

Critical Success Factors in International Development Project Management

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ABSTRACT

International Development Project environment is far more complex than domestic projects in industrialized countries. The World Bank Group's data and other evidence suggest high incidents of challenged international development projects. There are many internal and external, visible and invisible factors that influence the environment and create a high amount of risk in accomplishing the project objectives. This paper elaborates a conceptual framework for international development project management and the characteristics of international development projects, which should be taken into consideration during the project initiation and project planning phases in order to enhance project success.

This paper also identifies the factors that cause completed or in progress international development projects to be challenged. The factors have been classified into ten categories based on their nature. These cover issues of political, legal, cultural, technical, managerial, economical, environmental, social, corruption, and physical. This paper describes these factors with a view to understand their nature from the perspective of the project managers who are required to manage international development projects.

1. INTRODUCTION

The international development project environment poses special problems for the project managers due to inherent characteristics. The World Bank Group's data (World Bank, 1999) and other evidence (Bastani, 1988, Beamish, 1993) suggest high incidents of challenged international development projects. This paper attempts to identify the factors that cause completed or in progress international development projects to be challenged. The factors have been classified into ten categories based on their nature. These cover issues of political, legal, cultural, technical, managerial, economical, environmental, social, corruption, and physical aspects.

This paper elaborates these factors with a view to understand their nature from the perspective of the project managers who are required to manage international development projects. The government can often influence some of these factors.

1.1 Political Factor

Political factors refer to issues at the national level and regional level including inconsistency in policies, laws and regulations, and political instability. From development project's perspective, these factors contribute to an environment of uncertainty on return of capital investment. For example, political uncertainty and lack of

transparency in policy decisions affected the growth of cellular network of RPG Cellular project in India. In most of the instances, the probability of occurrence of political factor is small but its impact is relatively large.

Political instability coupled with underdeveloped institutions and lack of awareness in the people may result in frequent change of governments or stimulate abrupt change of policies adversely affecting the successful achievement of development project objectives. Several associated factors that may prompt political challenge to the project are:

- Political takeover or military coup
- War or revolution
- Allegations of corruption causing government resignation, and
- Nationalization of assets with or without adequate compensation.

1.2 Legal Factor

Legal factors refer to unexpected changes in government policies pertinent to laws and regulations and currency conversion; absence of appropriate regulatory systems; rates and methods of taxation including customs, royalties, convertibility of currency; role of local courts in arbitration; and the methods by which electricity tariffs are set and approved.

Cho (1999) attributes the legal challenge to the change in any legislation or agreement set by the government related to the following issues: pricing, taxation, royalties, ownership, arbitration, convertibility, corporate law, accounting rules, funds remittances, process regulation, and environment issue.

1.3 Cultural Factor

In the context of international development projects, cultural issue is the least known but the most hazardous. Staudt (1991) states that “Understanding culture is the starting point for learning the meaning of development [management], the values that guide people’s actions, and the behavior of administrators...Cultural differences emerge in many types of development settings, from assumptions to project design to technology transfer and management styles.”

In international development projects, many of the financial institutions require recipient countries to engage foreign consultants to assist with project preparation and implementation due to lack of the needed technical or management skills available in the recipient countries. The international consultants have different socio-cultural background than the beneficiaries, may not be familiar with local resources, and are accustomed to different approaches to engineering and project management practices. This causes conflict of interests, extra pressure on executives, and frustration, which restrains or obstructs project progress and often leads to lost opportunities, directing of development efforts at wrong groups, project cost overrun, and schedule delays.

Cultural misfit of the project objectives and a lack of local knowledge and understanding can result into rejection of the project by the intended beneficiaries. In order for these projects to be successful, the project manager must take cultural factors of traditions, values, customs, and beliefs into consideration at the project planning stage itself so that project objectives are consistent with the values and customs of the beneficiaries.

1.4 Technical Factor

Technical factors refer to use of technology including design, engineering, procurement, construction, equipment installation, and operation of the equipment and its compatibility with accomplishment of project objectives. International development projects are located in the developing countries, which lack adequate resources, technical and managerial skills, and have low human capital productivity. Therefore, project design standards, specifications, and construction methods must be carefully selected so that they will be appropriate to the local financial, human, and material resources required during both the implementation phase of the project and its subsequent operation.

1.5 Managerial/Organizational Factor

Managerial or organizational factors refer to inadequate or ineffective management of the project by project sponsor or project management agency. The events in managerial factors include the following:

- Inadequate communication
- Unclear objectives
- Too optimistic goals in relation to project cost and schedule
- Lack of project sponsorship
- Unclear lines of responsibility, authority, and accountability
- Slow and cumbersome decision-making process
- Lack of training of the local staff for sustainability, and
- Lack of end-user participation.

For example, the lure of soft funding from the World Bank pushed the approval of Haryana State Power Restructuring Project in Haryana, India without a clear understanding of the project objectives and strategy to accomplish the goals (Devasahayam, 2000).

1.6 Economical Factor

Economic factors refer to the issues influencing the economic feasibility of the project including the changes in domestic economic conditions of the recipient country or inaccurate project development plan due to unpredictable economic conditions. This may be caused by increased competition, decreased consumption, and regulatory changes requiring changes in selling price of the product or renegotiating concessions awarded to the project and would reduce the profit margin. In Pakistan's AES Pak Gen Project, regional power authorities sought tariff reduction after change of government. This conflict has still not been resolved, as the company states that tariff reduction will erode their profits (The News, 2000).

1.7 Environmental Factor

Environmental factors refer to issues in conflict with established environmental regulations of the recipient country. This comprises pollution related issues such as noise, air pollution, water pollution, and visual disturbances and those related to natural resources such as unsustainable use of natural resources including minerals, water, land, and flora and fauna. For example, in Upper Bhote Koshi Hydroelectric Project in Nepal, vibrations due to construction caused house cracks, dusts, noise, and mud (Ghimire, 1998).

Until mid-1980s, environmental concerns fared far less in the development of project appraisal, as the basic benefit-cost criterion was the main consideration for selecting projects. Lately, the IDFI's have realized that severe environmental degradation can affect a country's macro-economic performance over the long run. If not dealt with appropriately and early, environmental problems can eventually impose a heavy burden on an economy and hamper country's economic growth. To counter such denigrating effects caused by development projects, Wilson (1997) suggests integrating a proper valuation of the environmental effects of the projects in order to improve the conventional methods of project evaluation.

1.8 Social Factor

Social factors refer to social environment of the recipient country and encompass the following:

- Hostility due to religion, customs, and ethnicity of the project participants
- Social uprising or riots due to ethnicity or polarization of social strata (i.e. rich may become richer and poor become poorer thus increasing rich to poor gap)
- Security of the stakeholders
- Overestimation of capacity of the beneficiaries, and
- Resistance of the beneficiaries to new social values and standards or to absorb the effects of economic change or new technology.

For example, in Haryana State Power Restructuring Project in Haryana, India, fixing of tariff on cost-plus basis, and its continuous revision every year and strong opposition from vested interests due to loss of jobs is generating opposition to economic change (Devasahayam, 2000).

1.9 Corruption Factor

The World Bank defines corruption as "the abuse of public office for private gain". Inevitable politics interference coupled with lack of transparency and lack of regulatory institutions, bribery and corruption are widespread in international development projects resulting in ineffective use of development resources. Corruption is based on using unlawful influence to extract additional costs to receive or give a preferential consideration in connection with awarding and agreement to a project developer. The project developer includes these costs into the project development cost. The higher these costs are, the lower the returns from the project investment will be.

In Thailand, Mahitthirook (2000) estimates that 10% of the project cost is lost to corruption due to the following six factors which enable corruption to take place.

- State agencies and politicians that implement projects.
- Lenders that may favor some contractors.
- The delegation of architects, engineers, supervisors, and consultants responsible for each project.
- Panels inspecting and accepting finished projects.
- Contractors who are ready to buy projects with bribes.
- Laws and regulations that can be misinterpreted to favor any parties.

Rajghatta (1997) states that during the 1980s in India, only about 14 percent of the money marked for development actually reached the end user. In order to retain the confidence of their shareholders and the public, the IDFI's have acted and are combating corruption in development projects by control of fraud and corruption and institutional strengthening.

1.10 Physical Factor

Physical factors refer to the circumstances beyond the project developer's or government's control such as natural disaster (e.g. fires, floods, drought, lightning, typhoon, earthquake), wars, hostilities, military coups, civil strife, and acts of terrorism. Developing countries provide unmeasurable instances of such events. A competent international development project manager should have a good understanding and judgment of the conditions in the recipient country and mitigate these.

2. SUMMARY AND RECOMMENDATION

The history of international development projects is fraught with plenty of challenged projects. In this paper, various factors causing the projects to be challenged are classified based on their nature and discussed. Because of inherent complexity and various problems associated with international development projects, development agencies in a report on identifying personality attributes for international development managers concluded that "the personal qualities contributing to success in jobs in industrialized countries may not be the most useful in developing countries" (Lethem and Cooper, 1986). Thus, the project manager must appreciate the environment of development projects, maintain flexibility, and be competent to analyze the nature of associated problems and their adverse effects on the success of the project, and address these promptly. Table 1 summarizes these 10 factors and their impact.

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	Factors	Characteristics	Impact
1	Political	Inconsistency in policies and regulations; political instability, war, revolution; import restrictions. Low probability, high impact.	Environment of uncertainty on return on investment
2	Legal	Unexpected changes in laws and regulations policies; currency conversion; lack of appropriate regulatory systems; role of local courts in arbitration.	Lack of conducive environment to foreign investments; Restricted technology transfer.
3	Cultural	Differing social-cultural background of stakeholders; different thought process.	Conflict of interest and extra pressure on executives; inefficient use of resources
4	Technical	Use of technology incompatible with project; use of incompatible standards for manufacturing and services.	Under performing or unsustainable project; stakeholder dissatisfaction.
5	Managerial/ Organizational	Inadequate or ineffective project management; lack of appropriate processes or resources.	Project failure; stakeholder dissatisfaction.
6	Economical	Changes in domestic economic conditions; increased competition; regulatory changes.	Project unsustainable or cancelled.
7	Environmental	Pollution-noise, air, water, visual; unsustainable use of natural resources.	Environmental degradation; social resistance to economic changes
8	Social	Ethnic hostility; religious fragmentation; security of stakeholders; resistance of beneficiaries to new social values.	Lack of foreign investment or technology flow.
9	Corruption	Political participation in investment decision making; lack of regulatory institutions.	Ineffective use of development resources.
10	Physical	Circumstances beyond anyone's control- natural disasters; wars, coups, acts of terrorism.	Lack of foreign investment or technology flow.

Table 1 Critical Success Factors for International Development Projects