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THE KHUS PROJECT: cultural CONFLICT

Lei Huang, William Wei, and Phillip Swallow wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was a hot summer day in May 2016 when Li An, the president of the Pakistani branch of the China Guangxi Corporation for International Techno-Economic Cooperation (GCITEC), received a startling phone call. He was informed that an important international joint venture between his enterprise and a local Pakistani partner was in imminent danger of collapsing. The call came from Fang Yang, the leader of the Chinese team. Yang shared the news of an ongoing standoff between the two sides. An embarrassing and unprofessional public altercation between Kazen Assif, the head of the Pakistani partner, and Han Chen, the chief engineer of the Chinese team, had poisoned the relationship between the two sides. Unfortunately, this was just the latest in a string of interpersonal conflicts between the two teams—interpersonal issues and cultural misunderstandings had festered for months—and was the most serious to date.

Following another week of controversy between the two sides, costs began to increase, and the profits that would result from meeting the deadline were threatened. The persisting conflict put the entire project’s financial viability at serious risk. On top of this, more lasting repercussions were possible. With GCITEC being a major Chinese contractor, the failure of this project could harm its potential to successfully bid on other, more lucrative, contracts associated with China’s Belt and Road initiative, which was a development strategy adopted by the Chinese government. With this in mind, An was faced with a choice: find a way to renew the partnership and fix both the immediate personnel conflict and its underlying factors, or, if the conflict was beyond reconciliation, dissolve the joint partnership and bear the cost of this choice. What should An do?

The Khus project background

The Khus Project, which centred around constructing a canal in the Khus area of northern Pakistan, was created through a partnership between multiple international actors (see Exhibit 1) and was part of China’s Belt and Road infrastructure initiative. The GCITEC played a central role in the partnership as mediator and contactor, whose major responsibility was coordinating the relationships among all of the project stakeholders. As the first contractor and the one with local connections, Assif & Sons Ltd. (Assif & Sons) mainly dealt with the employment of the labour force and the procurement of construction materials. GCITEC was responsible for providing the operating capital and technical support and ensuring that the construction quality complied with international construction industry standards.

The partnership between Assif, of Assif & Sons, and An, of GCITEC, was established during the bidding process for the project. With the support of the Pakistani government, the two parties reached an agreement, with GCITEC as the project executor. The Chinese side contributed a well-trained construction team capable of completing water projects in harsh conditions and a sum of US$2 million in operating capital. The joint venture was thus established to complete the project.

When the Chinese team from the GCITEC arrived in Pakistan in November 2015, they encountered formidable problems with the project. The financial issues were significant; basic salaries and the supply of daily materials were not in place, resulting in ineffective management and low work efficiency. A more structural problem lay in the potential divergence between management styles of the two teams. Especially worrying for the Chinese team were early warning signs of Assif & Son’s more informal and disorganized project management. For instance, the dispatching of labour and equipment was a mess; material breakage was substantial; the prices of many items were soaring, while construction claims were lagging; and the client had even delayed payment for some completed portions of the project.

Chinese experts helped improve the overall management of the project—management standards were put in place for the measurement and verification of construction materials. Inbound and outbound inspection systems were created to measure material use and to control material consumption. The financial system was improved by a supervised disbursement schedule. Thus, the concrete benefits arising from the co-operation between the two sides were proven from the start.

Long-term sources of Conflict

Although the co-operation met with initial success, over time the relations between the two partners soured, and resentment began to build on each side. There were three major long-term sources of conflict between the Pakistani and Chinese sides. First, the Chinese team was ill-prepared for the environmental features of the Pakistani region, such as the local culture, corruption, and labour relations. Second, the structure of the project put pressure on the joint venture to deliver, with the International Development Bank not trusting the Pakistani side. Third, differences in the management styles of the two sides were thrown into greater focus by the remote situation of the camp, which forced people to work in close quarters. These long-term stressors combined to create the perfect conditions for the major incident that threatened failure for the project.

The Chinese team worked on the Khus Project for more than half a year, without any breaks. The exhaustion felt by the team was exacerbated by the unfamiliar environment, for which the Chinese team was quite unprepared. The institutional differences of a developing country with poor governance were especially significant for the team. The Pakistani culture itself was also quite different from what the Chinese team was used to.

The camp was located in a desolate area. Afghan refugee camps were the only inhabited settlements around the canal. The nearest town, Dera Ismail Khan, was more than 10 miles[[1]](#footnote-1) from the camp, and the Chinese team members seldom went there for recreation. Most workers spent their days in the dorm, in the office, and at the construction site. Security was also a constant concern, forcing the Chinese engineers to stay close to the camp.

The Chinese crew also brought their own dietary habits to this foreign country. Within several months of arriving, the Chinese workers had travelled tens of miles to hunt birds, snakes, boars, foxes, crocodiles, turtles, and so on. This was a problem because Pakistan, as a Muslim country, was sensitive about the preservation of wild animals. Two engineers were even beaten by a local landlord for hunting frogs in his paddy field.

The Chinese workers found the Pakistani labour culture shocking. Assif employed 13- and 14-year-old children as full-time labourers, and workers would often bring their young children and babies to the scorching hot construction site.

Corruption was another aspect of the Pakistani environment that created tension. Pakistan ranked higher than China on the corruption index—out of 180 countries, it was ranked 117th by Transparency International.[[2]](#footnote-2) Bribery was common in cross-national projects such as the Khus Project. For example, one day, when the project was awaiting approval, Ha Long, the consulting engineer failed the approval without even inspecting the site. He indicated that the “problem” would be solved after a payment of 20,000 Pakistani rupees. The Chinese team refused to make the payment. Long then protested that Zhong Xinyu, the construction engineer, had behaved unprofessionally and violated construction regulations.

When Yang consulted Assif about these issues, Assif told him that his complaints were out of touch with the reality of the local Pakistani conditions: “You Chinese are too naive. You have not the slightest clue about the conditions in Pakistan.” Assif also warned Yang, “You’d better mind your own business.”

Another source of conflict was in the differing approaches to management within the Chinese and Pakistani teams. In terms of management, the Chinese generally adopted a detail-oriented and technical management style, while the Pakistani team’s style was personal and involved physical intimidation and micromanagement. This difference could be seen in the professional backgrounds of the leaders of each side.

Yang and Chen were the top leaders and decision makers of the project on the Chinese side. Yang, who was 56, had graduated from a prestigious university in China and was the director of the supply bureau of the hydro power department of a province in China. Chen, 55, had graduated from a national top university and was the director of the hydro power bureau of a district in China. With their backgrounds, the two Chinese executives were obsessed with solving technical problems. Their managerial philosophy was permissive management. Most of their efforts had been aimed at directing technical processes on the construction site and tackling technical problems.

While this management style worked well in China, Yang and Chen were not well-prepared for how different their roles would be in Pakistan. The two leaders were not prepared for the details of the project, having done little in-depth study related to the project beforehand. Especially lacking was a nuanced understanding of Pakistani culture and society. The offices of the Chinese engineers contained mostly technical files with little serious background information or material about the operating conditions in Pakistan.

This lack of understanding was exacerbated by Assif’s aggressive management style and lack of patience for approaches other than his own. Assif’s background contrasted with the background of the decision makers on the Chinese side.

Assif had had his first break in business in the United Arab Emirates (UAE) years earlier, when as a migrant worker he had tendered for an oil pipeline transmission project with an American petroleum company. It was considered to be a difficult project in an extremely hostile environment, so when Assif and his team accomplished it ahead of schedule, maintaining a high quality of work, Assif gained a good reputation with the U.A.E. government and the American company consulting on the project. The project also resulted in a handsome profit, and the client provided a bonus to Assif, making him wealthy. This initial windfall got Assif & Sons off the ground.

Assif & Sons was a typical family enterprise, with all of the shareholders being members of Assif’s family. Assif himself was the primary stockholder, followed by his wife and four sons, who held differing amounts of stock. Apart from the executive manager and some members of the financial and technical staff, all the important managerial seats were held by Assif’s relatives. This family team was key to Assif’s company and was, he believed, the source of his success in business.

The insight he had gained from the U.A.E. project steered his managerial philosophy: industriousness was the only key to wealth, while leisure was the death of it. For him, time was money. What pleased Assif most was to see engineers running about the construction site around the clock instead of sitting in the office.

Physically imposing, Assif intimidated and inspired in equal measure. Assif established his authority through physical displays of anger and discipline. Most staff considered him mysterious and invincible. His enterprise was a typical labour-intensive family business, with a corporate culture of submission to authority.

An incident early on in the project demonstrated how this management style directly conflicted with the Chinese style. When the Chinese team first arrived in Pakistan, they brought with them the Chinese tradition of taking an hour-long nap after lunch. This tradition was scorned by the Pakistani team, who saw it as laziness. One day, Assif and his assistants decided that enough was enough—the Chinese team needed to return to work. They kicked open the doors of the Chinese dorm and began to rouse the sleeping Chinese engineers with cursing and yelling. One Chinese project manager, infuriated, accused Assif of being disrespectful; this Chinese manager was fired at Assif’s insistence. Assif demanded an end to the practice of napping after lunch and forced the change on his newly arrived Chinese counterparts. However, the Chinese, not used to the heat of northern Pakistan, were unable to work efficiently without this break; as such, the nap was reinstated after the intervention of the headquarters in Karachi.

The final source of conflict was the tension that resulted from how the project was structured. Because the project was funded by the International Development Bank, there was intense scrutiny to ensure the project met quality-assurance standards. Some of the people involved in the project distrusted what the bank initially expressed about the teams’ qualifications and capabilities. Because the project was tendered for at a very low price, 18 per cent less than the base contract amount, there was already a deficit before work on the project began. According to the contract, Assif had to guarantee 7 per cent of the gross investment to the Chinese counterpart, regardless of the project’s final profit or loss. This put more pressure on Assif and led him to cut corners financially.

These conflicting incentives were evident when the International Development Bank issued a memo to a local subcontractor, operating under Assif, concerning the poor quality of the teams’ earthwork. The bank found that the subcontractor had failed to meet the specification of having 90 per cent compaction every two feet and further accused the subcontractor of failing to demonstrate adequate management skills or an appreciation for quality control in the project. The bank’s inspection team expressed doubts about the quality of the work that had already been finished and suggested that the contractor be replaced with a more capable one if the noted issues were not rectified.

This crisis was only settled after the expenditure of much time, energy, and money. The episode exacerbated tensions between the Pakistani and Chinese teams, as both sides blamed the other for the problem. Assif became discontented with the Chinese engineers, and the Chinese team began to question the judgment and managerial competence of Assif’s team.

A further problem was the unsolved claim upon the variation of the project design. Chief Engineer Chen had identified serious faults in the original design of the project. A fatal flaw in the surface of the optical canal caused leakage and collapse; Chen discovered that the leakage stemmed from a substandard ratio of aggregate, sand, and cement in the concrete mix, which, due to the steep gradient of the canal slope, had led to collapse. If left unaddressed, such a design would result in the long-term instability of the canal’s foundation. A claim for variation of the design had been proposed. Considering that the project mainly involved concrete work in a canal and along a canal slope, reducing the gradient of the canal slope would greatly increase the amount of construction required, and changing the mixture ratio of the concrete materials meant that a recalculation of the project’s previous bill of quantity would be necessary. Such a variation would mean a potential profit loss for the project. However, it had been two months since the submission of the claim documents, and there was no further confirmation from the authorities. This situation had led the Pakistani team to distrust the Chinese team’s abilities, especially Chen’s.

The Incident

Assif’s resentment toward the Chinese team grew because of these incidents, and the long-term sources of conflict combined to set the stage for a major and destructive argument between the two sides. This incident occurred six months into the Khus Project and precipitated a major breakdown in relations between the two sides, threatening the survival of the project. The confrontation could be summarized as follows.

Chen and several Pakistani engineers had arranged to meet to survey the culvert structure of a sub-branch. Chen and Zhong drove to the spot and began to unload the required equipment. As they did, Assif rushed toward them, angrily scolding them and accusing the Chinese team of being late and disorganized. “Go back to your country. We can do this on our own,” Assif roared at Chen and Zhong, growing violent in his fury. Assif stormed up to the survey equipment set, grabbed the theodolite (an expensive piece of equipment), and smashed it onto the front windshield of Chen’s car. To make matters worse, the entire argument happened in front of a crowd of Pakistani labourers, who had stopped their work to watch.

The Chinese managers, recovering from their shock, jumped into their car and sped away. When Chen told the story later to his colleagues on the Chinese team, Yang bristled with anger. “It is absurd! Who does he think he’s dealing with? Are we supposed to be bullied like this?”

Yang called a meeting of a team of about a dozen Chinese structural engineers, civil engineers, mechanical engineers, accountants, and interpreters. The unified Chinese team took the insult as a sign of disrespect to the entire crew. They agreed that Assif had created a hostile work atmosphere and that this latest incident was too much to accept. Chen even threatened to leave the project for good.

The meeting lasted for nearly two hours and was filled with complaints and criticisms against Assif. Some argued that the intense work atmosphere had inflicted serious negative effects on their work and life. Most believed there was no point in carrying on with the project.

At the end of the meeting, the team decided on the following course of action. First, the Chinese team would terminate all site work from that day on, leaving the site for three days. During that time, Yang would negotiate with Assif to secure an apology to Chen; otherwise, the suspension would be indefinite. However, the team still hoped to resolve the conflict without the involvement of upper-level management, so they decided to wait to contact headquarters.

Two days passed, and Chen and the Chinese team had still not received an apology from Assif, as they had expected they would. The project resumed using the Pakistani team’s own engineers and supervisors, without support from the Chinese team.

Without the presence of the Chinese engineers, the project encountered significant difficulties. First, the Pakistani surveying engineers measured the height of the canal incorrectly, measuring the height of the canal head as lower than that of the tail. This meant that the water could not flow to the tail of the canal if the construction was completed according to this measurement. The supervisor discovered this problem and reported it to the client, who immediately issued a written warning to the joint venture. On top of the warning that had already come from the International Development Bank, this incident further eroded the trust that the bank had in the management abilities and quality control of the Pakistani team. Another serious problem was the delay of the construction of a big culvert due to the absence of the Chinese engineers. These problems demonstrated the potential serious repercussions of the incident.

By the third day, the cold war between the Chinese team and the Pakistani team had not abated. Neither team wanted to sue for peace at the cost of losing face. On the fourth day, Yang, despite his fear of escalating the crisis, reported the case to An, the president at the Karachi headquarters. This was where the situation stood when An was first notified of the incident between Chen and Assif and of the ongoing standoff between the two sides.

WHAT NEXT

An was faced with a decision: redesign the project in order to salvage it, or dissolve the partnership. He understood the history of the case and realized that the roots of the conflict lay in the significant differences in the management styles and cultural backgrounds of the two sides. On the one hand, if An decided to salvage the partnership, he had to consider both the immediate and the underlying conflict. Although it could be relatively straightforward to resolve the personality conflicts between Assif and Chen, the underlying tension could persist, meaning that conflicts would be likely to recur. On the other hand, if the roots of the conflict ran deep enough, and if it would be inordinately difficult to save the project, it might be better in the long run simply to scrap the joint venture.

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Exhibit 1: Khus project orGanization chart

**D Bank (Lending Bank)**

**WAPDA (Client)**

**LG Joint Venture (Contractor)**

**Subcontractor A**

**Subcontractor B**

**Subcontractor C**

**Supplier A**

**Supplier B**

**British Consultant Organization**

**American Design Company**

The Khus Project, also known as the Khus River Right Bank Canal Scheme, was an international contracting project that covered a total length of 250 kilometres (km) throughout northwestern Pakistan. The goal of the project was to reroute water from the Indus River to an arid, semi-desert region. It was hoped by the locals that the project would enhance both the area’s agriculture and the drinking water supply of the local population.

The project was a priority of the Water & Power Development Authority (WAPDA) of the Pakistani government. While Pakistan’s government supported the project, it would not be possible without the use of funds from low-interest loans granted by the International Development Bank. The project was therefore issued by the WAPDA and jointly funded by the International Development Bank (79 per cent) and the Pakistani government (21 per cent), with a contract amount of 500 million Pakistani rupees (US$30 million).

When a project was contracted internationally, government sectors selected a foreign contractor, through a tender-and-bidding process, to complete a project in accordance with the prescribed conditions. The Khus Project was divided into seven phases, with each phase covering 35 km, through respective tenders, with total bids reaching more than US$500 million. The key players in the project included a British consultant organization that employed local engineers for supervision and British staff for office work. This consultant brought a guarantee of quality and was responsible for ensuring that the time scale of the project complied with the requirements of the tender documents. On the ground, the contractors bid for project construction tenders. They were paid through an interim payment based on the bill of quantity completed monthly by the contractor and inspected and confirmed by the consultant organization. Most subcontractors were typically smaller local companies that acquired a certain portion of the project from the contractors. This contract structure put pressure on the contractors to maintain a tight construction schedule.

The international construction sector had been a prominent avenue for Chinese international investment, especially when construction projects were conducted through Chinese government strategies. The International Economic and Technical Cooperation Company was a Chinese state-owned corporation that followed this trend by contracting the Khus Project. The individual project undertaken by the state-owned corporation was the construction of a 36 km canal. The canal’s specifications involved depths of 5 to 10 metres and widths of 7 to 30 metres, with linings on three sides. The main canal had a total of 20 branching lines, increasing the total length of the project to 180 km. The main structure contained nine bridges, 44 road coverts, 110 aqueducts, 10 siphons, 10 conjunctions, two railway coverts, and 201 outlets. The scale of the project was demonstrated by the fact that earthworks were required for 2.06 million square metres, concrete works for 12,000 square metres, brick lining for 2,830 square metres, and reinforcement for 1,200 tons.

Source: Created by the case authors.

1. 1 mile = 1.61 kilometres. [↑](#footnote-ref-1)
2. “Corruption Perceptions Index 2017,” Transparency International, The Global Anti-corruption Coalition, February 21, 2018, accessed May 7, 2018, www.transparency.org/news/feature/corruption\_perceptions\_ index\_2017. [↑](#footnote-ref-2)