

An exploratory study of understanding project risk management from the perspective of national culture



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Abstract

Cultural influence is unavoidable in construction projects and a clear understanding of it is vital for successful risk management. This study aims to explore how culture influences contractors' risk management. A case study method is selected including four projects in China, Poland and Singapore. Data are collected through interviews and archival documents. Major risks are identified and risk management in each case is discussed in the context of Hofstede's theory. A conceptual framework is proposed to reveal the link between culture and risk management. The findings show that project risks are perceived and managed differently in different national cultures. It is indicated that *IDV* and *UAI* are the foci of attention, beyond the contributions of *PDI*, *LTO* and *MAS*, and that contractors' knowledge of the host country's national culture influences their risk management behaviors. Having such information is of great importance to improve international contractors' risk management practice.

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1. Introduction

Implementing projects in a foreign country is a high risk business activity (Zhang, 2011). In addition to the risks involved by a project's nature (Zwikael and Ahn, 2011), many factors pose challenges to international contractors: (1) different legal, social and cultural systems which are less familiar to the contractors (Liu and Wu, 2008); and (2) participants from diversified cultural backgrounds which lead to potential conflicts and impacts on construction progress (Hu et al., 2011).

Different societies have different patterns of response to the problems of social life (Hofstede et al., 2010), which are rooted in

cultural differences. Culture impacts economic performance (Casson, 1993), and has become a mainstream topic of interest within the construction industry over the last decade (Fellows, 2010). Cultural issues are expected to cause conflicts among parties and increase difficulties with project management (Chan and Raymond, 2003; Fellows et al. 1994), rendering the international contractors maladjusted and project performances unexpected (Hu et al., 2011). Essinger and Rosen (1991) define risk as "a measure of the anticipated difference between expectations and realizations", thus, culture affects the way a risk is perceived and operationalized in projects (Zwikael and Ahn, 2011).

However, as yet the study of culture is nascent; cultural processes and the consequences of/on culture are not well understood (Fellows and Liu, 2013). We thus set up an exploratory study to explore the role of culture impacts on contractors' risk management. Seeking out the answers to the questions below would be of help in shaping the relationship and planning further strategies:

(1) How does culture influence risk management?

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- (2) How can knowledge of such issues be helpful to contractors?

A case study of four different projects executed by two Chinese contractors in China, Poland and Singapore is selected and Hofstede's theory is used to assist the exploration.

2. Culture and risk management issues: national or organizational?

Culture could be defined as “the collective programming of the mind which distinguishes the members of one group or category of people from another” (Hofstede, 2008, p. 9). Such definition is applicable in both national and organizational levels. Previous cross-cultural research addressed the management issues and linked the problems to cultural differences. Hu et al. (2011) identify three levels of culture that would influence the contractor's risk management – national, organizational and individual – and they also explain their thoughts on individual culture that it consists of the professional ethics, language differences and mutual recognition between local and contractor's laborers. As such it can be viewed as sub-culture and can be classified into organizational culture. Therefore, as the “culture spectrum” announced by Fellows and Liu (2013), the likely impacts of culture will be addressed below by examining the two aspects – organizational and national cultures.

2.1. Organizational culture

Organizational culture is emphasized to develop appropriate infrastructure and capability to manage risks (Cheung et al., 2011). It is the basis of other works in the organization and is a principal aspect of an organization's function. Previous studies show that the effect of the culture in which the company operates is very significant, and argue that there are different influencing cultural factors. Liu et al. (2013) indicate that the corporate culture influences the enterprise risk management (ERM), and then influences the project risk management (PRM). Summerill et al. (2010) find that organizational culture is proactive in improving risk management in safety areas. In the transnational projects, however, different organizational cultures (even from different nations) are mixed and cultural difference exposes. Joint venture (JV) is often highlighted to cover the distance. In the JV, each firm is embedded in its home country culture, and the JV unit is embedded in the local, operating environment of the host country culture. Differences in organizational culture differentiate JV partners' risk and management practices (Ozorhon et al., 2008). Park and Ungson (1997) note that partners with dissimilar organizational cultures would expend time and energy to establish mutually agreeable managerial practices and routines to facilitate interaction, which would incur higher costs and more mistrust than partners with similar organizational cultures. Meanwhile, in the case study of an international JV in Hong Kong, Liu and Fellows (2008) find that the organizational cultures of the parent companies are consistent with their own national culture characteristics but the JV organizational culture is highly influenced by the dominant

national culture of the management team. Their statements reinforce the viewpoints of Kogut and Singh (1988) that organizational cultures are embedded in their national culture, and differences in national culture have been shown to result in different organizational and administrative procedures and employee expectations. The national culture theories and its impacts are discussed in the next section.

2.2. National culture

Differences in national cultures call for differences in project management, including the diversity of concepts (Chen et al., 2009), management styles (Zwikael et al., 2005) and the deployment levels (Bredillet et al., 2010). Such differences are all influencing the effectiveness of risk management. Empirical studies show that the practitioners' risk management differ across nations and can be attributed to the diversity of national culture. For instance, Weber and Hsee (1999) find that respondents' risk preference vary among western and eastern countries through psychological experiences; de Camprieux et al. (2007) provide evidence that such differences are influenced by the cultures; and Zwikael and Ahn (2011) emphasize that the national culture impacts the intensity of risk management process.

Various cultural dimensions can be found according to which societies differ from one another (Hofstede et al., 2010). Trompenaars and Hampden-Turner (1997, p. 29) advance five value-oriented dimensions of culture: universalism/particularism (rules/relationships), collectivism/individualism (group/individual), neutral/emotional (expressions of feelings), diffuse/specific (degree of involvement), and achievement/ascription (method of giving status); and add attitudes to time and the environment. Another large-scale application of the dimensions paradigm is the project GLOBE, conceived by Javidan and House (2001). Nine critical cultural dimensions are identified — performance orientation, future orientation, assertiveness, uncertainty avoidance, power distance, collectivism, family collectivism, gender differentiation, and humane orientation. They are aspects of a country's culture that distinguish one society from another and have important managerial implications. Meanwhile, five of the dimensions in GLOBE are considered to be similar to those uncovered in Hofstede's theory. Hofstede (1980) initially contended that there are four dimensions of national culture — power distance (*PDI*), individualism/collectivism (*IDV*), masculinity/femininity (*MAS*), and uncertainty avoidance (*UAI*), and then updated and extended with a fifth dimension (long/short-term orientation, *LTO*) (Hofstede, 2001), and a sixth (indulgence/restraint, *IVR*) (Hofstede et al., 2010a). Each of these terms existed already in the social sciences, and they apply reasonably well to the basic problem area each dimension stands for (Hofstede and Hofstede, 2005, p.24). As *IVR* has been incorporated only recently and not used very widely, definitions of only the first five dimensions are provided:

PDI: The extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally (Hofstede and Hofstede, 2005:46).

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