

# Managing Cultural Risks on International Projects

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## Introduction

Globalization has made it increasingly important, even for businesses which have considered themselves purely “domestic,” to be able to understand and assess the impact of events occurring in the international business environment. Hence it is critical that firms involved in international projects take into consideration “cultural risks” which, if not consciously recognized, can lead to ineffectiveness and in many cases has proven to be very costly. This paper addresses the awareness issue of “cultural risks” that Canadian firms encounter on international projects and points to the concepts that we need to understand in order to mitigate their impact.

There is an Indian fable about the blind men who approached an elephant; the one who gets hold of a leg thinks it is a tree, the one who gets the tail thinks it is a rope, but none of them understands what the whole animal is like. Many studies have researched Organization Culture, a few looked at the influence of culture on leadership, communication, and negotiations. However, none have studied the effect of cultural diversity on international projects as a whole entity. This paper discusses the relationship between different dimensions of national cultures and the possible cultural risks associated with the five main phases of an international project which are: Market Opportunities, Project Selection, Tendering and Contract signing, Implementation, and Commissioning.

The research study explored the intercultural business, social, and personal dimensions that may create challenges on international projects, and derived lessons for future planning and delivery of international projects. The study sample investigated current practices from a survey conducted in the Oil and Gas, construction, and development industries, from the different cultural perspectives of both the owner and client involved on the same project.

The difference in the managerial approach between domestic and international projects is the need for proactive measures in the initial stages between project selection and the pre-contractual stage of a project where most of the risk (challenges) associated with international projects can be both foreseen and mitigated. The research study found that the major cultural risks on international projects are superficially similar to risks on local projects, but the root cause of the cultural risks and their impact on the projects effectiveness and success are very much different. The results show six main issues that need to be taken under serious consideration before approaching an international project. This paper discusses

each of these six issues, which are: Organizational Culture, Networking, Project Selection, Contracts and Negotiation, Project Leadership, and Foreign Agent selection. This paper also touches on the importance of Trust on each of the six categories.

## What is Culture?

Surprisingly there is no agreement on a single definition of the term “Culture.” As Storti (1998) pointed out, there are probably well over 300 definitions of culture. The word culture has several meanings, all derived from its Latin source, which refers to the cultivation of soil (Hofstede, 1991). Over a century ago, Tylor (1871) defined culture as “that complex whole which includes knowledge, beliefs, art, morals, law, customs, and any other capabilities and habits acquired by man as a member of society.” More recently Downs (1971) defined culture as being “a mental map which guides us in our relations to our surroundings and to other people” (Ferraro, 1990). Hofstede addressed culture as “the collective programming of the mind which distinguishes the members of one group or category of people from another,” while Culture was defined by Hall (1976) as “the way of life of a people. The sum of their learned behavior patterns, attitudes and material things ... it is not innate, but learned; the various facts of a culture are interrelated” (Hofstede, 1991).

Fortunately, most of these definitions have a common core to what observers in the fields think culture is made up of:

- Material objects: words, gestures, or objects that carry a particular meaning like clothing or furniture, etc.
- Ideas, values, attitudes, and beliefs: the essence of a culture
- Expected patterns of behavior: family social culture, law, etc.
- A collective phenomenon: shared by at least two or more people who live in the same social environment.

Geert Hofstede, a Dutch sociologist, differentiates between three levels in approaching people in a society: **Human nature** which is the universal level in one’s mental software that is inherited with one’s genes, for example the ability to feel anger, love, joy, sadness and the need to associate with others. However the way one expresses their feeling and what they do with them is modified by culture, and this is where the other two levels play a role. **Cultural traits**, which is choosing how to express one’s feelings and the way they are utilized is influenced by the leanings from previous generations and will influence the teaching to future generations

through one's own leanings. This mental programming is shared within groups and not unique to any one individual. **Personality**, which is on an individual level where one's own unique personal set of mental programming is based on both human nature, which is inherited, and on cultural traits that is learnt (Hofstede, 1984). Although Hofstede clearly defines the above three levels, he agrees that the borders between them are not clear-cut and are the subject of ongoing debate among social scientists (Hofstede, 1991).

## **The Study of Culture**

"Although the variety in people's minds is enormous, there is a structure in this variety which can serve as a basis for mutual understanding" (Hofstede, 1991).

Culture has been studied in many fields like Art, History, Linguistics, Politics, etc. In-depth research on cultural behavior emerged from the three main fields of Social Anthropology, Sociology and Social Psychology, each field studying culture from unique perspectives to give a more complete understanding of the definition of culture.

Hofstede (1984) pointed out that in the first half of the twentieth century, social anthropology, for example Ruth Benedict (1887–1948) and Margaret Mead (1901–1978), had developed the conviction that all societies face the same problems; only the answers differ. The social scientist went on to find out what these problems were.

Edward Hall (1959, 1966, 1976, 1990) an American anthropologist researched social culture from the perspective that Social behaviors in Animals are very similar to human behaviors. Hall researched in detail the proxemic patterns of different cultures and addressed some of these patterns regarding specific cultures including French, English, German, Japanese, and Arab. He claims that on the surface, people "look and sound alike" but beneath the surface people structure time, space, materials, and relationships differently and that these differences create misunderstanding when people from different cultures interact. Like all other social scientists, Hall agrees that although different cultural systems have different pattern behaviors, they are biologically and physiologically rooted (Hall, 1966).

Hofstede (1984) collected data, studying the values of people in different cultures, from over 50 countries around the world. The survey sample all worked in local subsidiaries of a multinational corporation, IBM. Since the only difference within the sample was nationality, this made its differences stand out clearly. His results were nearly identical to the ones found by Inkeles and Levinson 1969, a study done 20 years earlier. The results were categorized under four dimensions of culture which are summarized next (Hofstede, 1984).

## **Power Distance**

Different societies weight the importance of status consistency differently, for example prestige, wealth, and power. "Natural inequality acquires meaning only by a process of evaluation which is culturally defined: it differs among societies and among epochs in history" (Beteille, 1977—from Hofstede, 1984).

High power distance vs. Low power distance—Inequality among people is seen as normal versus inequality among people is not acceptable.

## **Uncertainty Avoidance**

Different societies try to cope with the uncertainties of life through religion, law, and technology within their society, and if it is in an organizational setting then through rules, rituals, and technology.

High uncertainty avoidance vs. Low uncertainty avoidance: Preference for structured situations, which includes rules and regulations versus unstructured situations, which include ambiguity and flexibility.

## **Individualism vs. Collectivism**

People in societies relate to themselves and to the rest of the society differently depending on their cultural values.

Individualism vs. Collectivism: Personal fulfillment, independence and self-reliance versus group harmony and team recognition.

## **Masculinity vs. Femininity**

Social gender roles distinct differently in societies: The extent of role division between "Hard" values like competition and assertiveness versus "soft" values like teamwork and nurturance.

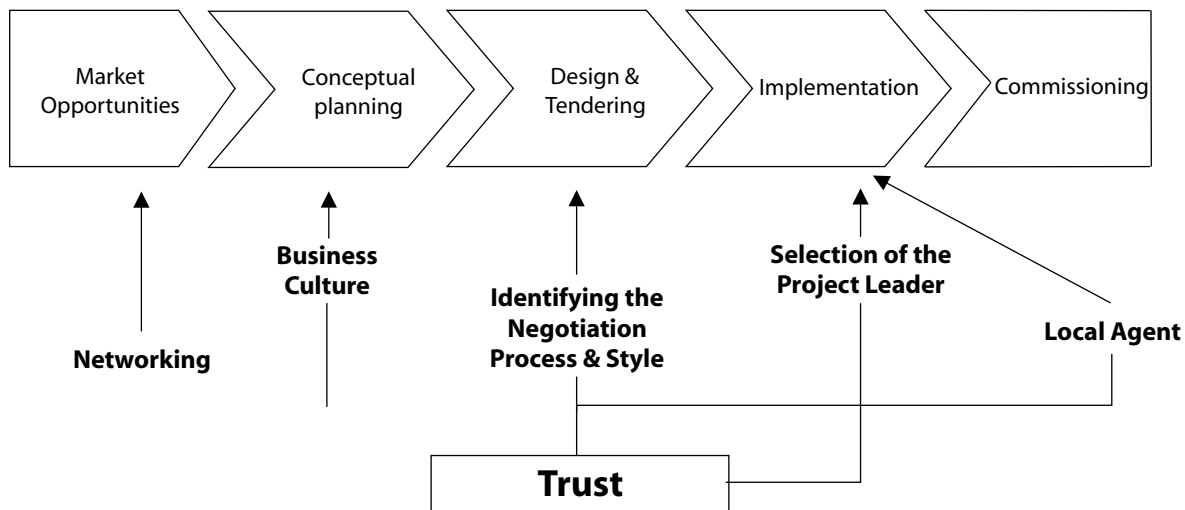
Many researchers built on Hall's and Hofstede's foundational work, Storti (1990, 1998), Jackson (1995) and Trompenaars and Turner (1998) work are examples of just a few that looked at culture diversity from a business perspective. Storti's philosophy is that there are two dimensions to culture, an invisible dimension and a visible one. The invisible dimension is defined by assumptions, values and beliefs while behavior defines the visible dimension. Storti identifies four fundamental dimensions, which he refers to as building blocks of sociological culture differences that correspond to four broad categories of the human experience and are measured from one extreme to the other:

- Concept of self:
  - Individualist: The self is the smallest unit of survival
  - Collectivist: The primary group, usually the family, is the smallest unit of survival
- Concept of time:
  - Monochronic: Time is a limited commodity
  - Polychronic: Time is bent to meet the needs of people
- Personal vs. social responsibility:
  - Universalistic: What is right is always right
  - Particularistic: There is no absolute. What is right depends on circumstances
- Locus of control:
  - Internal: Fate has little or no importance
  - External: Fate plays a major role in their lives
  - Similarly Jackson identifies four areas that Cultural differences initiate from:
    - Sociological differences—what people may be like?
    - Corporate cultural differences—IBM has a different organizational culture than Nortel.
    - Industrial and professional cultural differences—Nurses as an entity, for example, differ in their culture from engineers
    - Individual psychological differences—difference in personality.

## **Culture and Risk**

Project risks, by definition, are the factors likely to affect the project objectives in terms of Scope, Quality, Cost, and Time and in-

## Exhibit 1. Cultural Risks on International Projects



clude both threats that hinder these objectives and opportunities that improve on them. Hence, Risk management is a means to control the risks by reducing the impact of the threatening risks and by maximizing the benefits from the opportunities. Risks on projects have many sources and could be categorized in a number of ways, for example risk could be identified according to the willingness to accept responsibility or to the cultural acceptability of taking a particular risk. They could be classified by the extent to which they might damage reputation or career prospects.

Researchers and scholars, for example (Hall, 1976; Hofstede, 1984; Ferraro, 1990; Jackson, 1995; Trompenaars & Turner, 1998) to mention only a few, proved repeatedly that national culture is an influencing factor that creates risk when conducting and managing international business, however the questions of when and how culture has an impact on international projects is still left unanswered. This paper attempts to find an answer.

### Research Methodology

The objective of this research was to explore and identify the intercultural business, social, and personal dimensions that may create challenges on international projects. Since the nature of the study is exploratory, a qualitative approach to inquiry (using qualitative data and qualitative analysis) was adopted using a modified grounded theory tradition to guide the method of research. For reasons of access as well as to minimize the variables, international projects involving Canadians and Egyptians were studied (Sennara, 2002).

The study sample investigated current practices in the Oil and Gas, construction, Information Technology, and development industries, from the perspective of both the Canadian and Egyptian cultures involved on the same projects. Small and medium size projects, in comparison to other projects in the same industrial sector, were targeted to avoid including large projects executed by large companies. Large companies executing large international projects tend to set up permanent head offices in the host countries and integrate a large percentage of local staff, which makes it very hard to classify the participants under specific cultures (Sennara, 2002).

Participants were selected according to three different categories to assure their professional knowledge in the researched area:

**Category 1:** Canadian experts, that worked for Canadian firms, and worked on international projects in Egypt.

**Category 2:** Egyptian experts, that worked for Egyptian firms, and worked on international projects with Canadians.

**Category 3:** Canadian experts, that worked for Canadian firms, and worked on any international projects other than Egyptian projects.

### Results

The research results, as illustrated in Exhibit 1, show that there are six main areas within which the cultural factor could have a major impact on managing international projects (Sennara, 2002).

#### Networking

Networking was found to be a critical stage in seeking opportunities overseas. The actual process of bidding appears to be the same worldwide where the potential project calls for tenders and the submitted bids are evaluated according to preset criteria. However the lead-time given to the potential bidders differ from one country to the other. Unlike public projects in North America, which are openly advertised and give equal opportunities to all who are interested in bidding, in many countries including Egypt, the opportunity of hearing about potential projects are first spread by word of mouth and through networking relationships. This allows adequate time for selected bidders to study and prepare their bids. Networking helped in introducing the Canadian companies to attractive tenders prior to their public announcement, so although the Canadian companies still needed to go through the tendering process and qualify, networking allowed the Canadian companies sufficient lead-time to adequately prepare. In addition, the process of networking in itself appeared to be cultural dependant where trust was found to be a non-transferable commodity in the Egyptian networking process unlike the transferability observed in the Canadian networking process.

Personal networking was found to have an influence on both the social dimension and business dimension of international projects.

On the social level personal networking did not only help in identifying market opportunities but also helped identify, through out the project's life cycle, the stakeholders and their hidden agendas and any hidden or miss communicated issues that could hinder the project progress. On a business level networking helped, easily and economically, evaluate three main issues that were found to be significantly important in initially evaluating international projects. These are: the political status of the hosting country, the economical stability of the hosting country, and the history of the professional field in the hosting country.

### **Negotiations**

It was found that negotiation styles are culture dependent. Where, how, and when one negotiates, depends on several factors that are rooted in culture, namely power distance, uncertainty avoidance, individual and collective societies, masculine and feminine societies, concept of age and concept of gender.

The most noticeable impact of cultural differences was the understanding of how different cultures perceive the definition of contract negotiation. Signing a contract was found to have two meanings, depending on the societies culture, either it meant finalizing the negotiating process and sealing an agreement to work within the dictated framework or an agreement to become a contractual partner and initiating a new negotiation process that will produce a framework to follow.

### **Leadership**

“Like an orchestra conductor, the project leader plays a primary role within the organization, a role that also has a human dimension. Project leaders have to orchestrate the projects, find the right musicians, determine who will play what, and most importantly, energize the musicians, create synergies among them and ensure they achieve their potential. Project managers are, therefore, generalists who fully comprehend the company's and its partners' strategic objectives” (Herbert, 2002).

Important criteria, identified through the study, for choosing a successful international project leader included:

- Good knowledge of the local culture
- Flexible personality
- Ability to make decisions
- Slight knowledge of the local language
- Good negotiator
- Technically competent
- Sociable personality
- Ability to assess and evaluate personalities.

The most important characteristics of a good project leader that all the participants unanimously agreed on are respect and trust. However for the project leader to gain respect he/she needs to have upper management support and an alignment of values.

### **Local Agents**

A local agent could be any where from one person to a partnership firm. Local agents were found to be important because they perform as a critical link between the two cultures. Local agents' primary roles are important in the networking process through out the projects life cycle, translation and culture awareness. Important criteria for choosing a local agent were found to include:

- An acquirement of technical skills in the project's field
- Well respected and trusted by both entities
- Is open and willing to understand the foreign culture
- Has a strong network set up in the local country to be able to help identify stakeholders and their agendas
- Is in alignment with the foreign corporate values.

## **Conclusion**

There are many issues that need to be addressed in trans-cultural projects. The study looked at just one pair of national cultures. It is possible to draw some interesting conclusions from the observations taken from the study.

One of the critical observations is the role of trust. Without trust of both the buyer and seller, the local agent lacks the ability to be effective. This effectiveness is critical in the negotiation of the deal that forms the basis on which the parties will work together on the project. The deal itself needs to be managed. This requires leadership. And their background and traditions will have influenced the leadership style of the parties from each culture. Sensitivity to the other culture's needs, concerns and issues will help empower each leader and will minimize misunderstandings, tensions and disagreements. In other words, trust needs to be built between all players. If they are from different cultures, there are some identified characteristics or criteria that we can look for that will help in maximizing the chance of success.

Another observation is that the differences in culture between two or more groups need to be identified and consciously addressed. If left unattended, they form unnecessary risks to the success of the project. There are some initial guidelines identified in this paper. The research is potentially generalizable, and the research to test this concept needs to be done. Ultimately, the issues that need to be addressed and the processes to manage them effectively should be identified at the outset of a trans-cultural project and the cost, time and effort to deal with the issues should be built into the plan for execution of the work.

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