers to take projects with higher risks so managers will be pressured to take those risks. Furthermore, other formal institutions, such as labour unions have less influence on the decision-making process of the managers (Pagano and Volpin, 2005).

The relationship between government and firms is a bargaining process where both sides will strive for their interests. Usually, governments have more bargaining power, using actions as the threat of expropriation, the threat of repudiating contracts, among others, that will give the government the assurance that firms will look out for governments' interests and goals (Henisz and Zelner, 2005; Makhija, 1993).

There are several studies stating that government ownership is bad for the firm value due to this incongruence of objectives (Megginson and Netter, 2001; Dewenter and Malatesta, 2001).

Yet, other studies show that this effect is unclear, because, as explained above, it can benefit the company (Sojli and Tham, 2017).

2.2.5) Relevance of experience in the decision-making process

Johanson and Vahlne (1977) state that market knowledge is what firms know about a specific market or a business. It consists of two types of knowledge: objective and experiential. The first refers to the knowledge that is explicit and can be transferred. This type can be learned without being present in a foreign market. Nowadays, with the increase of technologies, it is easier to access to information so firms gather more objective knowledge before going to a foreign market than in the past. Experiential knowledge is the one that is learned by experience, by trial and error, only the presence in a specific market through networks gives the possibility to learn. According to the Uppsala model, when a firm acquires more experiential knowledge, the uncertainty of that market reduces significantly and the firm is able to invest more, adjusting their political strategies as they acquire more experience. So past experiences will shape the way companies operate in the future, changing also their attitudes towards risk taking (Stikin and Pablo, 1992).

As companies gain international experience and start analysing their performances in each country, taking into consideration the political instability of the country, they gain experiential knowledge and reduce the liability of foreignness (Sojli and Tham, 2017). Some companies become more risk averse as they gain more experience, avoiding politically unstable countries. The attractiveness of a country with discretionary government reduces after entry. On the other hand, there are some companies that have strong political capabilities, knowing how to deal with governments, it is no longer a barrier to entry (Henisz, 2003). In this case, the phenomenon is different. Companies will want to invest in countries that have political risk (Click, 2005). These companies have a competitive advantage, giving them the ability to exploit the opportunity of having political connections and benefit from those. In both cases, companies adapt their strategies according to their past experiences because each experience, positive or negative, is a learning for future entries.

However companies that use multidomestic strategies need to be aware that each country has its own singularities, so the strategy needs to be different for each country. Experiential Knowledge and strong political capabilities will be good for the company but they can be country specific, or government specific (García-Canal and Guillén, 2008). Firms cannot simply transfer practices and learning without adjustments. They need to keep adapting to each host country.

2.4) Construction industry

The construction sector is vital for a country to develop. Does not matter if the country is developed or developing. Either one, it requires a good construction sector in order to sustainably develop the country.

According to the standard industrial classification, the construction industry comprises new work, restorations, alterations and temporary infrastructures. Within this industry there are two clear divisions: building construction industry and heavy construction industry. The first refers to all minor constructions such as private and public buildings, farms, among others with similar characteristics. On the other hand, heavy construction industry refers to all the major constructions such as highways, bridges, stadiums, airports, among others.

It is important to study the impact of political constraints in the construction sector for five different yet complementary reasons: 1- It is a regulated activity; 2- It works as a licensor, meaning, in order for a company to operate it needs the approval of the state; 3- It inspects the work of the companies, having clear authority to penalize them with sanctions if needed; 4- It constrains the participation of firms from bidding to public projects if they own to the state; 5- Usually, public works are the biggest amount of revenue for construction companies. The government is the biggest client.

A good example of the importance of the political environment in the construction industry, is the new wall of Trump where the major construction companies are backing away due to fear of political backlash and losing their credibility or legitimacy in other countries that do not agree with the wall.

However, based on these reasons, companies that have extremely good connections with the government have competitive advantage, especially in countries where policy discretion is high or authoritarian countries, basically, countries where government has higher power.

3) Methodology

3.1) Research design

Qualitative research can bring new insights to literature, either through analyzing previous work and extend that research or discover new contexts, buiding new theory (Bettis et al., 2015). We have used it because, although there are several papers describing the political constraints companies have in foreign countries, there are insufficient literature analysing it in a strategic way and how those factors can have an influence in the decision of managers to enter, or not, in the market. Hence, we take prior research and apply it to a scaffolding company we chose within the construction industry. We chose a deductive approach in order to gather general theory about political risk and test it on the particular case of the company we chose.

Due to a confidentiality agreement we cannot disclose the name of the company, we can just say that it is a scaffolder services provider inserted in the construction industry. The company was chosen for three main reasons. Firstly, because of its large experience in the construction sector in Portugal, being one of the oldest companies still active. Furthermore, it had internationalized recently. Therefore we could take a closer look to how the internationalization process and decision developed. Thirdly, it invested in countries that were politically unstable. These three reasons made it a perfect choice to analyse the political constraints affecting market choice in the construction sector.

In this thesis, there is only one company analysed. However, within that company we analysed two different internationalization processes. At first, a host country where the company, after analysing the political constraints decided not to invest, and secondly, a host country where, despite the political constraints, the company decided to invest in. Moreover, we analysed what were the consequences of this investment and what was the final decision after that experience. Always combining, previous literature with a pratical case, and comparing both cases. By using two different cases, we can validate some of the previous research, and also, based on previous research, comprehend and analyse the managers decisions.

3.2) Data collection

In the data collection process, primary and secondary data was useed: as primary data we did participant observation. By working in the analysed company we were able to better understand the motives behind each internationalization process and we talked informally with the ones responsible for that. Besides this, we did four interviews , one to the previous CFO of the company, the one responsible for the internationalization decisions and three to current

managers. The interviews were important because they gave insights regarding the history of the company, the current and previous situation of the analysed countries and how experience plays a big role in their decisions. The interviews were done in a semi-structured format. This choice allowed the intervieews to speak freely and develop their ideas. Consequently, it was easier to fully understand what their opinions were and how the strategy was crafted. We audio-recorded every interview, with the interviewees permission, in order to, afterwards, better analyse the information. It also gave me the possibility to reflect on the interview and link it with previous research. As secondary data we collected archival data in order to have an overview of the company. We have collected information from the annual report from 2013, 2014 and 2015.

Table 1 Data Sources

Data Sources and Use		
Data Source	**Type of Data**	**Use in the analysis**
Archival Data	Company related documents: Annual report of: 2013, 2014 and 2015	Overview of the company
Interviews	Semi-structured interviews with: the previous CFO of the company and three with current managers	History of the company and decision-making process. Explaining of the company's strategy of internationalization

3.3) Data analysis

The case study was wrote with the objective of having a better understanding of the history of the company and how the company have developed over the last fifty years. After this history, it is described all the process of internationalization and what was the reasoning behind each strategic choice. In order to have a clear overview of how the company grew we did a timeline, seen in appendix 8.1, using Microsoft Office software, using the information gathered in the interviews and archival data.

We used the Literature Review as basis to code key concepts that supported us in preparing, conducting and analysing the interviews. We have used coding to our interviews in order to make, not only, better links between what the interviewees said and what was important to our

research, but also, better links between each interview. Coding helped us establishing patterns and key messages that each interviewee stressed. Each interview was recorded, then we listened once and made notes, after we listened it again and defined the major key words/topics of each interview. To finalize coding, we eliminated and/or combined topics that were similar to each other, the ones obtained in the Literature Review and in the interviews. On appendix 8.2, it can be found the final result of the coding process. Exemplifying with the key word: risk expropriation. Every manager stated it as a problem affecting Angola and, as the main reason to avoid investing in that country. After coding it was easier to interpret the relationship between political uncertainty and risk of expropriation. Most of the interviewees connected both words, being high risk of expropriation a reason why there is political uncertainty in a country.

4) Case study

4.1) Description of the company

The company analysed is a Portuguese scaffolder services provider with more than 50 years of existence. Its' headquarters are located in undisclosed location, near Lisbon.

The activities of the firm consist in providing scaffolding services including engineering, the erection, dismantling and rental of scaffolding structures. Scaffolding equipment accounts for 95% of the company's tangible assets. They are focused on the heavy construction industry, meaning, projects with larger dimensions. Good examples are: large Portuguese refinery, a power plant in Martinique, a cross country bridge and an airport in Mozambique.

By the end of 2015, the company had a turnover of 24.307.113€. The Colombian market was the one that contributed the most to this result with a turnover of slightly over 12M, meaning, that the Colombian market represented 50% of the businesses of the group. Regarding the costs for the company, the account that had higher weight on the costs of the company was the direct labour costs. Due to the nature of the business, most of the costs came from their workers, in every project the company needs to hire people, even if it is temporary workers. The distribution of the revenue across the different regions can be seen in appendix 8.4 and 8.5.

Its' customer base comprises construction companies and contractors, power utilities and oil refineries, pulp and paper mills and a diversified group of services providers to industry.

4.2) History

In the 80's the firm established itself as one of the biggest Portuguese firms in the sector. The company was following the evolution of the country. In 1986, Portugal joins the EEC (European Economic Community). This event brought investment to Portugal especially to the industry which affected positively the company. There was an evolution of technologies. The industry followed this evolution and there was a modernization of the equipment used, giving the companies the ability to become more efficient and, consequently, more productive. The levels of production and speed increased. Consequently, the safety requirements also increased. There was a significant investment made by the company in order to follow the modernization of the equipment.

The company was growing at a constant rate and decided to diversify to new markets. It created a holding company which facilitated the offering of new services along with the primary business (Scaffolding), a diversification of products and services took place. Managers realized

that they could offer different services that would complement their core business. At this stage there was a specific sub-business that was booming, the trading. An English engineer did the procurement all over the World, buying the cheapest product available and selling it afterwards. The company was able to have revenues of 60 Million euros, where half of it was just with trading. Following the same reasoning as explained before, another sub-business that emerged and become important for the company was the services area. Other companies were created in other areas in order to give complement the services provided to clients.

There were three main problems affecting the company after having increased its dimension. Firstly, the company grew incredibly fast and did not have the resources and capabilities to support this new reality. Furthermore, it was done when the company had high levels of debt and low levels of equity, so uncertainty and risk were high. The second problem was the lack of capabilities. The firm employed people specialized in these new areas but they did not correspond to the initial expectations. Exemplifying with the flooring business. This was a completely new service offered that would complement the core business. However, there is a major difference between these two businesses that was vital for the failure of the flooring business. Scaffolding is a temporary structure service, the scaffold is used during the project and then it is moved to a different project, there are no defaults. Whereas flooring is stable. Once it is built it needs maintenance and errors are not allowed. If a scaffold does not work accordingly, it is substituted, by another, easily. A flooring problem is not fixed easily, it is more time and resource consuming. If the company does not have the capabilities or the resources to do a good job, without defaults, there will always be a problem. The company is responsible for the failures, giving guarantees that the work will be done. So, operations that, initially, were profitable for the company became a problem, due to the number of complaints. According to the former CFO, there were lack of capabilities in those areas. Thirdly, in the beginning of the 90's, there was another external shock. The excitement brought by the EEC and all the investments made during that period starts to slow down. There is a divestment in the industry which affected the core business of the firm, the market started to decline slowly. The company faced some rough years.

In 2006, the restructuring of the company started. All the businesses that were not the core of the company were discontinued or sold. For example, the trading business was sold to a German company. The money generated from this divestment was decisive to tackle three main problems. Firstly, it helped reducing the debt. Secondly, the company laid off employees.

Finally, the money was used to restructure the company and strengthen the core capabilities of the firm.

This process of restructuring took two years and was followed by three positive years of the firm. Already focused on the core business, which is, the assembling and renting of scaffolders. Another important movement was to leave the building construction industry and focus, purely, on the heavy construction industry with projects such as bridges, dams, airports, stadiums, among others. This was a result of the environment surrounding both sectors. The company did not have the capabilities to focus on those projects but since the capabilities required were similar to the former and the company had a good dimension, it learned rapidly and was able to adapt quickly. The sector with small projects was declining and the competition was fierce, while the heavy industry sector was growing. This type of projects were more demanding and the safety requirements were higher. In order for a company to be focus on this segment of the market it needed to make high investments. Fixed costs are higher, consequently, there are fewer competitors.

This shift of segments was only successful because the company had the ability to adapt their capabilities to the new reality and, since it was one of the biggest companies nationally, it had the resources to adapt and keep being competitive. "*It was also a defensive strategy of using capabilities in areas where these capabilities are better rewarded*" (the former CFO).

After having successfully restructured of the company, an exogenous shock affected Portugal. The state announced bankruptcy, in 2011, and cut all the investment in the industry market. Everything started to change. Suddenly, the company, which had great projects and good future perspectives, had a dark future ahead. Many of the company's clients went bankrupt in this period. In 2011, they were still in good shape because they had projects going on. The problem was the fact that the company was not signing new projects, and the existing ones were finishing. The company was facing severe challenges.

By the end of 2011, the company realized that a shift in their strategy was needed due to the lack of demand in Portugal. It was also required a downsizing for the firm to tackle the dramatic external shock. However regulations were tighter than before and to fire employees was more costly for the company. The only option the firm had was to diversify to different markets. Internationalization was a reactive strategy, under pressure and under a climate of uncertainty.

4.3) Internationalization process

When planning the internationalization process there were three main targets: Africa, South America and Middle East. In Africa, their targets were Angola and Mozambique, in South America the target was Colombia and in Middle East they went to Saudi Arabia.

Starting with Angola, it is one of the major Africa's oil producer. It was declared independent in 1975, but since then, there was a climate of civil war disturbing the country until 2002. José Eduardo dos Santos is the current president of Angola. Currently, the president has control over all the political decisions and all the media. He is accused by some Angolans who argue that the president has too much power and is too autocratic.

Angola is a high protectionist and nationalist country. "*If I am in a country where the courts do not conceive my rights, I am lost. I can be robbed or companies would not pay me*." This political and legal uncertainty and risk were determinant for their decision to not invest in this country. Especially, having difficult conditions already in the home market. Although the difficulties were different, this investment, if made, was going to bring even more instability and risk to the company. The risk of expropriation was high.

In comparison to Angola, Mozambique is a more welcoming country, although it is economically poorer than Angola, it is an emerging country that is more stable and the environment is less uncertain and risky than Angola. Meanwhile, there was a discovery of natural gas in Mozambique and it is expected that when the investments for the exploration of natural gas start, there will be plenty of opportunities for them. Another positive aspect influencing this decision is the cost of direct labour, which in Mozambique is relatively small. This cost is really because of the nature of the business.

Regarding South America, Brazil was considered as the first option due to the language proximity and the relationship between both countries. However, the former CFO had a past experience working in Brazil and he has opposed to this investment. He justified by saying that, "*although Brazil is a country that has language proximity and the economy is growing steadily in the past years, it is a protectionist country. It suffer the same type of dictatorship as Portugal with strict regulations, however the entrance of Portugal in EEC led to an open economy while in Brazil that did not happen, it still has the same laws practiced in the 60's and 70's. So I said no, because the result would be bad for the firm*". Most of the companies operating in the same industry as the company that invested in Brazil have gone bankrupt a few

years later which shows that it was a good option not to invest in that country. The experience of that manager in Brazil was decisive for to avoid future losses for the firm.

Then the decision was between Peru and Colombia. Two emerging countries with opportunities and openness to investment. However Peru had some Spanish players already well established in the market so the competition was higher than in Colombia. Mainly for this reason, the company ended up deciding to invest in Colombia. Being less developed than Peru was also a good opportunity for the firm, because it means that the country requires more construction, resulting in more work available. Again, the investment came as a result of the macro environment. Colombia is a country that supports FDI and has many opportunities for companies such as the one analysed.

Regarding Saudi Arabia, it is also a large oil producer, having 25% of oil production in their deserts. It is ruled by King Salman bin Abdulaziz al-Saud since 2015, after his brother King Abdullah death. This dynasty has started in 1932. The government also controls all political decisions and media.

The Middle East market came as a possibility because the shareholders of the firm thought it was a market with tremendous potential. This was the only market where they would enter with a partner. It has several refineries, especially in Saudi Arabia. They did a joint venture (50/50) with a company that was one of the biggest in that country.

Summarizing, the analysed company realized that they needed to go overseas in order to survive. The Portuguese market was shrinking, the margins were getting lower and the only solution was to internationalize, taking advantage of the long years of experience in the construction industry and take the scaffolding business to other places of the world. Due to all the challenges the company was facing internally, the future of the company was already a huge uncertainty. The internationalization process increased the level of uncertainty affecting the business. Furthermore, the company had no previous experience, which means that it would be even harder to overcome the liability of foreignness. All these problems made it harder to stay competitive in the home market and also in hosts markets, managers knew that they needed to have strong asymmetric strategies in order to survive.

Regarding the choice of the markets, according to the manager, "*the firm tried to take advantage of countries where there were economic opportunities that could give them almost immediate return*". This was the reasoning to analyze the possibility of Angola and Saudi

Arabia deeper, both countries had big oil productions which originate several projects for construction companies, so the company could exploit those opportunities.

Although both countries looked economically promising, they were politically unstable. According to the World Bank, back in 2011 (when internationalization strategies were being crafted), Angola had a score of (-0.36) and Saudi Arabia had (-0.46) in the Political Stability Index. These results show that both countries had a weak political environment. Additionally, Angola had a score of (-1.25) and Saudi Arabia scored 0.25. This shows that, in Angola, agents cannot have confidence in the justice, the rules of society can be trespassed, and the contracts can be repudiated. Whereas in Saudi Arabia, the problems of political stability do not affect severely the rules of the society, people can be confident that, most of the times, rules are going to be applied and in case of failure, there are countermeasures/sanctions to the ones that do not fulfil the rules.

By the numbers presented above, it became clear for the managers of the company that if they invest in both countries, where a system of effective formal institutions is not present, the uncertainty was going to be too high for the company to handle it.

For these reasons the company did a tripartite strategy, having the risk diversified in there geographic areas: Colombia, Mozambique and Saudi Arabia

4.4) Outcome of internationalization

Colombia was a good surprise. It was a good decision by the managers. Furthermore, it is a good location to observe and learn more regarding the surrounding markets as the Caribe and Peru, giving them experience in these regions. A good example of that was a project done in Martinique and Aruba. The islands need to have electric centrals so there are several opportunities in the islands near Colombia. It is working as a base for them to do projects in nearby locations.

Mozambique went really well as well, but the investment done was small. The goal was to establish themselves in the market and gain some experience before the gas investment booms and, when it happens, they are already present and can increase their investment and commitment to the market. However, currently the company is facing some challenges and difficulties because of a change in the macro environment. The government did not pay its debt and it is in default as seen in appendix 8.3. As a consequence, Metical devaluated almost 100% which means losses in exchange currency for the company. Some companies left the country as a result of this event. It is normal that Mozambique market will face one or two rough years,

but, the investment in gas will generate opportunities for the firm and this market will be significant for the company again. The brand has already a good reputation in the market so it has good prospects for the near future. It is expected that Mozambique will be one of their biggest market in 10/15 years. Since the firm, at the moment, has reduced infrastructures there the costs are not significant. As soon as the country and the investments starts to appear, the firm needs to go along and follow that in order to take advantage of the opportunities that will arise.

In Saudi Arabia, it had a big project with high returns. However, the cultural differences were significant to damage the business relationship between the firm and their partners. The joint venture did not work well. The partner wanted to impose the Arabia way of working. Most of the clients were from India or Korea. It is a really religious country which affected the productivity of the workers. In this industry, the work required is demanding under 50 degrees Celsius. During the Ramadan, the workers did not eat so they had people passing out while working. All these cultural differences and problems were affecting the usual practices and productivity of the company. It was necessary to change that. The cost of learning this and gaining experience was high. All the clients were always negotiating the conditions and the prices so the processes were long until an agreement was reached. In Africa and South America, although the culture is difference, the culture matrix is similar to the western civilization whereas in Saudi Arabia the culture was completely different. An example gave by the former CFO, "*When an action is urgent in Portugal, I need to intervene immediately. On the other hand, for our partner, urgent means that it needed to be done in the next 5 years*". It was already difficult to adapt to the culture, a local partner only made it harder. It was clear that this operation would only be time and resource consuming, and the company would not take advantage of the opportunities available. This led to an easy decision by the managers to divest in Saudi Arabia and transfer the resources invested there to Colombia.

In Portugal, the market was falling even more, reaching almost a drop of 80% in revenues. Only the major companies in the sector survived and even those are still struggling. The business of the company in Portugal, still, generates losses. Although it is compensated by the gains in the foreign markets.

In order to capitalize the internationalization strategy it is required more money to accelerate the process. Because the market in Portugal does not show any signal of recovering. Hence,

the company needs to keep investing in other countries and gain a stronger presence in those markets.

In the summer of 2016, the company found a new investor and was partially acquired by a French company (acquiring a 60% share) and money was injected in order to keep internationalizing.

This partnership was beneficial for the company because their partner have resources to help develop the internationalization of the company and their businesses are complement of each other, allowing for higher synergies. On top of that, both companies have similar internationalization strategy. The partner is present in the countries where the company is and aspires to go. The strategy of leaving Portugal is irreversible. Currently, partnering with a French company helps them having a strong presence in this market and grow.

5) Findings

This section is going to describe the political constraints the company analysed faced when they were elaborating the strategy to internationalize and what decisions were made. Although it has internationalized to several countries the focus will be on the cases of Angola and Saudi Arabia due to their instability. We focus on the political constraints affecting the market choice of these two countries and why the firm decided not to invest in Angola and, in the case of Saudi Arabia, what were the consequences of investing in a political unstable country.

5.1) Political constraints affecting market choice

Since Angola and Saudi Arabia are politically unstable countries, the political institutions have greater impact on the decision-making, being able to change laws and rules easily. Although the political institutions play a big role in countries characterized by political instability, it is important to understand if there are other formal and informal institutions that can affect the decision-making process. Summarizing, what are the key institutions of these countries? In Angola it was clear that the key formal institution was the government. A sign that reinforce its power, is the number of years that the government is in charge. Managers knew that the government had excessive decision-making power, which made them worried about the risk of expropriation or nationalization of the company, and the risk of repudiation of contracts. The previous CFO, the one involved in the decision to internationalize, specified: "*If I am in a country where the courts do not conceive my rights, I am lost. I can be robbed or companies would not pay me*". Policy discretion in Angola is high. Whereas in Saudi Arabia, although the government had considerable power as well, the rule of law was present. The risk of repudiation of contracts and risk of expropriation was lower. So there were other institutions constraining sudden and/or unfair changes of rules. Policy discretion is high but not as high as in Angola, other executive branches have power as well.

Managers were having a positive anticipation by being prepared to changes that both governments could make, instead of investing in both countries and then react to changes. This could turn out to be a total disaster for the company. It was clear that, in order to be successful in any of these markets, the company needed to establish close ties with the government. If this goal was achieved they would be able to shape policies and be involved in the decision-making process of the government. This could be great for the company, especially due to the nature of the business. As stated by the manager : "*In the scaffolding industry, if my company has regulations and security measures that no other rival as, if I press the government to change the regulations and make those specific security measures a requirement, the other companies*

will be forced to invest on them while my company has already that competitive advantage." So a good political strategy would be determinant for the success of these operations.

Both countries, Angola and Saudi Arabia have a climate of violence and conflicts so it is hard for a firm as the one analysed to be perceived as legitimate in those countries. In the construction sector, the company needs to be politically connected in order to achieve legitimacy in the host country. After investing the company should look to strengthen their moral and cognitive legitimacy in order to be successful. A good way of obtaining legitimacy in countries with volatile characteristics as Angola and Saudi Arabia is through political connections.

As seen in the literature, political connections have, usually, a positive impact in the operations due to the benefits that come from the relationship. Furthermore, they are important in the construction industry because it is a regulated sector where the government is the main client. However, managers tend to become risk averse when they lack experience to deal with conflicting governments, which was the case. The company did not have that experience so a political connection would be difficult to handle. Moreover, lacking the experience would make them lose the benefits that they could obtain from the government. As a manager argue, "*Dealing with a dangerous government could be disastrous, especially without experience in Angola. Facing shrinking margins in home market and handling governments expectations in host market is extremely challenging*".

This twin agency problem would be a challenge for them, especially for a company with lack of financial resources, so the government would have almost all bargaining power. It would be difficult to handle projects with higher risks and lower returns if that was the expectation of the government.

The last factor affecting the political environment would be the institutional distance between Portugal and both countries. The COO of the company explained that "*in Saudi Arabia practices and rules are completely different than in Portugal. In Angola, although the language is the same and there are some cultural similarities, the political environment is different*". Based on this finding, the company needed to partner up with someone with experience to mitigate the risk of institutional distance and the political uncertainty.

5.2) Internationalization decisions

In the case of Angola the company decided not to invest. This can be explained by all the political risk that the company could, potentially, face in the case of investing in Angola.

Managers had a positive anticipation reaction by avoiding the investment. As previous explained, the risk of expropriation and repudiation of contracts was too high. Currently, Portuguese companies are facing difficulties to bring the money back from Angola to Portugal. On top of this, the previous CFO of the company told an episode that described perfectly their fear. "*There is an elite linked to the politics that, if a firm is having success, they come and they take 51% of the company to their selves or you are told to leave the country, and you, the manager, cannot do anything about it because the court will not help you. If I reject that, as happened with a friend of mine, he stayed 6 days held up in the airport until ending up accepting the proposition*". This statement shows that the risk was too big to invest in Angola. Other option was found, Mozambique. This option come up in order to fulfil the goal of the managers in charge to have a tripartite strategy, being in South America, Africa and Asia in order to diversify the risk.

In Mozambique the political stability, in 2011, was 0.29 and the rule of law index scored (-0.57) according to the World Bank. It is not the best environment but, at least, shows that the risk is lower than in Angola. For a company with risk averse managers due to the home uncertainty, Mozambique, although a poorer country, showed more promises of success and there was less risk involved.

Regarding Saudi Arabia, the company was "*forced*" by the shareholders to invest in it. They disregarded all the risks involved, due to the economic prospects and opportunities the company could explore in Saudi Arabia. In this case the managers had a passive reaction, reacting to changes only when they happened, without careful preparation. As previously explained, the company did not have any experience in the Middle East market and political connections were required. So the firm established a joint venture with a Saudi Arabian firm that could give them the competitive advantage of a connection with the government. However, this investment did not perform well mainly due to the institutional distance of Portugal and Saudi Arabia. The institutional profiles of both countries were too different. The firm did its best to be associate with a national company with experience in the Middle East market and connections to the government in order to be successful. However, that was not enough. The previous CFO of the company justifies the failure, "*The cost of learning was really high. We had a lot of problems with the clients and workers, especially during Ramadan. We couldn't go to court because it is a religious court. Alternatively, we could go to a court dedicated for International companies but our partner rejected that hypothesis. So we ended up losing too much time negotiating with clients which cost productivity and efficiency. We realize that in*

Saudi Arabia we were just losing time and resources that could be used in Colombia". As seen in this statement it is clear that although Saudi Arabia is a country characterized by a weak political system, political tactics are not enough to survive, companies need also experiential knowledge in order to know how to exploit these political tactics. Experiential knowledge gives the company the ability to deal with different kind of political systems or political connections.

5.3) Discussion

We use a case study of a Portuguese scaffolder services provider company in order to analyse the influence of the political factors on the choice of a new geographical market in the construction industry as induced in the Literature Review section.

Our findings contradict previous literature, that suggest that companies may fail due to the lack of political strategies, and not due to the lack of knowledge about local environments or the lack of managerial training (Hoorn and Maseland, 2016). As seen above, in the case of Saudi Arabia, the firm had a good political strategy but it failed due to the lack of knowledge about the existing, formal and informal, institutions in that country. The differences were tremendous and managers were not prepared to face such differences. Hence, companies may fail due to the lack of political strategies but also due to the lack of knowledge about local environments or the lack of managerial training.

However, in the case of political stability literature, our findings confirm that in weak political environments where governments have the power to do unpredictable changes because policy discretion is high, managers would change their mind regarding investing in that country and opt to not invest (Keim and Hillman, 2008). This is the case of Angola where the managers feared the risk of expropriation and the risk of repudiation of contracts. Consequently, they decided not to invest in the country characterized by this instability.

Additionally, our case showed that the stability of a country, indeed, influences the confidence and the commitment on that market (García-Canal and Guillén, 2008). In the case of Mozambique, the company decided to invest slowly, doing a gradual approach to that market due to the lack of experience and the political instability present in that market. In this way, the company could overcome the liability of foreignness as Zaheer (1995) suggested, and increase their commitment to the market accordingly with the increase of experience in the host country.

Furthermore, our research reinforces the literature suggesting that political connections can be negative for a foreign company due to agency problems (Sojli and Tham, 2017). The internationalization to Saudi Arabia showed the negative sides of a political connection. Instead

of benefiting from political connections (Fisman, 2001; Johnson and Mitton, 2003), the company was not able to fight for their rights because their partner did not let them go to the international court for being afraid of political retaliation. Political interests were bigger than firm interests. When the company is associated with a political connection, the interests of the political connection may have a stronger impact than previously expected as it may determine what the company is allowed to do in the host country.

Finally, there is evidence in the case study that background experience changes managers' attitudes towards risk (Stikin and Pablo, 1992). After the failure in Saudi Arabia, the managers that were interviewed agreed that they would not make the same mistake. They became risk averse towards investing in political unstable countries.

6) Conclusions

Companies face a massive challenge every time they want to internationalize, which is to overcome the liability of foreignness. For a firm that has no experience of internationalization and low financial resources, the challenge is even bigger. That happened with the company analysed. Furthermore, it was a company that was struggling in their home market. The climate of instability and uncertainty was already very present in the firm, an internationalization process increased that uncertainty of survival. However, it was the only way found by the managers to keep the firm alive. Knowing that they needed to diversify the risk in case something went wrong, they have decided to do a tripartite strategy, investing in South America, Middle-East and Africa. The countries chosen were Colombia, Mozambique and Saudi Arabia.

A major concern for the managers was the uncertainty and risk involved in these operations, especially the political risk, because most of African and Middle-Eastern countries are characterized by political instability. That was the main focus of our study.

Our research shows that, indeed, going to Mozambique was less risky than Angola. In Angola, the risk of expropriation and repudiation of contracts are too high. Companies cannot trust in the rule of law. If the contract is not fulfilled by the other party, firms cannot go to courts in order to fight for their rights, especially if the fight is against Angolans. The government is characterized by high policy discretion, having the freedom to change rules and laws to their preferences. Based on our findings, companies that want to be successful, in countries characterized by this climate of instability, need to establish close ties with the government in charge. Having a strong political connection would give MNEs competitive advantage. Moreover, if the company has bargaining power over the government, they are able to influence their decisions and shape rules to their preferences. Although, Mozambique is also characterized by political instability, the rule of law is different, companies can fight for their rights. The institutional distance between Portugal and Mozambique is lower than from Portugal and Angola. Comparatively to Angola, Saudi Arabia is also a politically unstable country. It is also necessary to have a strong political connection.

For the reasons above mentioned, it is clear that avoiding Angola and investing in Mozambique was a good choice of the managers. A firm with low financial resources, no international experience, and managers with no training in establish key ties with the government would have severe difficulties in a political unstable country as Angola. Starting slowly in

Mozambique, a less risky country than Angola, gives the company the opportunity to overcome the liability of foreignness and gain experience in a country characterized by political instability.

On the other hand, investing in Saudi Arabia was a mistake due to the institutional distance between both countries and the lack of knowledge. The political partner was not enough to help them survive in a political unstable country. Contradicting previous studies, it is still important to gather knowledge about an institutional environment of a country and train managers to deal with governments, even in political unstable countries. Political connections are not enough to survive. Experience plays a big role in the success of MNEs in a foreign country.

Our studies confirm that for firms that operate, in the construction sector, it is vital to take into account the political factors when choosing a new geographical market to invest.

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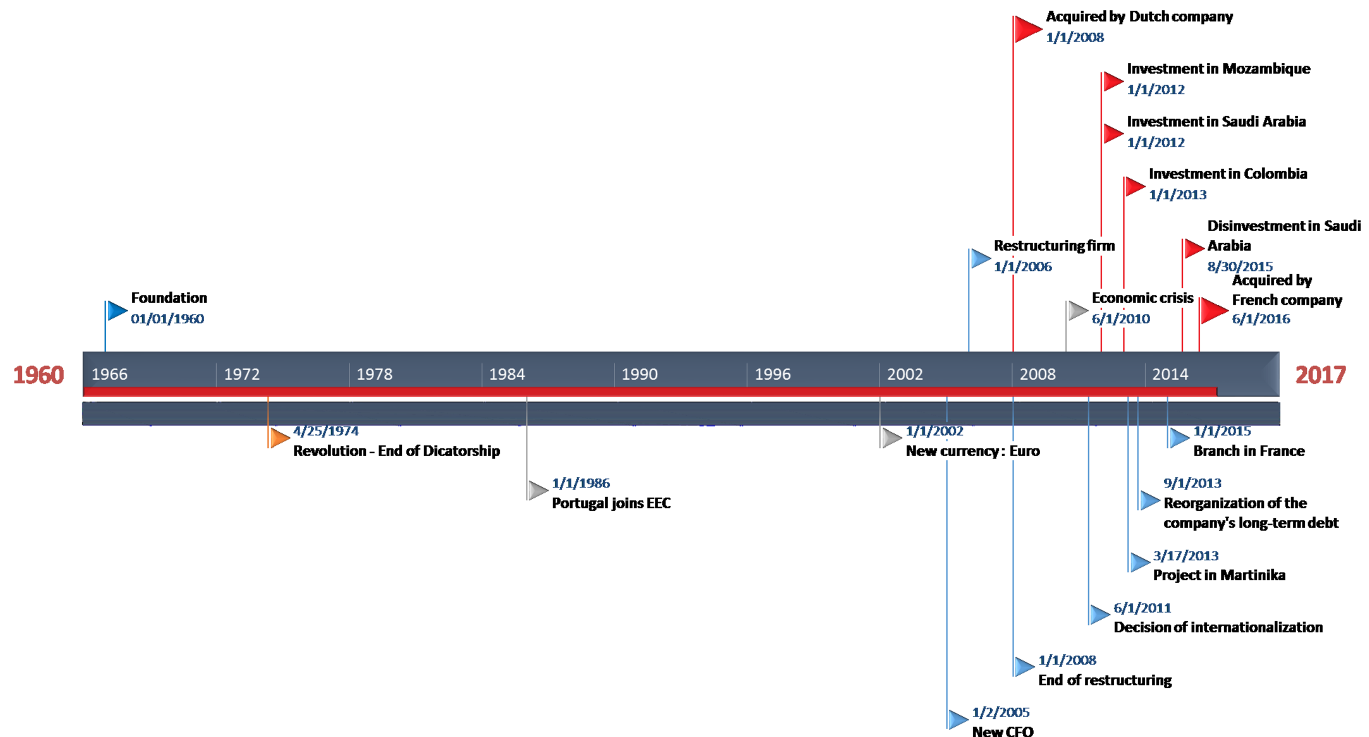
8) Appendices

8.1) Timeline



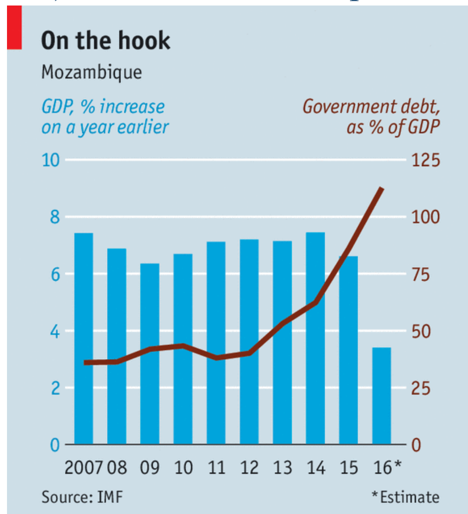
8.2) Coding

Table 2

Code	Interviews
Risk of expropriation	Although the difficulties were different, this investment, if made, was going to bring even more instability and risk to the company. The risk of expropriation was high.
Political uncertainty	The government did not pay its debt and it is in default. This political and legal uncertainty and risk were determinant for their decision to not invest in this country.
Experiential Knowledge	Furthermore, it is a good location to observe and learn more information regarding the surrounding markets as the Caribe and Peru, it is giving them experience in these regions. The goal was to establish themselves in the market and gain some experience. The previous CFO had a past experience working in Brazil and he has opposed to this investment.
Incentives to FDI	Two emerging countries with opportunities and openness to investment. It is a country that supports FDI and has many opportunities for the company
Political Connections	The partner wanted to impose the Arabia way of working. This was the only market where they come in with a partner.

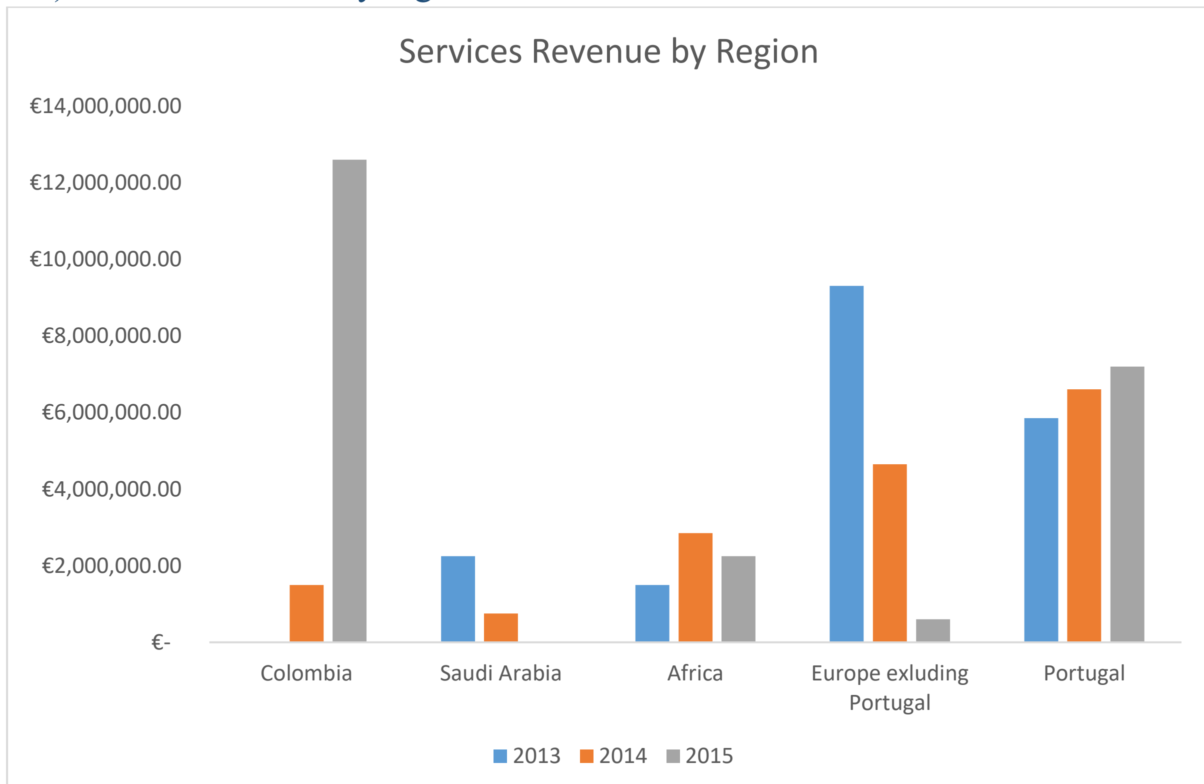
Risk Diversification	The company wanted to do a tripartite strategy, having the risk diversified in there geographic areas: Colombia, Mozambique and Saudi Arabia.
Market commitment	They are already present and can increase their investment and commitment to the market.
Institutional differences	In Africa and South America, although the culture is difference, the culture matrix is similar to the western civilization whereas in Saudi Arabia the culture was completely different. However, the cultural differences were significant to damage the business relationship between the firm and their partners.

8.3) Default Mozambique

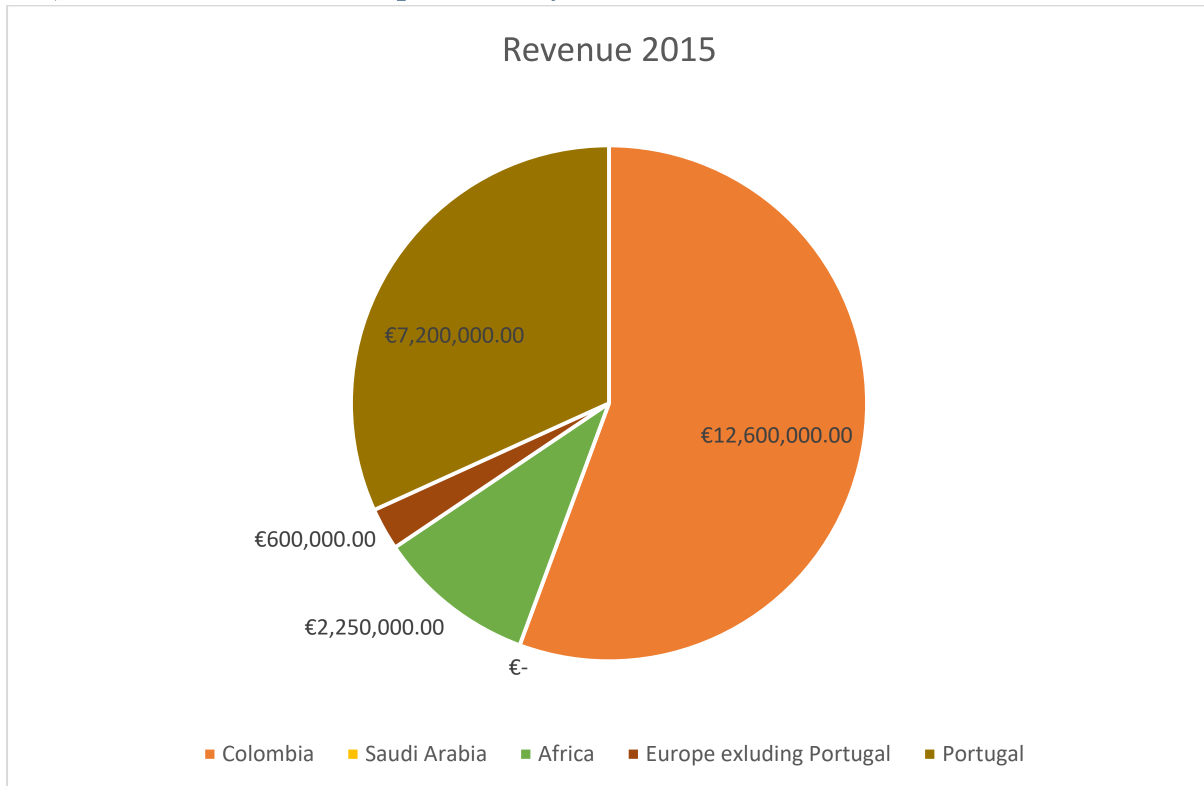


Economist.com

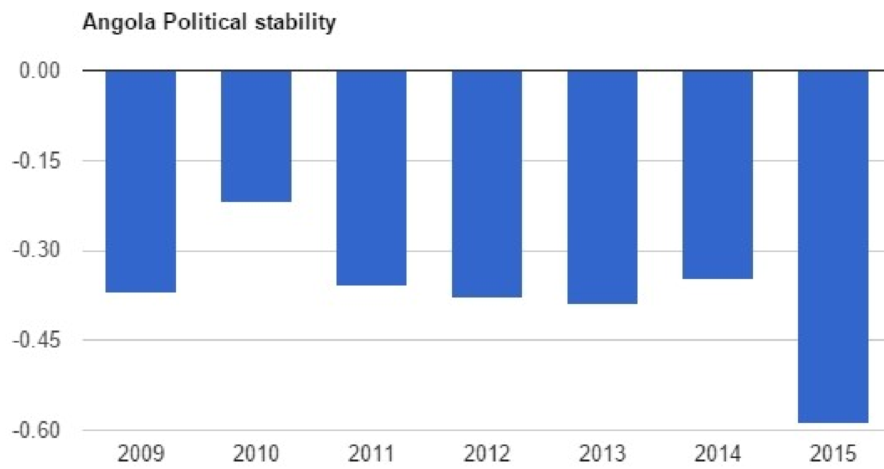
8.4) Services revenue by region



8.5) Revenue distribution per country in 2015

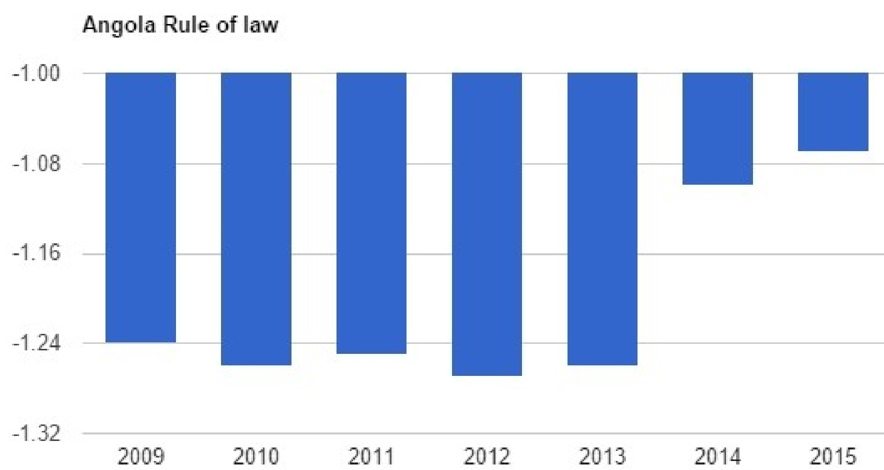


8.6) Angola Political Stability Index



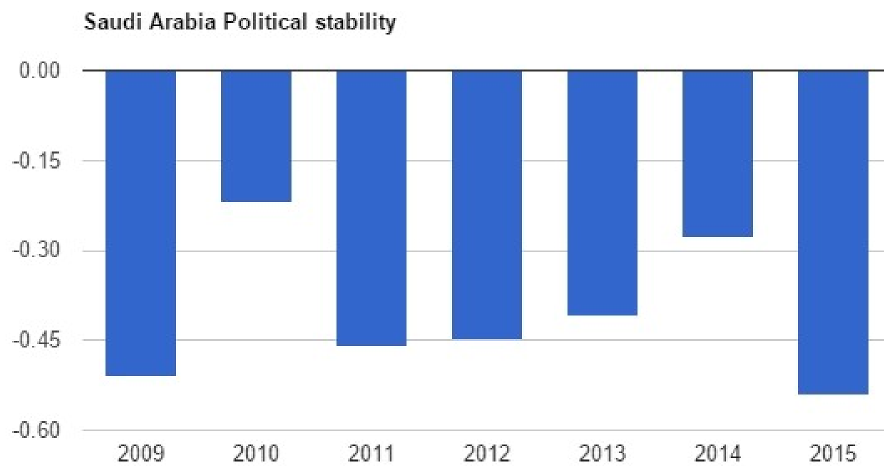
Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

8.7) Angola Rule of Law Index



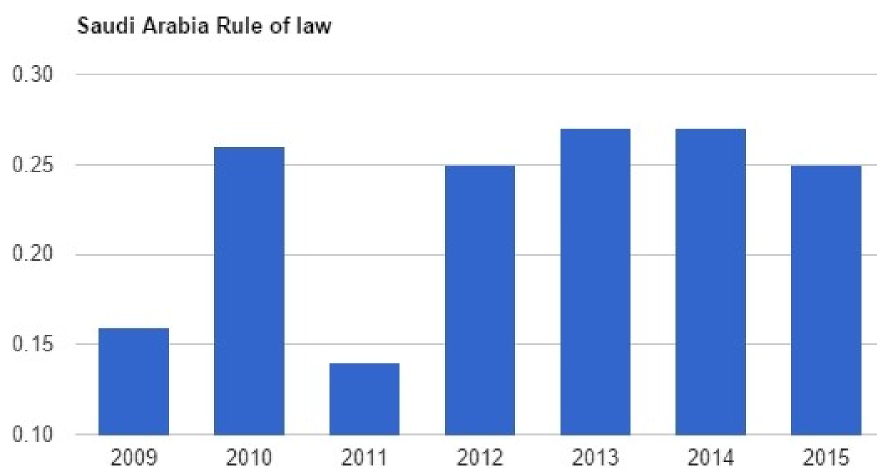
Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

8.8) Saudi Arabia Political Stability Index



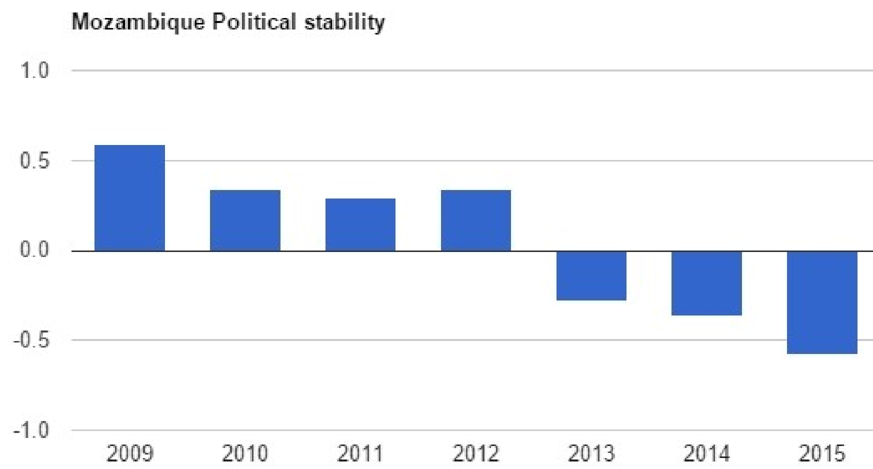
Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

8.9) Saudi Arabia Rule of Law Index



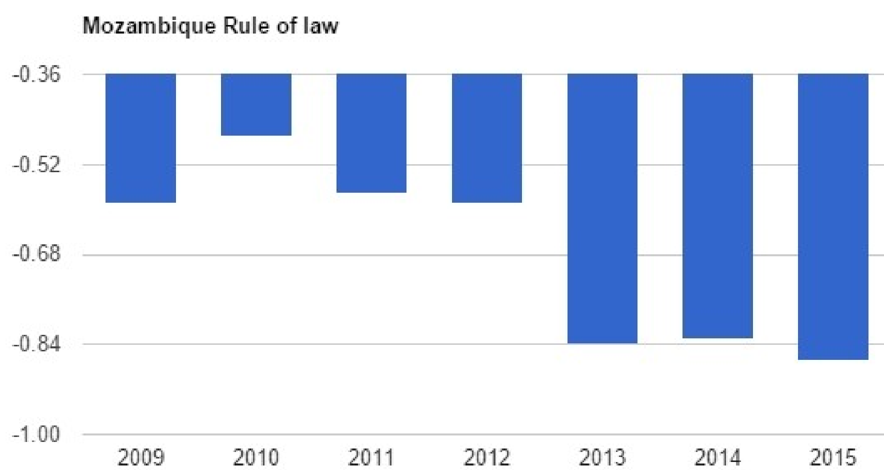
Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

8.10) Mozambique Political Stability Index



Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

8.11) Mozambique Rule of Law Index



Source: TheGlobalEconomy.com, The World Bank (govindicators.org)