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International competition on the Norwegian infrastructure market

Jan Erik Duvholt^a, Knut Arne Follinglo^a, Ola Lædre^{a,*}, Jardar Lohne^a

Abstract

The Norwegian infrastructure market experiences a development of larger projects with bigger budgets than ever before. This paper provides an overview of the current situation in the Norwegian rail and road infrastructure market, in order to grant contractor and client input on how value can be increased through efficient procurement and contract models in the future projects. The paper addresses the following research questions: What are the biggest opportunities and challenges of operating on the Norwegian infrastructure market for the clients and contractors? How can we ensure a healthy competition on the Norwegian infrastructure market? An initial literature study was followed by fourteen semi-structured open-ended interviews with key persons involved in one rail and three road projects, respectively. These case specific interviews were supported by six semi-structured interviews with experienced practitioners. Our findings present several challenges and possibilities of being on the Norwegian market. The identified factors, such as cultural differences and political stability makes the market challenging and preferred at the same time. We also found that clients can increase the international competition by offering contracts that are written in English, contracts of a certain size and by letting the contractors handle the design phase themselves. The public clients find themselves in a position where they feel an obligation to protect the established contractors, but at the same time attract new ones. This study is limited to projects where the contract is signed after 2012, and with a net value above 40 million euros. Due to an ongoing change in the market, where new contractors win several large-scale projects, it becomes important to identify the opportunities and challenges that occur when the competition in the market increases. The paper describe how clients can facilitate for a healthy competition and also successful projects in the near future. Some of the opportunities and challenges may also exist in other infrastructure markets, which may make the results usable for not only the Norwegian public clients, but also construction clients in other parts of the world.

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* Corresponding author. Tel.: +47 73 59 47 39
E-mail address: ola.ladre@ntnu.no

1. Introduction

The future investments on the Norwegian infrastructure market surpasses the levels of the last decades by far. To meet this portfolio of projects in an efficient manner, public clients has acknowledged that international competition is inevitable. The Norwegian government, and the public clients have ambitious goals, when it comes to new road and rail projects. As a consequence, the competitive environment in the Norwegian infrastructure market is changing rapidly. Most significantly, contracts are increasing in both size and complexity, rendering the Norwegian market highly interesting for international actors. The severe financial situation witnessed by several European countries has affected many contractors' home markets. Low activity and high competition, especially in the Southern parts of Europe, draws the attention of several contractors to compete in the Norwegian market. The portfolio of planned large-scale infrastructure projects in Norway is another reason why the international contractors now consider the Norwegian market as highly attractive. In 2016, the total budget allocation for railroad and road projects is set to 40 billion euros. This represents an increase of about 10 % as compared to the 2015 budget. Following this, the Norwegian market is by many contractors seen as the most attractive market in Europe right now.

With a growing market, and new international contractors submitting tenders, the question of how this will affect the Norwegian market imposes itself. Equally interesting, in fact, is the question of how it affects the competitiveness of the established Norwegian contractors in the market. Due to the unprecedented inflow of international competitors, it is not strange that established contractors feel a certain pressure. As the competition is increasing, a main inquiry for traditional actors, is if the established ones are capable of handling the largest contracts being announced. To set things in perspective, the largest infrastructure project implemented in Norway before 2009 had an investment value of about 100 million euros. In 2015, the largest infrastructure project in Norway ever, the Follo-Line project with a total value of 900 million euros, was initiated. This illustrates the ongoing development of contract size in the Norwegian market. According to official plans the frame of investment for the period between 2018-2029 has a value of approx. 7 billion euros per year. In comparison the National Transportation Plan for the period from 2006-2015 had a yearly frame of about 1,9 billion euros. The increasing dimensions of projects, and the volume of projects to come represent opportunities for both the clients and the contractors. It can be challenging, however, to ensure a healthy competition and that the total gain from the projects for and the actual users of the roads and railroads is optimal.

The research presented in this paper has addressed the following two research questions:

- What are the most significant opportunities and challenges of operating on the Norwegian infrastructure market for the clients and the contractors?
- How can a healthy competition on the Norwegian infrastructure market be assured?

The first research question maps the different opportunities and challenges in the Norwegian market. The answers are related to why so many contractors choose to compete in the Norwegian market and what kind of challenges the different actors are facing today. However, the second research question shows that we are not only interested in how the situation today is affecting the competition. We also seek to investigate how the authorities in the future can facilitate for a market that attracts new contractors, but at the same time develop the already established contractors.

2. Theory

The public clients in Norway are changing their strategy in hope of reducing costs and optimizing the total gain. According to Ballard, et al. [1] the investment costs potentially can be reduced by letting the contractor take all the risk in terms of announcing Design-build contracts. According to Ghavamifar and Touran [2], the Design-build contracts may also reduce the project duration and minimize the conflicts between the project parties. Due to changing contract strategies, a large number of new contractors have entered the Norwegian market.

Large international contractors face several challenges when they try to enter new markets. Their entry is always related to risk. Chen [3] conclude that the contractors can enter different markets with different strategies, and two contractors establishing a joint venture-company is a well-known strategy. Gabriel [4] says that Portuguese contractors prefer establishing a joint venture together with a local company in new markets, in order to get local expertise in the project organization. Having the local knowledge in a market can be crucial for success in many ways. Underestimating the consequences of both language and cultural differences can be fatal for the contractors when

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