

**Palojärvi, L., Huovinen, P., and Kiiras, J. (2009) Managing risks inherent in managers' cross-cultural competencies in the context of international construction business. Scientific Track. 23rd IPMA World Conference, Helsinki, 15-17 June 2009.**



**HUMAN SIDE OF PROJECTS IN MODERN BUSINESS**

**MANAGING RISKS INHERENT IN  
MANAGERS' CROSS-CULTURAL  
COMPETENCIES IN THE  
CONTEXT OF INTERNATIONAL  
CONSTRUCTION BUSINESS**

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## **PARTS OF THIS PRESENTATION**

- To introduce the background, questions, and aims of the paper (as part of a doctoral study)**
- To justify the reliance on a combination of case research and insider action research**
- To highlight some key aspects of all nine cases via an example of Sertolovo project**
- To posit the contribution of the paper on managing cross-cultural risks better**



## **BACKGROUND AND KEY QUESTIONS**

- **Contextual background**: International business of the Finnish construction industry has grown from 0 (1970) => EUR 17 billion (2008), i.e. annually more than the new construction inside Finland).
- **Theoretical background**: e.g. the licentiate thesis of the primary author (Palojärvi 1986).
- **Research questions**: “To what extent are the cross-cultural management competencies of managers a real source of major risks?” and “How can a manager or a team manage cross-cultural issues?”



## **FOUR AIMS OF THE PAPER**

- (i) To review the basics of RM and to define the characteristics of a cross-cultural risk**
- (ii) To synthesize the proactive approach to identify and manage such a risk**
- (iii) To report on the conduct of the action research and the key findings of the testing of the responsive actions retrospectively with the nine Finnish cases**
- (iv) To summarize the key results and the industrial impact**



## **TWO KEY TERMS**

### **CROSS-CULTURAL COMPETENCY**

**refers to a key manager's competency to manage cross-cultural issues**

**CROSS-CULTURAL RISK is a possibility that key managers' competencies are not sufficient to manage arising cross-cultural issues**

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# **REVIEW of BOOKS and ARTICLES PUBLISHED in 2000-2007 ON:**

- **Generic RM**
- **Contextual RM - Construction**
- **Critical success factors**
- **Failure factors**
- **Key managers' cross-cultural competencies**



# KEY FRAMEWORK

**RM process containing at least  
a chain of:**

- 1 Setting objectives**
- 2 Risk identification**
- 3 Risk response**



## **WHY CASE STUDY?**

- **Two hypotheses have been consolidated along the cross-cultural and contractual dimensions.**
- **Primary author stored the detailed documentation of the real business + project cases 1984-2005.**
- **Compact case descriptions have been written retrospectively and comparatively 2007-2009.**
- **In this paper, the focus is on cross-cultural issues and the management of related risks.**
- **Case study method is the only highly relevant way of testing the hypotheses and it is applicable to explain presumed causal links in real-life interventions.**



## **WHY INSIDER ACTION RESEARCH?**

- (i) It had not been possible to collect new, relevant case material on risks from competitors' failures.**
- (ii) Cases in the recent literature are too thin and too short for deeper, comparative analyses.**
- (iii) Questionnaires and interviews are seldom based on highly eligible answers - many respondents, unfortunately, are randomly chosen from among firms' younger cadres of employees.**
- (iv) Lewin (1946) argued that research for social practice should be concerned with “ ... the diagnosis of a specific situation”, i.e. managing one-of-its-kind projects.**



# WHY INSIDER ACTION RESEARCH

(... continued)

- Many features of research-oriented action-research (RO-AR) approach (Eden and Huxham 2006) match the insider action research approach, e.g. pre-understanding, multiple role sets, and the development of capabilities.
- Primary author aims at solving real management problems – at a positive effect on management practices (Ford et al. 2003), i.e. on RM practice within the focal context.
- Danger of remaining in “frozen positions” has been avoided by using the authentic documents.



## **WHY THESE NINE CASES?**

- (i) Prior findings (Palojärvi 1986) indicated that managers' competencies and a contractual balance may be the two sources of major risk.**
- (ii) Incorporation of business-level and project-level cases implied the use of a longitudinal method.**
- (iii) All 9 cases were the pioneering ventures which implies a high likelihood to reveal shortcomings within managers' cross-cultural competencies.**
- (iv) Each case has been documented well.**
- (v) 9 cases cover typical risky situations of growth.**
- (vi) Years, sizes, and outcomes of 9 cases vary from a crisis (+ a possible disaster) to a great success – allows for a cross-case analysis.**



## LIST OF NINE CASES 1974-2005

**1 Case is the summary of the key findings of the author's licentiate thesis (Palojärvi 1986)**

**Group A: Partek Concrete grows international...**

**2 Partek Concrete's growing internationally (1984-1995)**

**3 Eastern Partek being established in Singapore (1984-1987)**

**4 Partek Concrete acquiring CBR precast concrete business in Benelux countries (1987-1990)**

**5 Partek Concrete acquiring VBI in the Netherlands and Germany (1989 – 1992)**

**Group B: Partek Concrete Engineering (PCE) is born and it needs a growth...**

**6 Partek Concrete Engineering (PCE) restructuring for global markets (1992-95)**

**7 Partek Concrete Engineering (PCE) realizing Sertolovo delivery project in Russia (1991-1995)**

**Group C: Metsäliitto/Finnforest tries to add value to wood products...**

**8 Finnforest/Metsäliitto realizing its add value –strategy on wood products for Europe (2000-2005)**

**9 Finnforest realizing its FMO Tapiola delivery project (2002-2005)**

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## EXAMPLE OF A BRIEF OF PCE SERTO- LOVO PROJECT (1992-1994)

<b>Client</b>	<b>Two competing clients: (1) Wayss &amp; Freytag (Germany) and (2) GWU Consortium of German SME contractors led by Suba</b>
<b>Key co-suppliers</b>	<b>Haka Oy (Finland) for the builder's works (after the bank-ruptcy, YIT) and Hebel (Germany) for the gas concrete plant</b>
<b>Ultimate owner</b>	<b>Russian Army/Ministry of Defense</b>
<b>Financier</b>	<b>Kreditanstalt fuer Wiederbau (KfW), Germany</b>
<b>Project location</b>	<b>Sertolovo. It is located app. 12 km from St. Petersburg.</b>
<b>Strategic background</b>	<b>For new PCE, this was the fastest way to in-crease the business volume to an acceptable and profitable level.</b>
<b>PCE's scope</b>	<b>To deliver a big plant to produce precast concrete products as a turnkey project. Only the builder's works were excluded.</b>
<b>Tender object as a whole (from Client's view)</b>	<b>To deliver the precast and dry mix concrete plants incl. reinforcement steel and insulation sheet factories. The process contract price was DEM 75 and the builder's DEM 100 million. Contract period 22 months.</b>



# RISK BREAKDOWN STRUCTURE OF PCE SERTOLOVO PROJECTS (1-3)

Causative events	Source => Identified main risks	Business objectives and/or consequences	Management of identified risks
Lack of knowledge on Russian/German politics	Wrong partner => <b>(1) To lose the tender</b>	PCE's profit does not improve. This implies layoffs.	1 To find a potential German partner 2 To eliminate the competitor 3 To serve competing German clients in a neutral way
Ignorance on Russian politics	Serious political turmoil => <b>(2a) Project is aborted</b>	Fighting over claims	1 Claims management 2 Big advance payment 3 No involvement in politics
	Moderate political turmoil => <b>(2b) Project is delayed</b>	Overheads increase	1 Claims management 2 Big advance payment
Consortium structure	Weak building partner => Internal disputes => <b>(3) Project is delayed or even aborted</b>	Overheads increase  Fighting over claims	1 Claims management 2 Big advance payment 3 Personnel monitoring



# RISK BREAKDOWN STRUCTURE OF PCE SERTOLOVO PROJECTS (4-6)

Causative events	Source => Identified main risks	Business objectives and/or consequences	Management of identified risks
Elematic Engineering's managers' experience on large projects	Managers' competencies => <b>(4) Own performance does not comply with German/Russian requirements</b>	Huge losses	1 To reinforce management 2 To combine own and LPE's resources 3 To stick to technology through a direct contract with Client
Client's knowledge	Tender => <b>(5) Process scope is ill-defined-ed, a plant will not function</b>	Plant non-performance and design delays	1 To prepare a detailed tender 2 To pre-visit Client and Owner
Recession in Finland	Finnish economy's recession => <b>(6) Currency, FIM is depreciated</b>	PCE's lower profit	1 To terminate the contract currency, i.e. to fix the DEM/FIM rate



## **(C1) PRIMARY CONTRIBUTION OF THIS PAPER**

**Higher awareness of the  
causative role of the  
management of cross-  
cultural risks embedded  
within a focal firm's own  
managers**



## **(C2) FOUR PRINCIPLES OF RM WITH A CROSS-CULTURAL FOCUS**

- 1. Risks in cross-cultural, managerial competencies may jeopardize business or project goal attainment, if not identified and managed well.**
- 2. Cross-cultural competencies of key managers are considered a potential source of major risks.**
- 3. Cross-cultural risks should be identified proactively as part of managing a business or a project - managing such risks takes long time.**
- 4. Responses should be launched on the business level rather than to wait for project implementation phases where the only remaining option is to deal with the consequences of occurring risks.**

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## **(C3) IMPACT ON INTERNATIONAL CONSTRUCTION BUSINESS MANAGEMENT**

**Relevance of enlarged and integrated management of uncertainty, risk, and crisis (URC) will increase significantly in terms of ...**



## **(C4) IMPACT ON INTERNATIONAL CBM IN TERMS OF:**

- **Competent key managers need to choose and manage internal and external knowledgeable experts to manage multi-cultural complexity.**
- **Developed project RM techniques have not been applied on a business level. Many project RM methods available for business level projects.**
- **Managing cross-/multi-cultural relationships btw. stakeholders involves the early identification of and proactive response to respective risks (and their sources) - Further research is required!**