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# Effects of Cultural Differences on the Outcomes of Global Projects: Some Methodological Considerations

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## Abstract

Current project management literature with regard to global projects is dominated by a practitioner-driven approach treating projects as fundamentally similar and universal across countries even if they are unique phenomena defined by their purpose, resources, and contextual variables. This paper contributes to that literature by considering implications from cultural and institutional theory. The paper discusses how processes in global projects are influenced by cultural and institutional differences between the project participants. The paper provides a framework and methodology for studying the effects and management of cultural and institutional differences in global projects. Tentative findings based on studying multicultural construction projects in Middle East and Europe illustrate how cultural and institutional differences can lead to unforeseeable costs, time overruns and quality problems. At the same time, these differences can also be a source of creative tension leading to innovations and successful outcomes. The paper concludes with implications for further research.

**Keywords:** cultural differences, institutional differences, project management, global projects, construction projects, organization theory

"[W]hile the Chinese construction market will continue to be an attractive one in the foreseeable future, it is important for international construction firms to take note of the deeply rooted cultural practices and beliefs of their Chinese associates." – Low (1997)

## **1 Introduction**

Mankind has been involved with the management and organization of large-scale projects at least from the time when the Egyptians built their great pyramids about 4,500 years ago. However, it was not until recently that project organizing has become an inherent feature of modern, globalized society. It seems that we are heading towards something that could be described as projectified society (Lundin and Söderholm 1998). This has led to previously stable and permanent organizational structures becoming more and more temporary and disposable (March 1999). Additionally the development has led to emergence of novel forms of global linkages between people, organizations, and nationalities (March 1999).

However, increasing use of projects as a way of organizing can be described as somewhat paradoxical, since they are seldom completed as planned (Engwall 2002). Thus, projects frequently encounter problems, which lead to time and cost overruns as well as quality deficiencies. What makes the phenomenon paradoxical is that generally failing forms of organizing tend to decrease in popularity and fade away. As transnational, or global, projects are becoming more and more common way of organizing in various business contexts (Chevrier 2003), it raises the question of how cultural and institutional differences across nations might affect the progress of global projects and how these dissimilarities might contribute to project outcomes different to those originally planned.

Thus far, in prior literature it has not been clearly established whether the variety of worldviews affect positively or negatively in the project progress (Chevrier 2003). On the one hand, it is argued that the heterogeneity of worldviews in a project organization increases the diversity of available resources, thus bringing more creativity into problem solving. On the other hand, diversity increases complexity and the possibility of ambiguity and suspicion, which might prove to be problematic with regard to group effectiveness in global projects (cf. Chevrier 2003). The purpose of this paper is to shed some more light into these contrasting arguments in relation to implications of cultural and institutional differences in a global project context. An attempt is made to advance our understanding of how these differences might contribute to the aforementioned project paradox.

The paper reviews existing theory and literature with regard to cultural and institutional implications in project management. We report preliminary conclusions from interviews and secondary data concerning large-scale multinational construction projects. In order to specify implications of cultural and institutional differences in project execution and outcomes, the paper concludes with propositions for further research with a focus on methodologies in qualitative historical studies of specific global projects.

## **2 Cultural and institutional differences – do they exist?**

On the basis of the seminal studies of Hall (1960s), Hofstede (1970s and '80s), and Trompenaars (1980s) we know that human interaction does not happen in a vacuum or isolation. Instead it takes place in a social environment governed by a complex set of formal and informal values, norms, rules, codes of conduct, laws and regulations, policies and politics as well as a variety of organizations. These governing mechanisms are often shortly referred as culture and institutions (cf. Scott 2001). The primary function of culture and institutions is to reduce ambiguity and uncertainty in everyday human behavior, interaction, and decision-making by providing a framework for situational interpretation and limiting options for appropriate behavior and response (Schein 1985).

In a social-science viewpoint, cultures emerge and evolve in response to social craving for answers to a set of problems common to all groups (Hofstede 1991), including those related to basic assumptions concerning the following: relationship between mankind and the nature; nature of reality and truth; nature of humanity; nature of human activity; and nature of relationships between persons (Schein 1985). In order to survive and to exist as a social identity, every group regardless of its size has to find its solutions to these problems. These solutions then become distinctive for the group separating them from others.

Thus, the aforementioned seminal studies have indicated that individuals and groups tend to form cultures that can be clustered and analyzed according to boundaries set by nation-states. The underlying argument in these studies and their descendants is that real differences between national cultures exist, since in each national culture sets of partly differing solutions to the aforementioned universal societal problems have evolved over

time and attained high degree of constancy and resilience. The most notable dimensions and typologies related to these solutions are presented in Table 1.

Table 1. Some dimensions and typologies of national cultures.

Hall (1959)	<ul style="list-style-type: none"> <li>• Communication style – low vs. high context</li> </ul>
Hofstede (1980)	<ul style="list-style-type: none"> <li>• Social inequality, relationship with time – low vs. high power distance</li> <li>• Relationship between the individual and the group – individualism vs. collectivism</li> <li>• Masculinity vs. femininity</li> <li>• Ways of dealing with uncertainty – low vs. high uncertainty avoidance</li> </ul>
Hall and Hall (1987)	<ul style="list-style-type: none"> <li>• Relation to time – monochronic vs. polychronic</li> </ul>
Trompenaars (1993)	<ul style="list-style-type: none"> <li>• Societal rules vs. personal circumstances – universalism vs. particularism</li> <li>• Relation to time – sequential vs. synchronic</li> </ul>

Closely intertwined and emanating from culture is the concept of institutions. Institutions can be defined as relatively stable collections of practices and rules defining appropriate behavior for specific groups of actors in specific situations (March and Olsen 1998). They consist of informal (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights) (North 1990, 1991). According to North (1990, 1991), the major role of institutions in a society is to establish a stable (but not necessarily efficient) structure to political, economic and social interaction.

As can be seen on the basis of these definitions the difference between culture and institutions is not unambiguous and might sometimes become blurred. As theoretical constructs culture and institutions represent separate scientific traditions, which however can be regarded as complementary to each other. Thus, henceforth in this paper these conceptions will be treated accordingly.

### **3 Cultural and institutional differences – do they matter in global projects?**

In large global projects there are literally hundreds of factors affecting the outcome of the project. In order to simplify examination these factors can be categorized into client related factors, management related factors, and project context and environment related factors. It can be postulated that cultural and institutional differences form the context for these factors to emerge. It is argued that this context and its implications to global projects become observable if they are studied in specific events in a given project.

Any given project consists of a myriad of parallel and sequential events. These events can roughly be distinguished according to the different stages of the project. Engwall (2002) has described the general project stages as I) outcome formulation, II) project execution, and III) outcome assessment. Tentative observations from our studies point out to implications of cultural differences in all of these stages. In outcome formulation the implications can lead to e.g. unclear goals, vague assignments and misunderstandings between the participants. In project execution stage lack of coordination, weak tolerance of failures, problems of emotional integration as well as divisions between trusted friends and foreign partners have been observed. In addition the outcome assessment is oftentimes complicated by different conceptions of quality, time, and costs and thus, of success or failure of the project.

Thus, it is argued that cultural and institutional differences have an impact as well as observable implications in global projects. However, whether or not and under what kind of circumstances these differences are determinant with regard to project outcomes has not been clearly established as of yet. This impedes our ability to evaluate the implications of these differences in global projects. In general, it might be assumed that in a specific situation the outcome of interaction between different cultures depends on locus of power and the ability as well as the motivation to use it. This makes it necessary to focus our attention to specific events in a given project, to specify the locus of power between the actors in these events as well as the circumstances under which the relevant party is able and motivated to use that power. Cultural and institutional backgrounds then again have an actor-specific impact in these three attributes, which are assumed to mediate to the outcome of the specific event and the overall project progress.

#### **4 Methodological considerations – towards a historical approach**

Studying cultural implications and their management in global projects presents a fundamental challenge, since it involves deriving inferences drawn from a set of unique events. In studying such projects, a direct analogy can be retrieved from theories of innovation and learning that emphasize experience as a source of knowledge accumulation and learning (Levitt and March 1988; March *et al.* 1991). Individuals, groups, and organizations learn from experience, which is based on interpretations of the past more than anticipations of the future (Levitt and March 1988). Thus, learning is history-dependent. However, taking these observations into fundamental consideration reveals that learning can become problematic when history offers only a few comparable experiences: “Historical events are observed, and inferences about historical processes formed, but the paucity of historical events conspires against effective learning” (March *et al.* 1991).

This seems to be the premise also in global projects. Identifying dimensions in national cultures and institutions provides a basis for recognizing national differences and understanding why people representing various nationalities behave dissimilarly. However, in order to better understand the implications of these differences in project progress and outcomes, also the chain of events in a particular project has to be identified. This is because the outcomes of interaction between different cultures vary depending of the occasion, in other words the interaction between actors from two different cultures might result in a conflict in one situation and something of an opposite in another. Thus, it is necessary to specify processes emanating from specific events with actors representing different cultures and the outcomes produced by these processes. This enables us to evaluate probable outcomes on a project level and some context-specific probabilities on the outcomes of interaction between actors representing different cultures.

This kind of event-historical approach of global projects calls for different methods depending on the processes to be specified. It can be postulated that different methods reveal different levels of reality. Thus, in general e.g. secondary data might provide the specific events related to a given project. Surveys on the other hand might be useful in order to reveal perceptions related to oneself and towards others. In-depth interviews usually are useful in explicating experiences and one’s behaviour in different situations. Participative observation and ethnography enables us as outsiders to observe changes in

behavior and e.g. formation and escalation of inter-cultural conflicts. Then again inquiries about institutional and educational background generally serves as explanatory factors for one's mental frames.

Thus, in sum our proposition is that outcomes of inter-cultural interaction are event-specific and implications of cultural and institutional differences on project outcomes have to be studied based on encounters between different cultures. This enables us to evaluate project level outcomes by specifying the sub-outcomes produced by processes emanating from specific situations where different cultures interact. It also makes the research methods subject to the processes to be specified.

## **5 Anecdotal evidence of the effects of Finnish culture on other cultures and project progress**

Based on the aforementioned propositions we report tentative conclusions and anecdotal evidence related to manifestations of cultural and institutional differences in large-scale construction projects in Middle East and Europe. Our focus is on describing some consequences of Finnish culture encountering other cultures in a global project context. The data was collected from Finnish consultant's project reports as well as interviewing several Finnish project managers. The interviews did not contain any structured questionnaires since the goal was to listen to the project managers' stories on how they experienced encounters with different cultures and how cultural and institutional differences manifested in the projects under scrutiny. We begin by briefly describing what has been said about Finnish culture and its characteristics.

Several studies have pointed out that one of the most pervasive characteristics of Finnish culture and people is the lack of interpersonal skills (e.g. Airola *et al.* 1991; Lewis and Gates 2003). From outsider perspective this manifests in multiple ways, e.g. as difficulties in contact making and starting of conversations, as reticence and introversion, and as absence of compliments and courtesy. Also the Finns themselves have admitted the existence of these deficiencies in intercultural interaction. For example, Finnish leaders have claimed interpersonal skills, leadership skills and ability to cooperate as the most important areas of their own development (Airola *et al.* 1991).

On the other hand, from insider point of view Finnish management culture has been described as flexible, straightforward, and possessing an attitude of “getting things done”. Outsiders add to the list also honesty, reliability, pragmatism, decisiveness combined with modesty and shyness (Lewis and Gates 2003). Many of these characteristics are described to emanate from the Finnish educational system, which emphasizes discipline, orderliness, punctuality, equality and factual skills. Also the system somewhat de-emphasizes interpersonal skills as well as creativity, innovation and boundary crossing. In addition Finnish professional culture has firm roots in engineering culture and skills. Thus, it is often said that Finns tend to regard people the way they regard machines, i.e. Finns tend to emphasize e.g. the role of planning and rules, and avoid uncertainty.

As suggested above, in global projects outcomes from encounters of Finnish culture and other cultures manifest in multiple ways. Sometimes when the locus of power as well as the ability and motivation to use it is on the other party, the Finns tend to conform and act according to the other party’s rules. For example, in one of the projects studied the Finnish consultant considered the Middle Eastern client’s way of emphasizing personal relationships somewhat difficult. Establishing these relationships required, for example, delivering personally all the major contracts and offers to the client. From the consultant’s point of view, also gaining flexibility in decision-making required multiple visits in the client’s HQ, thus helping the client to familiarize and establish trust towards the consultant’s working methods. While from the Finnish viewpoint this seemed to increase the workload somewhat unnecessarily at the beginning of the project, it was later on deemed to be the proper way to deal with local customs and culture.

On the other hand, in some occasions where the Finns have the locus of control they tend to emphasize flexibility, non-hierarchic decision making in order to “get things done”, and sometimes take matters into their own hands. From Finnish project managers’ perspective, in two of the projects studied (the other one in Middle East and the other in Central Europe) the client and supplier decision making sometimes seemed to be characterized by reluctance to make decisions in the lower levels of hierarchy, postponing decisions until the last possible moment, rotating decisions through the system for acceptance, and in some situations involvement of the host government in even the minor details of decision-making. Sometimes participation of top management or government officials in solving not only top-level but also minor difficulties reduced the decision making scope at the involved site level, which in turn was considered to cause – from the Finnish engineers’ point of view – rigidities, inflexibility and delaying of vital decisions. Thus in

order to secure the project delivery as agreed, the Finnish project managers often in critical situations had to make decisions on their own and sometimes use intimidation or persuasion in order to keep the project in motion.

Sometimes the Finns can also be considered as authoritative and stubborn. One of the projects studied (in Middle East) was characterized by utilization of different consultants in different phases of the project. This led to delayed entrance in terms of the Finnish consultant responsible for construction supervision and management. The design and civil works of the project were already underway before the Finnish supervisors were able to enter the project. From Finnish project supervisors' perspective the project was already at that point suffering from quality problems and difficulties in construction. In addition it was difficult for the supervisors to establish a holistic view covering the whole of the project, its reviews, supervision and management due to late entrance. Thus, from the supervisors' perspective, the project was adversely affected by unsuitable technical solutions, significant delays and quality problems in civil works as well as discrepancies and misunderstandings between the project participants (including the Finns) during the first half of the construction phase. The situation was made even worse due to extended delays as the Finnish project supervisors requested strongly for the Far Eastern contractor to finalize civil works before continuing installations any further. Only after heavy pressure from the supervisor team the contractor conformed, the quality of civil works was raised and installations could continue.

By presenting these illustrations our purpose is to show how outcomes of encounters between Finnish culture and different cultures from Europe, Middle East and Far East vary according to the situation. Thus, we stress that the outcomes are context-specific and instead of generalizations we may present probabilities on various outcomes dependant of the context.

## **6 Conclusions**

This paper has presented a brief review of literature on research on culture and institutions and the differences between nationalities. The aim has been to develop a framework and approach for studying these differences in global project context. Global projects have become an increasingly inherent feature of modern society, although they seldom are completed as planned in terms of time, costs and quality. Embedded in these

projects are global linkages between people and organizations from various countries with dissimilar cultural and institutional backgrounds. Whether the variety of worldviews affects negatively or positively the project progress and outcome has not been clearly established. As a result cultural clashes are common and understanding of their implications on project outcomes is inadequate.

Based on prior literature it can be postulated that cultural and institutional differences across nations are real. They do not require a catalyst to emerge. People and groups create differing solutions to the underlying common problems without deliberate effort, i.e. these solutions do not need to be consciously constructed as different relative to one another. These national differences have been thoroughly studied and various dimensions and typologies have been produced to distinguish national cultural and institutional characteristics.

Contrary to cultural differences, however, outcomes of cross-cultural interaction are constructed since they do not exist without a “trigger” or a “catalyst”. They emerge as a result of cross-cultural human interaction acting as a catalyst. Evaluating the outcomes of cross-cultural interaction is difficult, since it is context-specific. In other words cross-cultural encounters produce different outcomes in different situations. Despite knowledge of differences between various national cultures, the outcomes of encounters between different cultures have not yet been clearly specified. Thus, the context and complex processes through which cultural and institutional differences hinder or advance project progress and mediate to project outcomes is an issue of further research.

Studying these processes in a global project setting calls for an event-historical approach focusing on specifying processes emanating from encounters between clearly explicated cultures in specific events. This enables specifying the context-specific outcomes from the interaction of the cultures under scrutiny and evaluation of how these outcomes contribute to overall project outcomes. The approach also implies a shift in cultural research from specifying differences between cultures into specifying processes resulting from encounters between specific cultures. It recognizes the path-dependency of project outcomes and calls for process studies on how cultural and institutional differences manifest in different events during the project progress as well as how these events form the overall outcomes of the project. This also makes the research methods subject to the processes to be specified and thus, to the level of reality to be revealed.

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