

# Construction Procurement

**The Impact of Cultural Differences and  
Systems on Construction Performance**

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**Volume 1**

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## A CROSS-CULTURAL EXAMINATION OF PFI WITHIN THE REPUBLIC OF IRELAND, PORTUGAL, TURKEY AND THE UK UTILISING THE SLEEPT METHODOLOGY.

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### ABSTRACT

**Objective:** To identify the cross-cultural similarities and differences of the implementation of the same procurement process in different contexts.

**Methodology:** The SLEEPT features (Social, Legal, Economic, Environmental, Political, Technological ) will be examined from source material of various projects within the stated nations. Confirming and disaffirming features will be examined utilising exogenous cultural drivers.

**Results:** The cross-cultural features of four different cultures are presented as a 'cultural compass' which will inform the development of future PFI/PPP projects.

**Impact:** The appreciation of cultural similarities and differences will have implications for effective project delivery of future PFI/PPP projects. PFI projects should be considered within the existing exogenous features of a nation. Merely implementing standardised PFI protocols without recognising the inherent differences will lead to project failures.

**Key Words:** PFI; PPP; Cross-cultural study.

### INTRODUCTION

The Private Finance Initiative (PFI) is a Government procurement model that was introduced by the UK Government in 1992 as a means of utilising private sector capital and project management skills to develop or upgrade public sector infrastructure and services such as schools, prisons, military facilities, hospitals and roads. The PFI has become an important part of UK Government's infrastructure investment programme with projects currently being signed at a rate of £3 - 4 billion per annum (Henderson Global Investors, 2003). The use of PFI model is not restricted to the UK and it is increasingly being utilised across the world in countries such as Japan, Denmark, Canada, Australia, Greece, Portugal and South Africa.

The launch of PFI in the UK marked a dramatic shift from the general presumption against the use of private finance in social infrastructure projects which had previously existed in the UK (Hall, 1998). Private infrastructure financing is the fastest growing method of financing the construction of assets needed for public services. In the short-term, PFI projects shift more risk onto construction firms (private sector), but over the longer-term, PFI funding can help to reduce the impact of economic cycles by providing more stable cash-flows (in concession period).

### Key concepts of PFI

- Purchase services not assets;
- Value for money;
- Risk management;
- Incorporate private sector know-how and expertise; and
- Whole life-cycle costing.

### Key drivers of PFI

- Need for better facilities and infrastructure;
- Demand in public sector services;
- Search for efficiency and creativity;
- Search for Innovation
- Financial need; and
- Desire to introduce competition.

### Key enablers of PFI

- Political framework: political will or commitment;
- Legal framework: documentation not excessively complicated;
- Public acceptance: acceptance of private sector involvement; and
- Quality practitioners: experienced project sponsors.

### Key PFI characteristics

- Capital investment from Private Sector;
- Output specification for *Services*;
- *Operation* and *Service* content;
- Charges for *Service* availability; and
- Risk allocation to *managing* party.

In PFI procurement the public sector defines *what* the services will be and the private sector determines *how* those services will be provided. This form of procurement gives more certainty of the end product since its solution lie in an *output oriented approach*. This means that the public sector establishes the result it wishes to have and the parameters and constraints within which those results are to be delivered, but within those parameters and constraints it leaves it to the private sector partners in the PFI to determine the best way of achieving those results. According to Akbiyikli and Eaton (2004) the PFI's philosophy is: '*A government policy to tackle financial problems in service provision and to integrate management skills to increase efficiency, effectiveness and quality and to exploit new opportunities.*' Therefore because of the increasing globalisation of PFI/PPP as a procurement philosophy, the appreciation of the cultural differences between nations will assist in minimising the potential difficulties of applying PFI within differing cultural and social 'systems'

## CROSS-CULTURAL METHODOLOGY

This study is an initial developmental study. It aims to identify the key features in each of the national environments so that necessary and sufficient consideration can be given at the initial concept phase of a PFI to attempt to minimise the intra-cultural conflict. A holistic and hence generalised cultural

perspective is presented based upon a 'cultural compass' approach (Lessem & Neubauer, 1994). For the purposes of the 'cultural compass' the UK will always be the West point of the assessment. There is a presumption that the other countries will have a general location, but that for specific features the general location will be altered. Therefore the starting assumption within this paper is that 'generally'; Ireland will also be 'West'; Turkey will be 'East'; and Portugal will be 'South'.

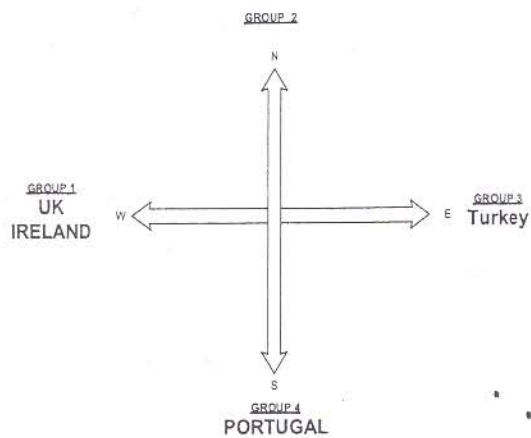


Fig. 1 'Cultural Compass'

The 'cultural compass' as presented within Fig. 1 covers 2 members of the 'West' grouping, one member of the 'East' grouping and one member of the 'South' grouping. It has not been possible to collate and correlate a 'Northern' member within this paper.

**SLEEPT** (Social, Legal, Economic, Environmental, Political, Technological) is a methodological approach to risk identification. It is based on the segregation of activity into component parts both endogenous and exogenous of the unit of appraisal. This segregation has been adopted in the cross-cultural examination of PFI/PPP as presented below.

## SOCIAL

The social and cultural 'norms' within a nation can significantly alter the behaviours of people. They will also affect the operation of systems and structures and consequently the strategies that are put in place to achieve effective and efficient operations should be tailored to the 'social norms'. The first aspect examined in Fig.2 is the generalised cultural philosophy. The UK and Ireland are classified as 'pragmatic', Portugal is 'humanistic' and Turkey is 'holistic'. Fig.3 then develops a philosophical situational response to 'problem solving. In this the UK and Ireland are once again co-located as 'action' orientated – get it done quickly, experimental approach. The Portuguese approach is again base upon a humanistic approach and is related to a 'Feeling' or emotional response. The Turkish response is more 'reflective' and considered.

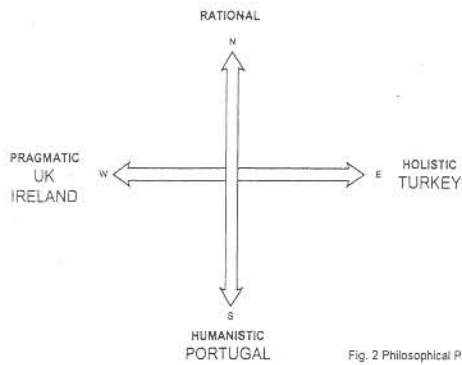


Fig. 2 Philosophical Perspective

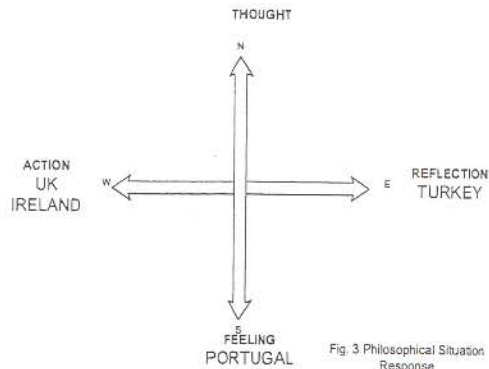


Fig. 3 Philosophical Situation Response

## LEGAL

The national legal systems have a significant bearing on the cultural responses to construction activity. The original PFI philosophy has originated within the UK common law legal system. Translating that common law approach to other legal systems has inherent difficulties. In some nations issues that would appear to be pre-determined can unravel as disputes move away from site and into the courts. Fig.4 presents a synoptic review of the prevalent legal philosophy.

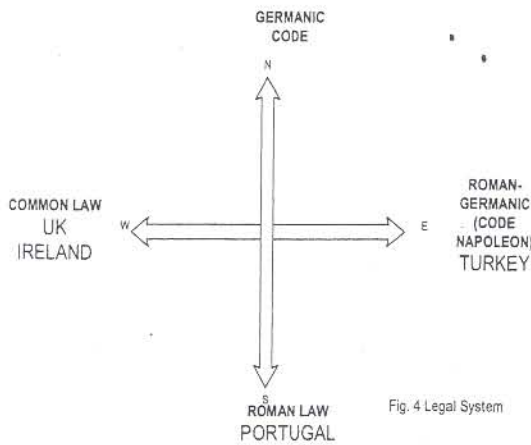


Fig. 4 Legal System

A further legal difficulty within PFI is the settlement of contractual disputes. The legal responsibility of the parties alters on a national basis. Fig.5 identifies the typical approach to dispute resolution. The UK and Ireland has a strict legal liability approach. In Portugal disputes are referred to the local 'college' for resolution, whilst in Turkey the approach is based upon informal negotiation.

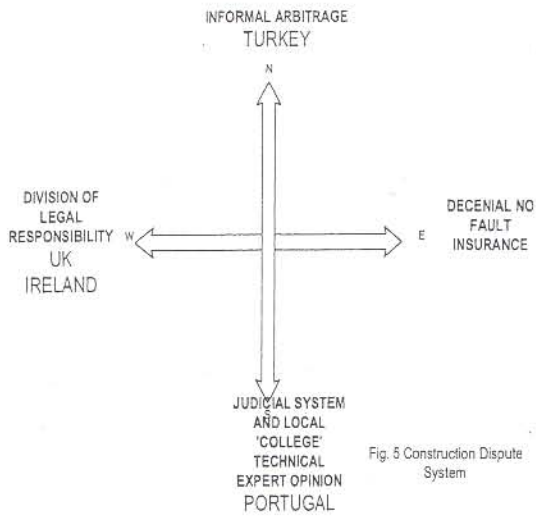


Fig. 5 Construction Dispute System

A further significant difference in the legal approach is the consideration of longevity of relationships. In the UK the legal approach is that each contract is treated independently as a one-off agreement. In Ireland there is more consideration of the longer term effect of disputes. In Portugal the dispute resolution has a tendency towards individual relationships. The continuance of 'good' relations between particular senior individuals is more significant than the strict legal responsibility. Turkey has a combination of the individualistic approach of Portugal and the Partnering approach of Ireland.

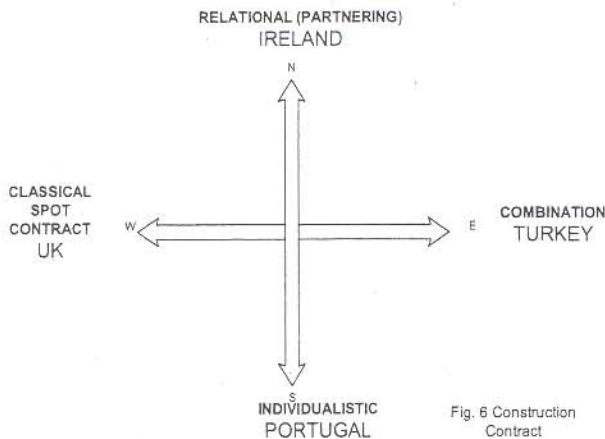
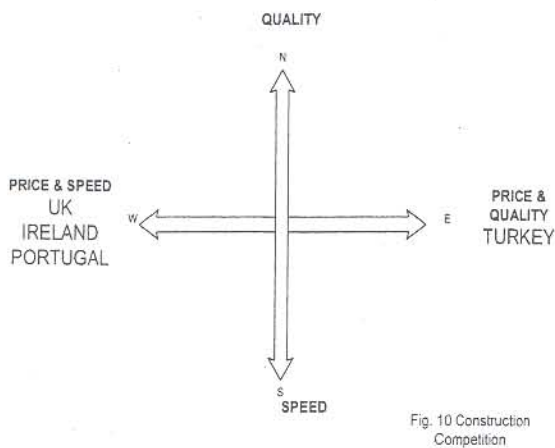
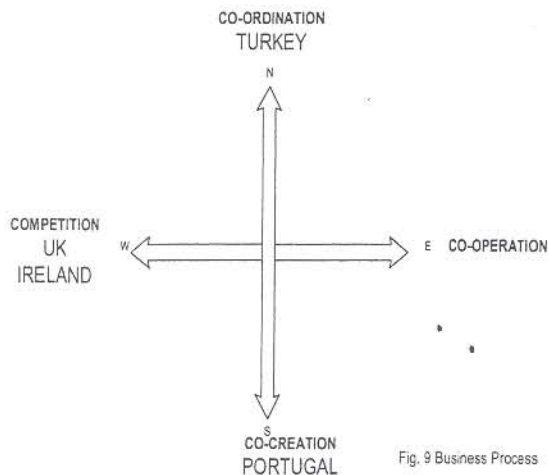
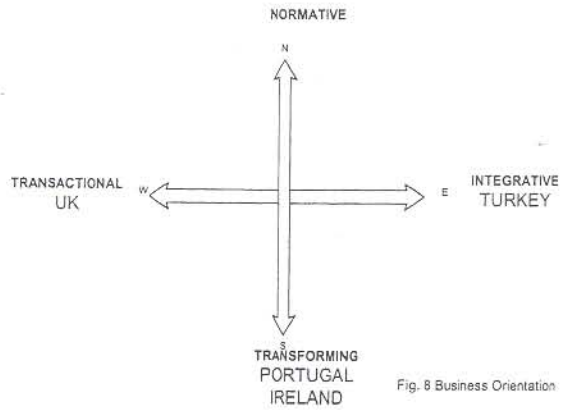
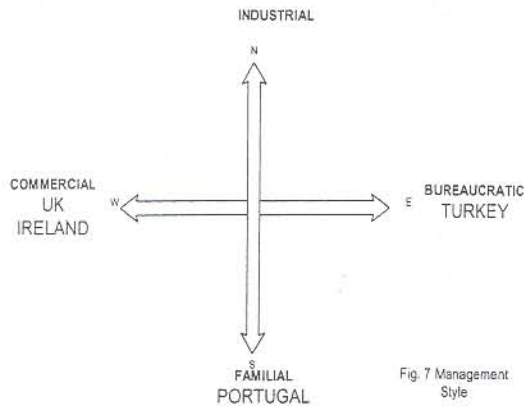


Fig. 6 Construction Contract

## ECONOMIC

The management style (Fig. 7) as applied to UK and Ireland PFI projects is 'commercially' oriented. The projects are commercial self-contained cost centres. The typical SPV (Special Purpose Vehicle - concession holder) Co. may place the construction and operational contracts with subsidiaries of the same Company group. However they will treat the subsidiary in exactly the same way that they would treat any other contractor. The Portuguese approach would be to consider the implications for the whole group or 'family' of companies. The Turkish approach would be a recognised 'Bureaucratic' approach.



Figures 8, 9 and 10 identify other differing aspects of the economic application of cultural diversity within PFI projects; namely business orientation, process and competition basis.

## ENVIRONMENTAL & POLITICAL.

Within the allocated space of this paper it has not been possible to present the environmental and political differences.



## TECHNOLOGICAL

Figure 11 presents technological differences in the approaches to project delivery. PFI is effectively achieved within the UK and Ireland using local contractors because of the historical prevalence of large main contractor companies. Portugal does not have the preponderance of large local contractors and PFI projects will have to create local consortia. There is also the possibility of creating 'smaller' sized PFI projects to accommodate the 'smaller' sized Portuguese contractor. Turkey has a few large contractors capable of sponsoring PFI, but their capacity is such that they will have limited scope to cover the anticipated demand. In such circumstances the creation of joint ventures between 'smaller' local companies and the large international contractor will be almost inevitable. This will be accompanied by the associated cultural and social difficulties indicated above.

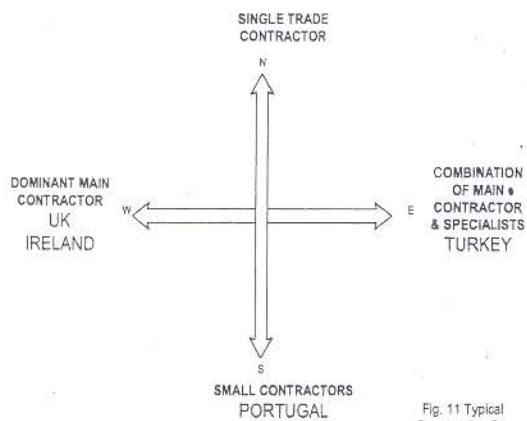


Fig. 11 Typical Construction Co. Characteristics

Figure 12 presents the comparison of 'consultants' control and regulation. Separate and independent professions within the UK and Ireland are replaced by state regulation in Turkey and by local 'college' control in Portugal.

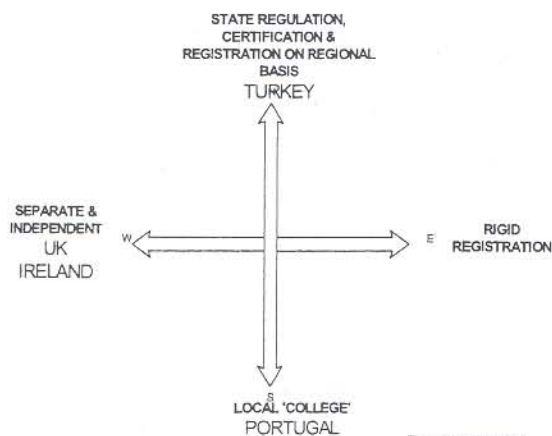
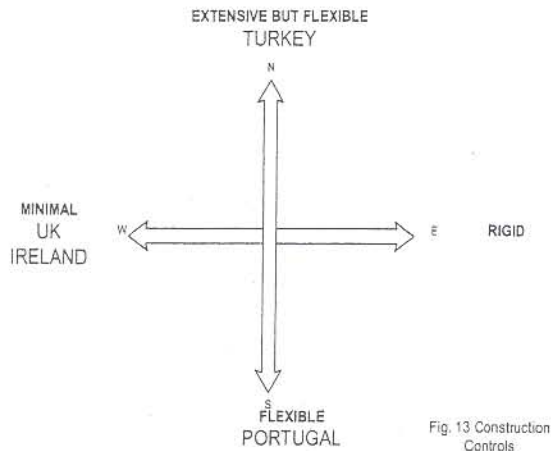


Fig. 12 Professional Controls

Figure 13 reflects the differences in the degree of construction regulation. The delivery of acceptable projects complying with national regulations will inevitably require different approaches based upon the local conditions.



## CONCLUSION

A short paper such as this inevitably contains many features that are approximated or generalised. Figure 14 presents a summary of the features identified within this research and presents a model that can be elaborated to contain many more nations. However the appreciation of cultural similarities and differences will have implications for the effective project delivery of future PFI/PPP projects.

Fig.14 presents a number of important features indicated by the hatched lines. The North/South hatched line indicates a distinction based upon the complexity or simplicity of the project documentation. To the West (i.e. UK and Ireland) the project documentation would be complicated and highly detailed whereas to the East (i.e. Turkey) the documentation would be less complicated with details being developed by the facilitation of the functional personnel. The Northwest/Southeast line differentiates between the Facilitator and the Interpreter. The UK, Ireland and Portugal would expert the interpretation of the detailed contractual documents, whilst in Turkey the documents merely facilitate the delivery of the project objectives, much of the detail would be developed as the project proceeds. Thus a looser more personal relationship approach would be required. The Southwest/Northeast line differentiates between project deliverables. The UK and Ireland delivering PPP/PFI projects to demonstrate national changes via psychological change in perceptions. Whilst in Portugal and Turkey the project deliverables relate to improving the basic quality of life and demonstrate a radical humanist approach. The Southeast/Northwest line indicates a similar theme based upon structural improvements in the UK, Ireland and Portugal, whilst the projects in Turkey reflect a demonstration of social progress. It would be important to overlay the hatched line grid to the individual figures within the paper to represent an appropriate style of project development for particular aspects.

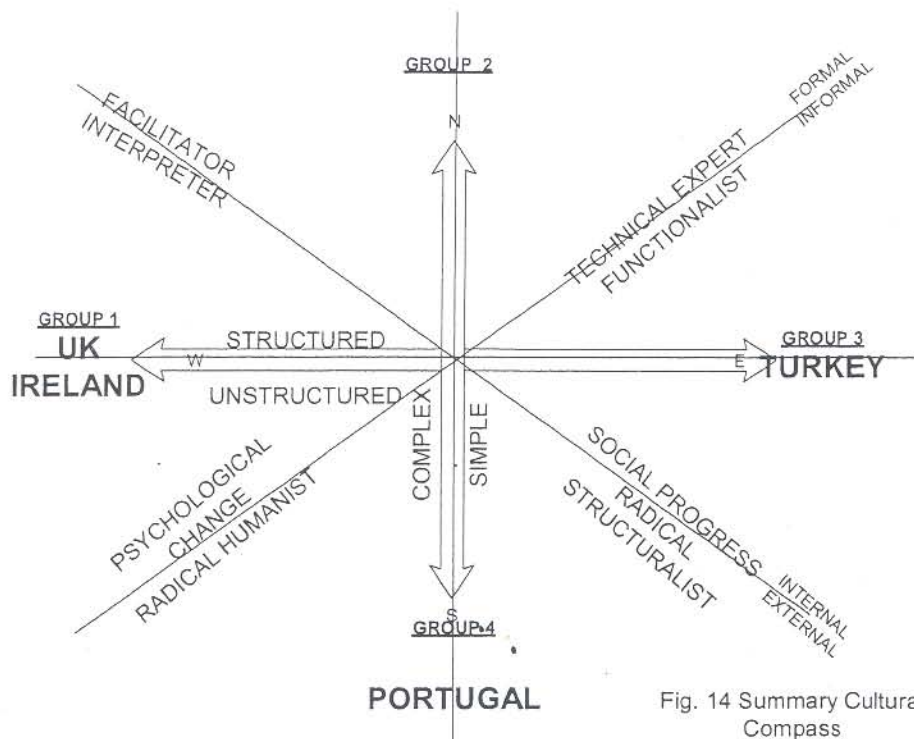


Fig. 14 Summary Cultural Compass

This paper represents a synoptic review of the work and a detailed analysis of the implications cannot be presented within this paper. The model is not presented as a prescriptive model but as advisory to the modification of PPP/PFI operational protocols.

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