

# THE INFLUENCE OF CULTURAL DIFFERENCES ON THE PERFORMANCE OF INTERNATIONAL CONTRACTORS

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Sooner or later most contractors which achieve success in their domestic markets opt, or are forced, to seek work outside their country borders. Adaptation to international competition and new cultures may entail a learning curve of from two to five years and corresponding investment. The alien country cultures affect the contractor's key expatriate staff and requires the contractor to address new ways of working with local clients, staff, labour, suppliers and subcontractors. Practical examples are given of this. Attempts are then made to measure the effects of alien cultures on the international contractor's productivity and a table is presented indicating approximate productivity correction factors which could be adopted for various countries around the world.

Keywords: cultural influences; international contractors; productivity

## INTRODUCTION

It is well known that the development of countries takes place in cycles: agricultural are transformed into industrialized economies by the intensive development of infrastructure and industry; there may be a pause in development as the country consolidates its position as a recently developed economy; this is then followed by a further spurt of growth as the country invests its near-found wealth in further, usually more sophisticated, infrastructure.

During the developmental phase a strong local contractor industry usually develops, nurtured by the flow of developmental money and quite often protected by local legislation or custom from international competition.

As the developmental phase dies away, the domestic contractors, to maintain their growth, are obliged to seek work outside their home countries and invariably run into difficulties for reasons which can broadly be called "cultural". These reasons range from their low productivity to difficulties in adapting to the way construction business is carried out in their new markets.

Difficulties in adapting to new cultures are not confined to companies from recently developed countries as sophisticated contractors from developed countries may often encounter the same type of problem when penetrating countries of which they have little or no previous experience, such as China.

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In the lead author's experience adaptation by contractors to new "cultures" or markets may take from a minimum of two years to up to five years at a cost of at least US\$ 1 million a year.

The experienced contractor will accelerate his learning curve by joint venturing with local companies in the market being penetrated but even so adaptation requires investment in learning by the contractor and its in-country staff.

The cultural differences which influence the performance of the contractor can be broadly separated into personal and corporate; the personal factors are those that affect the contract's staff and families; the corporate are those factors that affect the working of the company as a whole. 'Culture' here is not taken to mean 'folk-lore' but has a broader definition: 'the state of intellectual, artistic and social development of a group' (or country).

Before the factors are examined a brief description will be given of how international contractors develop business in a previously unknown country.

## **THE INTERNATIONAL CONTRACTOR'S ORGANIZATION**

International contractors usually enter a previously unknown country by a specific process: the country's market is targeted, marketing is carried out, work is tendered for and a contract is won. It is often only when an organization is set up in the country that the real learning process starts.

### **Key staff**

On winning a contract, the contractor usually transfers key, experienced staff to the new country or site. The contractor's key staff will usually consist of a general manager, a financial manager and a construction manager. These may be supplemented by expatriate engineers and foremen and may or may not be accompanied by their families.

### **The client**

The key staff will interact with their counterparts from the clients' staff or with the staff of the client's consulting engineers who may or may not be local.

### **The site organization**

The contractor's staff will direct local engineers, foremen, subcontractors, suppliers, plant hire companies and, through their local staff, local labour. They will also interact with the representatives of the local unions, if these exist in the country.

In the contractor's home country the key staff are probably familiar with how to establish working relationships with clients' representatives, suppliers and so on – they may even have established over the years working relationships and contacts with people from the different groups. In a new country, all of this has to be carried out from scratch.

## **DIFFICULTIES**

As implied earlier difficulties faced by the international contractor entering a previously unknown market may stem from deficiencies in their own staff or from external, previously unknown factors. The internal difficulties will be dealt with first.

### **Expatriate staff deficiencies**

As was seen above, a small group of expatriates may be introduced into an alien environment where, as well as carrying out their normal duties, they will be required to quickly learn an entirely new culture and often a new language. Some of the important issues involved are listed below:

a. *Language*: While English is becoming the international construction lingua franca, in developing countries many clients' representatives do not speak English; often staff of contractors from developing countries do not speak it well either. To communicate with local staff, union representatives, workers, suppliers and sub-contractors, the contractors' staff may need to be also fluent in the local language. Achieving competence in a new language takes at least two years and fluency five, depending on the linguistic abilities of the person.

b. *Cultural sensitivity*: The business of international construction is like any other business: it involves dealing with people and to do that requires empathy. Often contractors' staff, when working in an alien country, bring with them, or acquire, an attitude deficiency which may range from arrogance to downright racism; this does not help management productivity.

c. *Personality changes*: This is similar to the above item in that it is often brought on or exacerbated by cultural isolation. In this case the expatriate staff member withdraws from the alien culture to an expatriate ghetto, such as a club, or, in extreme cases may start drinking heavily or start womanizing – this behaviour may be brought on by the person's release from domestic and home restraints on his (or her) transfer abroad. In extreme cases 'cabin fever' or 'bush fever' may develop, both brought on by isolation, cultural or otherwise.

Another change is when the expatriate rejects his, or her, own culture and adopts the alien culture and 'goes native'. Langford (2000) has discussed this topic and others of a cultural nature.

The effects of the above on productivity are difficult to measure, but are, it is believed, relevant.

d. *Expatriate staff's family*: The expatriate staff member's productivity can be affected by his wife and children in two ways: by their accompanying him or by their not accompanying him.

If his family accompanies him, the staff member will often be distracted from his duties by needing to attend to the needs of his family in an alien environment: housing, schooling, transport and domestic arrangements will have all to be dealt with.

Quite often the expatriate's wife may also suffer from lack of cultural sensitivity and the personality changes described above may occur and distract the husband from his duties. It is not unusual, for this reason, for multi-national companies to interview the wives of husbands chosen for international transfer.

On the other hand, if the manager's family does not accompany him to his foreign posting stresses can also be induced by the separation and lead to the personality changes described above.

The experienced international contractor avoids the above difficulties by developing in its organization mature, experienced professionals who are comfortable with managing constant change: the professional expatriates. The inexperienced

international contractor learns by experience and develops its staff by trial and error – this can take up to five years.

e. *Quality of life*: The productivity of the expatriate manager in his new country may be affected by the quality of life enjoyed, or not enjoyed, by him and his family. Tables published (Mercer 2001), based on 39 criteria which range from recreational and transport facilities to crime and education, place Zurich and Vancouver at the top of the list of cities, with quality of life factors of 107 (New York is the baseline city with a factor of 100). Cape Town has a factor of 83, Cairo 75 and Moscow 60.

### **External factors which affect the contractor's organization: client's organization**

The contractor's staff will have experience of working with clients in their home countries; for better or worse, they will know their *modus operandi*. Clients in alien countries may work in different ways, some of which are listed below.

- a. *Competence*: The client's managers may not be professionally trained and competent
- b. *Decision-making*: In many countries, civil services and cultures, decision-making and accountability are not devolved on one person: the process may be collective or collegial, involving numerous meetings and procrastination.
- c. *Bureaucracy*: The nearer political regimes are to the far left or far right, the greater the bureaucratic load on the contractor's unsuspecting staff.
- d. *Corruption*: The more centralization of power there is in a country, the more corruption occurs. Corruption may range from the soliciting of bribes at various levels to fraud such as cartelization, of which more later.

All of the above evidently disrupt the activities of the contractor's key staff; they will be obliged to learn the *modus operandi* of their new clients and the progress of their administrative work will be affected.

### **External factors: subcontractors and suppliers**

Again, the contractor's management may be used to dealing with reliable and known subcontractors, plant-hire companies and suppliers. Surprises which they may encounter in their new environment may include:

- a. *Competence*: Under this umbrella term can be listed: reliability as to delivery dates, and quality as well as general managerial competence.
- b. *Cartelization*: It is not uncommon for suppliers, sub-contractors and plant-hire companies to have comfortable, self-protective arrangements which prejudice newcomers to the market. Sometimes these arrangements are informally sanctioned by the government of the country concerned.
- c. *Corruption*: Again, commission-offering to the contractors employees is not unusual. This entails the application of additional supervisory effort from management

### **External factors: local technical and administrative staff**

Some of the factors which influence the contractor's productivity include:

- a. *Education*: This may be deficient
- b. *Work ethos*: While many European managers are accustomed to work the time necessary to get a task completed, this may not be the case in some countries where a

culture of long weekends, frequent public holidays and long lunch-hours may be the norm.

According to Smith (2001), seventy-five percent of British managers work overtime, forty percent work all weekend and sixty five percent work well into the night. The work-culture may not be so rigorous in other countries.

c. *Corruption*: Again, this may be a factor which requires attention.

#### **External factors: labour**

Some of the factors which affect the contractor's productivity here are:

a. *Language*: As well as the country's official language not being that of the contractor's staff, labour may use other, local languages, different to the official one.

b. *Training*: This may be non-existent; often in developing countries, workers are recruited from rural areas, incorporated into construction work forces and expected to learn their skills on the job.

c. *Work tempo*: This is very variable. Tempo may be slow and is often the case in hot countries for obvious reasons. Often extensive overtime is worked, in a misguided attempt to motivate the workers by compensating for their low wages. This reduces productivity still further, and leads to the risk of accidents occurring.

d. *Health*: The health of workers in many developing countries is often frail: this leads to absenteeism and low productivity due to weakness and general tiredness.

In this respect the effects of AIDS on workers in sub-Saharan countries is at last becoming apparent and is something which will have to be managed by contractors working in that area over the next 10 years at least

e. *Schooling*: The schooling of workers in many countries is often deficient, making it difficult to teach basic skills on site.

f. *Unions*: These may be helpful or obstructive to management; dealing with them entails a learning curve.

g. *Machismo*: An aggressive masculine culture often leads to accidents involving light and heavy vehicles, damage to equipment, crime and sexist behaviour.

#### **External factors: the country**

Many of the above factors are evidently influenced by the politics of the country. Macro-factors which would also affect a contractor's performance include:

a. *The legal environment*: This is often inefficient and subject to procrastination and corrupt practices.

b. *The educational system*: As a general principal, the better the general education of a country's people the easier it is to do business there.

c. *The political system*: Unstable political systems may cause a slight uneasiness in expatriate staff which may affect their productivity or may be so unstable as to require country-risk insurance against the risk of revolution and the need for subsequent paralization of the contractor's activities and rapid evacuation of staff and equipment.

d. *The religious system*: This may lead to numerous religious holidays which break up the working week. It may in extreme cases, as in Algeria, lead to religion-based persecution of expatriates.

e. *The business environment*: Under this heading falls the efficiency of the banking system, the ease with which a company can be registered, the local communication systems and the general attitude of local business entities to non-local companies and business people.

An example of country political and business culture influencing productivity is in the field of public holidays: the UK has nine, South Africa 13, Brazil 14 and Portugal and Hong Kong an impressive 16 and 18 respectively (Economist Diary 2001). It is well known that when one day of a five-day week is a public holiday, the week's production is much less than 80% of the normal production.

Paid holidays vary too: In Madrid a worker gets 31 days paid holiday a year, in Santiago only 17. Industry collective holidays are also usual: France and Italy shut down during August every year, South Africa from 10<sup>th</sup> December to 10<sup>th</sup> January. This causes an effective loss of 8% of a year's productive time.

Hours worked a year also vary. In Paris, workers average about 1600 hours a year, workers in London 1800, and workers in Johannesburg, Kuala Lumpur and Santiago 1900, 2200 and 2230 respectively (The Economist, 2000). Long hours worked, however, are not an indication of high productivity.

## CASE STUDIES

In the following practical illustrations will be given of the factors which may lead to decreases in productivity by international contractors. The examples are drawn from the lead author's experience; for obvious reasons the countries, companies and the persons involved are not identified and therefore references can not be given for these studies.

a. *Large construction contract in Africa*: This contract was carried out by a joint venture of two large multinational companies – one European the other from a recently industrialized country.

Planning of the contract considered the establishment of a key on-site team consisting of four expatriate staff complemented by second-tier staff and foremen recruited in South Africa.

### *Expatriate staff deficiencies*

Two of the expatriate staff had to be substituted as, while they could read, speak and write English they had difficulty in understanding spoken English. One of them also had difficulties in decision-making. A third, European staff member had to be substituted because of lack of maturity and work ethic. All functioned well in their home countries.

### *Start-up integration:*

Nationalities from nine countries were involved in the contract, speaking four main languages. It is estimated that it took six months for team-work to develop, against an expected three months.

### *Regional staff*

The expatriate staff complement had to be reinforced at considerable cost as suitable staff could not be identified in South Africa – few construction professionals from that country at that time had experience of working outside their country and there was resistance to their leaving their comfort zone.

### *Racism*

Regrettably, complaints were received from union representatives of racial abuse of African workers by white African foremen. This was dealt with immediately but did cause temporary difficulties in management – labour relationships until confidence in management was subsequently restored.

### *Health*

A key, female African supervisor, responsible for the supervision of concrete mixes at the batch plant, died suddenly. She was substituted by an inexperienced person which was possibly one of the reasons for a wrong mix being batched for one of the concrete structures; this had to be demolished and re-constructed.

### *Labour productivity*

Women were found to be more motivated and productive than men, even on tasks involving manual work; it was not possible at the time to measure the differential.

### *Local clans*

Workers from two African clans were engaged on the contract. A power-struggle involving nepotism took place, which had to be dealt with. This involved dismissing an influential local foreman which led to difficulties with Government authorities following allegations of unfair dismissal.

*b. Marine contract in Colombia:* A marine terminal was constructed on the Caribbean coast of Colombia where the kidnapping and ransom of expatriates was, and is, one of a number of lucrative lines of business carried out in that country.

Insurance had to be taken out against this, expatriates trained in avoidance techniques and their families had to live in virtual enclaves in Bogotá. On more than one occasion the construction site had to be temporarily evacuated due to threatened guerrilla action.

All of this increased the level of stress experienced by the expatriate staff and led to a decrease in productivity and increased costs.

*c. Paraguay:* The lunch-break for office-workers was three hours long; because of the heat many people literally took a siesta.

*d. USA:* An international construction company operating in California was sued for US\$ 1 million by a female equipment operator, alleging sexual harassment by a foreman.

The same company, in joint venture with an American company on a bridge contract in Florida, was fined by the local environmental protection agency and ordered to remove demolition debris from a waterway.

*e. South Africa:* A multi-national company won a contract to carry out work for a South African mining company. The company made the mistake of not having a local joint venture partner and had difficulties in recruiting suitable local staff.

They experienced communication problems (the lingua-franca in South African mines is Fanagalo), racism, boycotting by suppliers (who had been instigated to this apparently by local competitors) and eventually amicably rescinded the contract.

*f. Philippines:* A large US contractor replaced their male truck drivers on a large dam contract by women drivers: the macho ethos of the males had led to frequent damage to the trucks, due to high-speed driving. Cultural differences between Filipino and US crews working on the US\$ 1,1 billion San Roque hydro electric project were

troublesome enough to require sensitivity training. Soon after, the safety record and work progress improved on the job (Engineering News Record 2000)

All of the above examples show that construction managers operating outside their domestic environment have a greatly increased number of issues with which they have to deal.

## **MEASUREMENT OF CULTURAL FACTORS**

In the previous sections a narrative methodology has been used to attempt to define cultural factors which influence the productivity of international contractors.

In this section an attempt will be made to measure, correlate and organize measurable factors. A number of 'cultural' factors have been plotted against country competitiveness factors. These factors, published by the World Competitiveness Yearbook (2000) assesses the competitiveness of a country by considering a number of weighted factors such as electricity costs, office rents, overall productivity growth, public expenditure on education, health expenditure, skilled labour, personal security and others.

Construction risk (McLellan, 2000) was plotted against competitiveness for a number of countries. Opacity (PricewaterhouseCoopers, 2001) was also plotted against competitiveness. The number of new tuberculosis cases (WHO 2000) occurring in a limited number of countries was also plotted against competitiveness. The incidence of tuberculosis in a country is considered by health specialists to be an indication of the quality of the general health of the inhabitants of that country. Hours worked annually (UBS 2000) in different countries were plotted against competitiveness. As is known, however, working long hours is not a guarantee of high productivity.

In all of the above it was found there was a reasonable correlation between the corresponding factor and competitiveness.

Figure 1 shows the competitiveness factors for 47 countries, starting with the USA at 100% and ending with Russia at 5%. It is to be noted that the majority of developed countries have a factor which is a maximum of 75% (Katzenellenbogen, 2000).

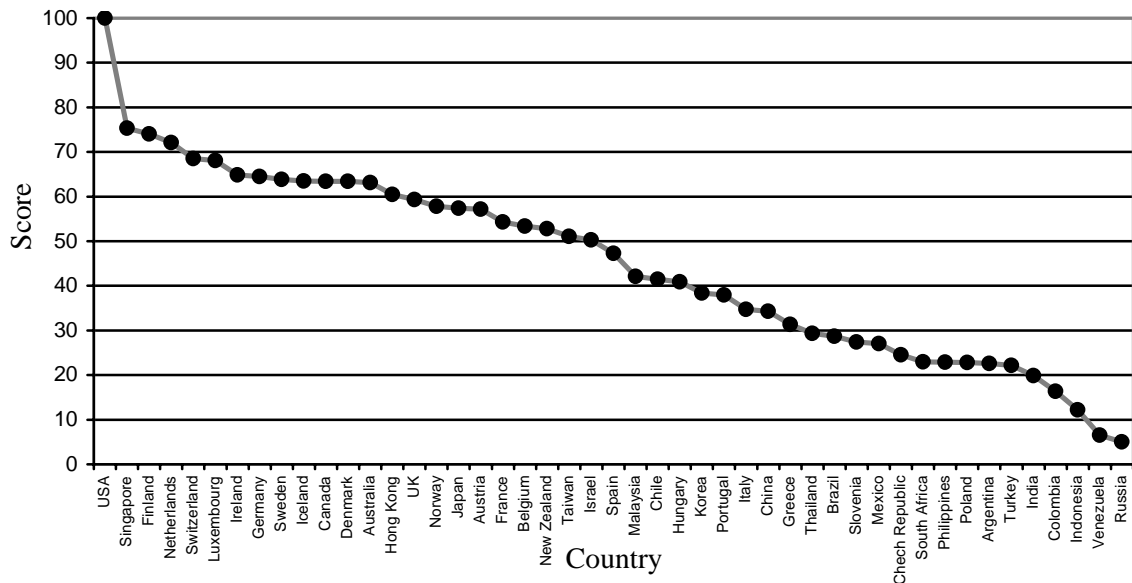
## **PRODUCTIVITY FACTORS**

Given the reasonable correlation between country competitiveness and factors such as country risk, opacity and worker health it is felt that the competitiveness factor or score, suitably adjusted, could be used as a factor to correct the productivity of managerial staff and labour working in a country with culture different to that of their home countries. The factor takes into account imponderables that have been examined in previous sections such as expatriate productivity and country efficiency, or lack thereof.

The base-line score of 1,0 has been taken to be that of the average of northern European countries. The score of other countries is proportional.

Table 1, which is derived from the scores plotted in Figure 1, shows country productivity factors.





Source: International Institute for Management Development, World Competitiveness Yearbook 2000

**Figure 1:** The world competitiveness scoreboard

**Table 1:** Country productivity factors

Country	Factor	Country	Factor
Singapore	1,19	Greece	0,49
Finland	1,17	Brazil	0,43
Northern Europe	1,0	Mexico	0,43
Canada	1,0	South Africa	0,37
Australia	1,0	Philippines	0,37
Hong Kong	0,95	Poland	0,37
Japan	0,90	Argentina	0,37
New Zealand	0,84	Turkey	0,35
Spain	0,75	India	0,32
Korea	0,60	Colombia	0,25
Portugal	0,60	Indonesia	0,19
Italy	0,54	Venezuela	0,11
China	0,54	Russia	0,08

The inverse of these figures would give a rough indication of a risk factor to be applied in carrying out a contract in the country compared to carrying out the same contract in northern Europe.

Factors below 0,30 should be treated with caution.

## CONCLUSIONS

Cultural factors which influence the performance and hence productivity of international contractors working in previously unknown countries have been examined; these include factors which affect the personal lives of expatriate staff as well as external factors which impinge on company productivity such as local staff, labour, suppliers and subcontractors. The influence of the client and the country culture has also been examined.

An attempt has been made to measure the cultural factors and a table has been derived which provides factors which indicate the relative difficulties of working in different countries.

Future research may be carried out on some or all of the following topics

- a. The psychological profile of the ideal expatriate manager
- b. Relative productivity of labour in different countries
- c. The relative productivity of local management in different countries
- d. Country risk factors

Ofori 2000 and Langford 2000 have also discussed the influence of cultural factors on international construction operations and have also made recommendations for further research.

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