
COMPETITIVE CONCEPTION OF LARGE-SCALE PROJECTS IN KUWAIT

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ABSTRACT

The petroleum and infrastructure projects including the accompanied constructions and installations acquire about 80% of the internal investments in Kuwait. Development in this scale of projects will contribute dramatically to the recruitment, transfer of technology, economic stability, and political solidity in the country. Therefore, it is likely to investigate the main economical relative advantages and disadvantages in managing this type of projects. Moreover, in order to improve the investment environment it is needed to evaluate the comparative advantage of the large-scale projects in Kuwait in the 21st century. Besides, it is aimed to evaluate the managerial efficacy of the large-scale projects in Kuwait in order to assess its global competitiveness.

A questionnaire is constructed and disseminated to collect the opinions of the top management personnel. The collected data has been analyzed using Factor Analysis technique. Factor analysis is essentially a data and variable reduction statistical technique. The study sheds some light on the future prospects of investments in large projects in Kuwait and identifies the elements of strategy that most likely will produce the desired results. Recommendations for future enhancement of project environment in Kuwait are provided based on the collected data and the statistical analysis.

INTRODUCTION

Kuwait is aiming to diversify its economy away from near-complete dependence on oil. Currently, the country relies on oil revenues for around 90%-95% of total export earnings and two fifths of GDP. Kuwait channels around 10% of its oil revenues into the "Future Generations Fund" for the day when oil income runs out. With approximately 65% of the population under the age of 25, and with around 90% of employees in the private sector currently non-Kuwaiti citizens, creating jobs for young Kuwaitis is a major objective of the government (Energy Information Administration, 2003). Kuwait hopes to attract additional foreign investment; hence, it has started a program to privatize state-owned businesses (outside the oil sector) as a way of reducing subsidies.

Although the Kuwaiti government supports public projects as well as private investment, there are plenty of projects have not been implemented due to external reasons. The State of Kuwait, as a small country with slightly less than one million citizens, nevertheless suffers from the lack of national labor on most of the technical

and managerial levels. It is believed that if the government invested in research and development, training human resources, developing qualified top management staff, and benefiting from experiences of international companies, the benefit would be increased significantly. Kuwait already started cooperation with international associations to implement the required development in infrastructure projects and human development (Chu and Hemming, 1991, Devarajan, 1996, and Pardhan, 1996).

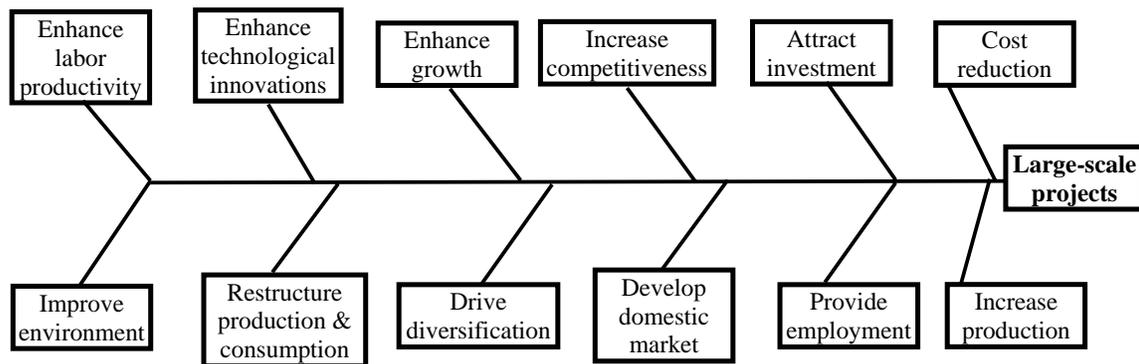


Figure (1) The impact of large-scale project on the economy

Development in large-scale projects will contribute dramatically to the recruitment, transfer of technology, economic stability, and political solidity in the country (Kessides, 1995). Figure (1) summarizes the impact of large-scale projects on the economy of the country. Therefore, it is likely to investigate the main technical, managerial, and business advantages and disadvantages in managing this type of projects. In addition, it is required to highlight the main factors affecting projects' competitiveness considering Gulf, Arab, and the developed countries in the world.

QUESTIONNAIRE

The target population of the questionnaire was made up of Kuwaiti and non-Kuwaiti both male and female. The participants were mainly head of departments, high and middle level managers, directors, and members of the board. It was essential to limit participants in the survey to high and middle level of managers because of the nature of the study that attempts to explain and measure the attitudes of the decision makers and their supporting system.

Kuwaiti government allowed filling the vacancies at almost all managerial and technical levels by recruiting man force from either Arab or Asian countries. During the survey, it was experienced that non-Kuwaiti employees were reluctant to give definite answers. This behavior is understood since they feel that they may jeopardize their jobs if they revealed any sensitive information. Therefore, it was explained to them that their answers would be confidential. Another critical problem facing any researcher in the Kuwait is how to deal with national female participants, bearing in mind that the Kuwait is a relatively conservative society. Nevertheless, the chosen sample included Kuwaiti, non-Kuwaiti, male, and female experts. The survey included a sample of 108 project managers and professionals working in large projects. Out of 184 samples distributed only 118 responded where 10 of them were not valid, because of major missing of answers.

DESCRIPTIVE STATISTICS OF COLLECTED DATA

The results of the study are concluded in two phases. The first phase is based on the descriptive statistical characteristics of the collected data. The second phase is based on the results obtained from the implementation of the factor analysis technique on the investigated variables. In the following section, the results concluded from the descriptive statistics are discussed.

1. Competition Sources and Types

The presented study considered the competitive edge and the available opportunities for the investment projects in Kuwait. The participants were requested to comment on the expected competition for the local project from either local companies or other international companies; from Gulf countries, Arab countries, or American and European countries. The obtained data shows that about 71% of the companies face serious competition in the domestic market, while only 29% of them face competition only some times. This result indicates significantly that most of the domestic projects are operating under severe competition. In order to survive this competition, it is essential to implement continuous development system for the capabilities of the national companies.

Considering the sources for this competition, about 84% denoted that this competition might come from other Gulf Cooperation Council (GCC) companies while 70% denoted that there is a competition from the companies in the local market. All the participants agreed that there is a strong competition from the companies of Europe and America. The potential competition from the Asian countries was chosen by 22% of the participating experts. The least competition source in the list was the impact of the Arab countries (non-GCC) with about 7% marked that there is a challenge from that side. The consensus of the participants on the European and American risks is expected due to the advanced technology, high quality, and properly trained managerial capability. The high ratio of the expected risks from GCC rather than Asian countries could be referred to the impact of petroleum projects in the results.

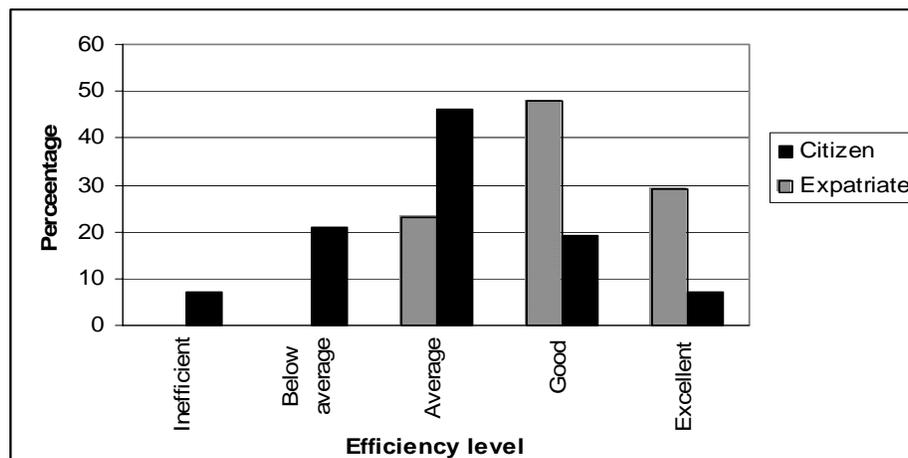


Figure (2) Efficiency of national and expatriate labor

2. National Labor

The availability of skilled citizens is a problem in most of the application areas. The fact that Kuwait still an emerging country explains the lack of local technical and managerial efficiencies. About 65% of the surveyed professionals indicated that experienced Kuwaiti labor is not available, 26% pointed that this type of labor is available at weak efficiency, and 9% abstained from answering this question. Figure (2) shows a comparison between the efficiency of Kuwaiti and non-Kuwaiti labor force as obtained from the collected data. The efficiency of Kuwaiti labor is almost normally distributed about an average mean. The efficiency of the non-Kuwait labor is noticeably higher.

3. Government Subsidies

Government in Kuwait derives its legitimacy through traditional and religious authority, but in the process of oil-driven modernization, their legitimacy also becomes attached to the mobilization of oil wealth to prop up public living standards (Auty and Gelb, 2001). Kuwait government used to facilitate almost all services to the citizens of the state. Besides, the government is convinced that the private sector must participate in an obvious role in the development of the country. On the other hand, the citizens still look forward to obtaining more subsidies from the government based on the high-level income that the government encounters from oil exports (Kuwait exports about two million barrels of oil per day, OPEC, 2002) and other sources of income.

The respondents were asked to clarify the limit of their expectations for the government subsidies. About 89% of the surveyed sample responded positively to whether they expect more subsidies and incentives from the government and only 11% said they expected that to some extent. One of the subsidies that the government furnishes to the citizens is the tax exemptions (Owoye, 1995). Concerning the tax exemptions for the imports, 13% indicated that they enjoy the current policy of import tax exemptions, 67% mentioned that these policies are normal, and 20% denoted that these policies are weak. On the other hand, 74% revealed that they indirectly become more competitive as import tariffs are imposed upon competitive products. The results obtained for subsidies imposed from the government through tariff and taxes are contradicted when compared to the results of the subsidies in the field of research and development. Sixty-one percent of the respondents indicated that the subsidies for research and development are not available while 39% believed they are very weak. The results contradict the common trends in the modern macroeconomics that limit the subsidies provided from the government to the most efficient level (Auty and Gelb, 2001).

4. Prospects of the project environment in Kuwait

The expectations of the participants for future status of large projects in Kuwait were investigated through the questionnaire. An overwhelming 99% believed that there should be intensive promotion for the private sector to invest and there still wide opportunities for further development in the Kuwaiti market based on the new political situation in the region. Furthermore, 99% agreed to the importance of cooperating with international companies in their field and 87% favored cooperation with other GCC countries. These results point to the importance of this cooperation to enhance

the technical and managerial efficiencies in the local projects. This collaboration will boost the skills of the national labor and improve the performance of the projects in general, which leads to obtain higher return rates for the projects.

FACTOR ANALYSIS

What is Factor Analysis?

Factor analysis is essentially a data and variable reduction statistical technique that attempts to partition a given set of variables into groups of maximally corrected variables. For a metric-scaled data on a large number of variables, factor analysis generates a smaller number of variables, called factors, which capture as much as information as possible from the original data set. The factors are formed based on the interrelationships among the original variables (Davis, 2002 and Johnson and Wichern, 2001).

Factor analysis technique involves the following three objectives:

1. Identifying the structure of the relationships among variables and examining the correlation matrix among these variables.
2. Identifying representative variables from a larger set of variables for use in subsequent multivariate analysis.
3. Creating an entirely new set of variables, much smaller in number, partially or completely, replacing the original set of variables.

Results of Factor Analysis

The final findings of implementing the factor analysis technique can be illustrated briefly in the reduced factors obtained from the analysis and the correlations among these variables. Four major factors are found to control about 90% of the variance of the collected data. These four factors are shown in the following sections. Accordingly, the original variables were divided into four groups with respect to the best association between the selected factors and the variables. The correlations among the variables of each category are presented hereafter.

1. Subsidies and Incentive Policies

This category includes variables describing how the large project managers perceive and appreciate the subsidies and incentive governmental policies in Kuwait. Table (1) shows the variables mostly associated with this factor. This factor is shown to have highest association with the government purchases in the first rank and the offered lands from the government in the second rank. The tariffs on imports come in the third rank of association with this factor.

The guarantee of the government to purchase or market the products transfers the burden of this potential risk from the project to the government. This type of risk transfer is applicable for the infrastructure projects where the political and economical combination is better to be manipulated through the government. Infrastructure services are often considered essential by consumers, and they are frequently provided by monopolists. These factors increase political sensitivity to the prices charged. Pressure from consumers to keep prices low makes it politically difficult for governments to maintain prices that cover costs (Dailami and Klein, 1997).

	Government purchases	R & D	Land grant	Energy	Tariffs exemption	Tariffs on imports
Government purchases	1.000	0.219	0.643	0.016	0.308	0.580
R & D	0.219	1.000	0.226	0.384	0.565	0.241
Land grant	0.643	0.226	1.000	0.170	0.127	0.500
Energy	0.016	0.384	0.170	1.000	0.436	0.194
Tariffs exemption	0.308	0.565	0.127	0.436	1.000	0.587
Tariffs on imports	0.580	0.241	0.500	0.194	0.587	1.000

Table 1 -- Correlation Matrix for subsidies and incentive policies

2. Project management and strategic management

This category considers statements those are describing the common problems associated with project management and strategic management. This category is primarily concerned with the macroeconomic policies and decisions those affect the performance of large projects. Lack of transparency and predictability in legal and regulatory frameworks persists to constrain private sector take-off. The judiciary is widely seen as lacking appreciation for the requirements of modern business legislation and the need for a level-working field, while suffering from capacity problems those results in extremely long delays in settling commercial problems (Eifert et al., 2002).

	Clear plan and strategy	Suitable economic decisions	Technical labor	Difficulties in finance	Adminis. routine	Subsidies and promotion	Legislation and laws
Clear plan and strategy	1.000	0.590	0.124	-0.303	-0.123	-0.417	0.106
Suitable economic decisions	0.590	1.000	-0.256	-0.255	-0.505	-0.512	-0.138
Technical labor	0.124	-0.256	1.000	0.111	0.465	0.496	0.365
Difficulties in finance	-0.303	-0.255	0.111	1.000	0.257	0.473	0.125
Administrative routine	-0.123	-0.505	0.465	0.257	1.000	0.471	0.346
Subsidies and promotions	-0.417	-0.512	0.496	0.473	0.471	1.000	0.269
Legislation and laws	0.106	-0.138	0.365	0.125	0.346	0.269	1.000

Table 2 -- Correlation Matrix for project and strategic management

Table (2) shows the variables representing this category and their inter-correlations. Project and strategic management is shown to be associated the highest with the clear plan and strategy of the application areas. This factor is also associated highly with the suitability of the economic decisions. The third variable that is associated with this factor is the subsidies and promotions provided from the government. It is easily noticed from the results that the participants are looking for higher subsidies from their government. This situation constitutes opposition to the reform of widespread producer and consumer subsidies. The government in Kuwait, and other Gulf governments, will have to overcome this opposition if a more rational price structure is to support efficient investments in line with comparative advantage.

3. Perception of Large projects

This category includes statements those are concerned with perceptions of the large project in Kuwait. This perception factor is associated with the integration with other GCC companies primarily as obtained from the rotated component matrix through the statistical analysis. The second variable in association with this factor is the promotion of the private sector.

Table (3) shows the correlations among the different variables in this category. There is a strong correlation between the promotion of the private sector and the integration with other Gulf countries. This result is conforming to the common practical situation in the Gulf region. Over the next decades, the Gulf States will face mounting fiscal pressures to expand public services because of population growth. The public sector can no longer be used to absorb the rapidly increasing number of new entrants to the labor market. These trends generate an urgent need to accelerate non-oil private sector growth to create new job opportunities for Gulf nationals (Eifert et al., 2002).

	Future problems	Potential for development	Promote private sector	Integration with GCC
Future problems	1.000	0.420	0.433	0.327
Potential for development	0.420	1.000	0.296	0.044
Promote private sector	0.433	0.296	1.000	0.680
Integration with GCC	0.327	0.044	0.680	1.000

Table 3 – Correlation Matrix for large projects' perception

	Rely on own source	Attention for training	Cooperate with international companies	Cooperate with GCC and Arab countries	Strategy for application area
Rely on own source	1.000	0.437	0.422	0.563	-0.020
Attention for training	0.437	1.000	0.287	0.116	-0.159
Cooperate with international companies	0.422	0.287	1.000	0.278	-0.399
Cooperate with GCC and Arab countries	0.563	0.116	0.278	1.000	0.024
Strategy for application area	-0.020	-0.159	-0.399	0.024	1.000

Table 4 -- Correlation Matrix for general risks

4. General risks

The statements in this category are concerned with the mitigation responses to general potential risks. The variables in this category are main part of the general strategic policy that works on creating more chances of employment. This policy needs to be amended by opening plenty of projects those can acquire the citizens. Mitigation of general risks is shown to be associated with the cooperation with the Gulf countries and companies, reliance on self-resources, and cooperation with international companies; in descending order. Table (4) presents the correlations among the variables included in this category.

CONCLUSIONS

The following recommendations are concluded in order to enhance the performance of the large-scale projects, such infrastructure projects, and attract more investments:

- Provide dedicated attention to the training of the national work force that matches the needs of large projects.
- Provide intensive care for the research and development processes in the considered application areas to improve the performance of the targeted projects considering the local environment and culture.
- Cooperate with international companies to gain the required knowledge and skills.

- Cooperate with other Gulf countries, which share the problem, target, and reform.
- Allow more transparency in planning and decision making to allow the individuals understand the needs of the government. The decision making regarding other parameters like subsidies, taxes, tariffs, land grant, and fuel supply will be shared between the government and citizens according to the clear situation.
- Resume the political and economical reform such as to encourage local private investment and attract more foreign investment to cooperate by its capital and experience in the projected expansion.

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