

The Impact of Project Context on Management Practices in the North Cyprus Construction Industry

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Abstract

The environment in which projects take place has a major impact on how they are managed. This paper examines the context in which the North Cyprus construction industry operates. The North Cyprus economy experienced a construction boom in the aftermath of the UN Peace Plan for settling the Cyprus problem. However, the local construction industry is underdeveloped and unable to exploit any resulting commercial opportunities. Despite recognition of the need for improvement in project management practices, little has been done to address this. This paper examines the context of the North Cyprus construction industry considering political, economic, social and technical factors (PEST analysis). It is shown that unresolved political conflict leads to a resistance to change in management practices in the local construction industry. This analysis of context can be useful in attempting to improve management practices in projects affected by political conflict.

Keywords

Construction, Cyprus, Islands, PEST analysis, Small economy

1. INTRODUCTION

The increasing demand for quality, productivity and performance in the construction industry is particularly challenging in states that face financial crisis, are small in size, or are experiencing conflict and trauma. The problems facing these states cannot be ignored, especially as the leading governments, UN agencies, NGOs and private companies have gained unprecedented access and influence over the internal affairs of these states (Duffield, 2001).

Even though substantial has identified the need to adapt and localize established project management principles and methodologies to support project management in construction, small economies because of their open economy lacks the attention by the scholars. Culture and the socio-political environment are formed over a long timescale, and changes in management practice may meet with resistance. Management is influenced by the policies and culture of the company and society and these must be understood before making changes. Marsden (1991, p. 36) asserts that “indigenous knowledge may be the basis for building more sustainable development strategies, because they begin from where the people are, rather than from where development experts would like them to be”.

Variations in project context can make the application of appropriate project management techniques challenging and that a contextual analysis considering the external and internal environment and the interests and influences of major stakeholders can be helpful in deciding how a project is to be managed. PESTLE analysis as a useful approach to analysing the project context and is one of the most used models in evaluation of the external business environment that is highly dynamic (Perera, 2017). PESTLE is an acronym for ‘political, economic, social, technical, legal and environmental’, which are the major influencing factors in the project environment. This is often condensed to PEST analysis, with the legal aspects being considered part of the political environment and the environmental factors being considered under the ‘social’ heading. PEST analysis can help the organization to respond to its environment in order to improve its competitive position (Gillespie, 2007) and is concerned with the constraints put upon a company or an industry by the environment in which it operates. As such, it is highly relevant to project-based industries seeking to improve their performance.

This paper presents a general background to the construction industry in North Cyprus using a handful of research available in the field and authors’ recent field research on the topic where data is collected via semi-structured

interviews of the infrastructure construction companies and the local news on the subject matter. The results of the interviews, which were analysed using thematic analysis, and the findings from the literature and the media then followed by an analysis of the environment in which the industry operates, considering the different elements of the PEST technique. This analysis is then used to explain the current approach to construction project management in the industry. Although the construction industry accounted for 18% of GDP in North Cyprus only 10 years ago its economy recently experienced a serious downfall of -25% (TRNC SPO, 2021), research on the management problems challenging this sector is limited. Common problems affecting the sector in developing countries include: lack of management skills, shortage of skilled labour, low productivity and poor quality of supplies construction in these countries has largely failed to make progress and there has not been any breakthroughs in knowledge (Ofori, 2019). In addition, the sector in North Cyprus has issues including project overruns, poor quality of structures, inappropriate procurement systems, failure to cope with infrastructure needs resulting from the inability to adopt best practices (Yitmen, 2007), and resist to change (Yapicioglu and Lawlor-Wright, 2014). The following section examines the political, economic, social and technical challenges affecting the industry. The aim is to examine how these issues affect the ability of local construction companies to participate effectively in local infrastructure projects.

2. Pest Analysis of the Sector

2.1. Political Factors

The construction industry is one of the driving sectors of the economy in North Cyprus. Urgent demand in development and rehabilitation of the infrastructure of North Cyprus, followed by a boom in housing construction has initiated several infrastructure projects on the island. In addition, recently, more funding is being provided by international sources such as Turkish Republic, EU and UNDP. Therefore, there are more opportunities in the infrastructure construction industry with larger and more complex projects. Unfortunately, only a few local contractors are qualified to participate in these projects. The risk that these opportunities might be lost to international firms has led to protests by local industry (Sonay, 2011). For example, the Association of General Contractors claimed that public tender conditions put smaller firms and the local contractors at a disadvantage. With the majority of major contracts being awarded to international firms, the organization has warned the government that, in order to ensure the survival of the local construction industry, such tenders should not be open to foreign companies. However, these attempts have been unsuccessful. In September 2012, one of the most prestigious and expensive infrastructure projects (€ 350 m) for North Cyprus, the upgrading of the country's only airport, was awarded to a company from Turkey and all the highway construction projects are tendered in Turkey without the knowledge of the local industry (Kibris Postasi, 2021).

Local industry is heavily affected by the political status and lack of recognition of North Cyprus. Economic and political embargoes, placed on North Cyprus since 1974, severely affect its economy and governance. North Cyprus operates as a *de facto* state; it is unrecognized by the international community, but conforms to the description given by Pegg (1998, p. 26),

“a secessionist entity that receives popular support and has achieved sufficient capacity to provide governmental services to a given population in a defined territorial area, over which it maintains effective control for an extended period of time”.

In *de facto* states, financing the public sector is an immense challenge, and access to international aid is extremely limited under circumstances of non-recognition (Özyiğit and Eminer, 2021). Instead of economic imperatives, politics is the utmost factor that runs the state; therefore Lynch (2004) describes *de facto* states as “political animals”.

Turkish Cypriot Competitiveness Report in 2012 identifies the most important barriers to the Turkish Cypriot economy's competitiveness as the ‘small size of its market’, ‘limited financial market sophistication’, ‘deep-seated structural macroeconomic weakness and instability’ and ‘unsophisticated businesses and inefficient goods market’. ‘Political instability’, ‘inconsistent government/coup d'état’, ‘corruption’ and ‘inadequate supply of infrastructure’ are identified as the most influential factors on conducting business in North Cyprus in the report (Sertoglu et al., 2012). Furthermore, the last report (Süreç and Eminer, 2020) also adds flexibility and innovation as factors which lacks in the business environment.

The difficult economic situation and lack of international recognition mean that North Cyprus depends heavily on financial aid from Turkey. As a result, the politics and government policies of Turkey dominate the politics of North

Cyprus (Süreç and Eminer, 2020). In 2004, the Turkish community on the island accepted the proposed 'Annan Peace Plan' by popular vote for a solution to the chronic Cyprus Problem, however, it was simultaneously rejected by the Greek Cypriots. Both EU and UN declared their commitment to end the isolation of Turkish Cypriots and encourage economic development, but to this date no actions are taken in regards to these commitments and the business environment is trying to cope with these obstacles.

2.2. Economics Issues

2.2.1. Small island economy

The economy of the North Cyprus administered area is dominated by the services sector, including the public sector, trade, tourism, and education, with smaller agriculture and light manufacturing sectors. As such, although the economy is small, it is not as flexible or innovative (Süreç and Eminer, 2020). It operates on a free-market basis, although it is handicapped by the political isolation of North Cyprus, the lack of private and public investment, high freight costs, and shortages of skilled labour.

Islands, like Cyprus, are isolated and disconnected locations and, as Baldacchino (2005) states, not only on the "fringe of goings on, but also ill-equipped to be competitive because of defensive self-absorption" (p. 148). Market fragmentation, limited labour supply and skills, little technical advancement and investment capital are all reasons of increased volatility. Small island economies' inherent handicaps include: small populations, limited domestic market, openness, and limited resources which prevents these economies competing for opportunities offered by globalization. The result is often behaviour described as 'rent-seeking' (Svensson, 2000). This is "expenditure of resources in order to bring about an uncompensated transfer of goods or services from another person or persons to one's self as the result of a 'favourable' decision on some public policy" (Biller, 2003, p.125). This behaviour slows economic growth and innovation (Murphy et al., 1993) and limits industrialization. Over time, this results in a relatively large, bloated public sector, and a very small private sector which is mainly engaged in commercial, import-oriented wholesale and retail trade (Baldacchino and Milne, 2000).

Political arrangements and international political alliances of small island economies (both current and past) also have a great impact on their economic growth (Duffield, 2001; Tisdell, 2009). The economic borders of small island jurisdictions are very strictly tied to their politics with bigger nations. Furthermore, these kind of political and historical relationships with other nations, affect the small island economies' foreign financial aid, pattern of international trade, direction of their capital movements and the migration patterns and possibilities of their citizens. For example, North Cyprus relies mostly on financial aid from its patron state Turkey. This aid is controlled by the Turkish government, with recent high value Turkish Cypriot infrastructure project contracts being awarded to contractors from Turkey.

Imperfect competition is a chronic problem affecting island states and is the result of the small domestic market. Small economies seek foreign aid to enhance their economies, but introducing too many large-scale investors might harm small local business and small firms as they exist in most small economies cannot compete effectively in a global market (Mazzarol, 2004; Wang et al., 2007; Tisdell, 2009).

2.2.2. Small business

The importance of small and medium-sized enterprises (SMEs) to world economies is well documented (Birch 1989; Storey 1994; 2000; Ng and Kee, 2018). SMEs with 250 or less employees (EU Commission, 2003; 2005), make up the largest business sector in every world economy (Culkin and Smith, 2000). On small islands, SMEs are by far the primary source of private employment (Tanova, 2003). The global economic environment and the need for continuous innovation force companies to improve their competitiveness (Aragón-Sánchez and Sánchez-Marín, 2005). However, SMEs are heterogeneous and their traits heavily rely on each region's history and characteristics (Romani and Atienza, 2005).

SMEs are a vital component of the North Cyprus economy, 99% of all enterprises in North Cyprus are SMEs and are no large size or international Turkish Cypriot contractors in Northern Cyprus construction market (Egemen and Mohamed, 2007; TRNC SPO, 2021). The fact that North Cyprus is not recognized by the international community also means that construction companies are restricted to servicing the local market and lack international standards, performance levels and quality (Yapicioglu, 2015).

In every country, small contractors dominate the construction industry in terms of numbers. A major difference between large and small businesses (SMEs) is the social distance between owners and managers (Vos and Roulston, 2008). Unlike decision makers in many larger organizations, in small businesses, the owner and the manager are often the same person. The owner/manager is responsible for all decision making and the business is tied up with their life and identity (Culkin and Smith, 2000; Vos and Smith, 2003; Mazzarol, 2004; Moeuf et. al., 2018). Such firms are characterised by an informal management style, and a considerable number of family members employed in the firm.

Owner/managers tend to hire family members for the key positions to maintain tight control of the strategic decision-making process. To maintain the control of the family members, the owner/managers usually restrict the firm's growth (Bratkovic et al., 2009). However, it is found that the degree of owner involvement in small businesses and owner/manager's personal values has a direct impact/influence on the overall business performance (Kozan et al., 2006; Vos and Smith, 2003). Robinson and Pearce (1984) argue that the owner/manager's absence of formal business planning is attributed to such things as: i) lack of time to devote to such activities; ii) lack of knowledge about how to plan; iii) inadequate planning skills; and iv) an unwillingness to share strategies with others or commit ideas to paper. It has been argued that small business owner/managers do not plan because they lack the knowledge, confidence or skills to do so (Wang et al., 2007). Due to these shortcomings, many small enterprises fail to adjust in response to environmental changes. Their ability to formulate strategy and introduce new technology management is limited (Moeuf et. al., 2018).

Although a large number of small-construction firms is not necessarily undesirable, and it is a fact of life in island economies, many of them have little prospect of growth and development (Wang et al., 2007). Due to the informal and irregular manner in which operations are carried out by family businesses, the financial flows of the enterprise may not be separated from the economy of the family (Psaila, 2007) and traditional project management processes do not meet small business's needs (Turner et al., 2010).

2.3. Social Issues

2.3.1. History

After Cyprus became independent from the Britain in 1960, ethnic violence between the Greek and the Turkish on the island resulted in many casualties and the forced displacement of over 30,000 Turkish Cypriots to "ethnic enclaves", which only covered 3% of the island (Tocci, 2000). The living conditions in the enclaves were quite inhumane - in some enclaves the Turkish lived in caves, or tents, and it was common for more than one family to share a single house. Enclaves were economically embargoed by the government (Greek Cypriot) on strategic goods and services. No public expenditure was directed to the Turkish Cypriot community living in ethnic enclaves. Freedom of movement and employment of the Turkish Cypriots were denied for eleven years until the war on the island in 1974, after which the two communities were completely isolated from each other (Tamkoç, 1998; Lacher and Kaymak, 2005).

Turkish Cypriots, following the interference of Turkey, now controls of 37% of the island, and declared its independence in 1983 as Turkish Republic of Northern Cyprus (TRNC). However, the isolation of the Turkish Society continued, since the new state "North Cyprus" is denied recognition by the international community and declared a *de facto* state since 1974. Internationally, it is only recognized by the Republic of Turkey which has unprecedented control over the politics of TRNC.

The long-term effects of trauma on the Turkish Cypriot community and identity have been highlighted by Volkan (2008). In addition to individual and social psychological effects of past events, Turkish Cypriots still have to face the economic consequences of these traumatizing events which still impact on even basic business activities. This includes difficulties with importing and exporting, attracting foreign direct investment, facing embargoes, lack of direct flights and lack of state recognition. As Öksüzoglu (2010) puts it, emotional scars coupled with financial losses have an impact on individual and social behaviour, the perception of what is ethical and what is not, and on daily business practices in North Cyprus. Adžanela (2010) reports similar behaviour in post-war Bosnia and Herzegovina, with unethical use of personal connections, often accompanied by favouritism and nepotism. In the absence of the "rule of law" personal connections prove to be a much more effective mechanism to achieve one's rights, privileges and benefits than the official mechanisms. The statement that "The relatively long history of inter-communal violence, combined with larger Greco-Turkish enmities, has penetrated in the minds of the Cypriots to such an extent that each side, as a group, fears that it would become victim once again" (Yilmaz, 2005, p. 87) summarizes why this resistance to change may continue in North Cyprus.

2.3.2. Effects of Trauma

To understand the behaviour of the Turkish Cypriots towards business in construction, it is also important to understand the behaviour of large groups after a shared trauma. A traumatic event is one that causes horror, terror, or helplessness at the time it occurs, and can include community violence, acts of terrorism, war experiences, natural and human-made disasters (APA, 2008). Cultural trauma, on the hand refers to a "dramatic loss of identity and meaning, a tear in the social fabric, affecting a group of people that has achieved some degree of cohesion" (Eyerman, 2001, p. 2), which is caused by a traumatic event, where the memories of "a shared past are retained by the members of a group large or small, that experienced it" (Schuman and Scott, 1989, pp. 361-362). When massive trauma occurs where the large-group's identity is threatened, the group experiences regression, confusion and disorganisation (Volkan, 2006).

In the case of the Turkish Cypriots, threats result from the violent conflict prior to 1974 as well as on-going embargoes and lack of recognition from the international community. This results in a form of helplessness within the society of North Cyprus. As Volkan (2008, p. 97) comments,

...the northern part of Cyprus is inhabited by people who do not have typical human rights, who do not have a large-group identity that is legally accepted by billions of others surrounding them (except Turks on the mainland) and who, in a sense, are second-class human beings. After living in actual enclaves for eleven years, the Cypriot Turks from 1974 to the present time have continued to live in an invisible enclave.

Volkan (2006) explains 'chosen trauma' as "the shared mental representation of an event in a large group's history in which the group suffered a catastrophic loss, humiliation, and helplessness at the hands of enemies". When members of a victim group are unable to mourn such losses and reverse their humiliation and helplessness, they pass on to their offspring the images of their injured selves and psychological tasks that need to be completed (Volkan, 2006; Bohleber, 2007). This process is defined by Volkan (2006) as "trans-generational transmission of trauma." All such images and tasks contain references to the same historical event, and as decades pass, the mental representation of such an event links all the individuals in the large group. Thus, the mental representation of the event emerges as a significant large-group identity marker. As Caruth (1995, p. 17) puts it: "it is not the experience itself that produces traumatic effect, but rather the remembrance of it".

Following Erikson's (1956, p. 57) description of a person's identity as "a sustained feeling of inner sameness within oneself [and] a persistent sharing of some kind of essential character with others", Volkan (1999, p. 32) defines large group-identity as "subjective experience of millions of people – most of whom will never meet one another in their lifetimes – who share a persistent sense of sameness (we-ness) while also sharing some characteristics with others in foreign groups". Volkan (1999) observed that large-group identity issues are crucial in understanding resistance to change and the process of attempting to resolve large-group antagonism.

2.3.3. Technical Issues

Few publications address technology and innovation within the construction industry in North Cyprus. The existing infrastructure of the government also limits access to reliable data and statistics of the construction sector in North Cyprus. Yitmen et al. (2011) argue that research is very challenging without reliable statistics. The majority of the research in this area relies on direct observation and data collection from industry itself.

It is widely accepted within the North Cyprus construction industry that innovation and adaptation to new technology is slow (Yitmen and Al Qadi, 2005; Egemen and Mohamed, 2007; Yitmen, 2007). Celikag and Nami (2011) suggest that even the design technology of the projects is limited; they also suggest that there is a serious need for training in this area, in design and in introducing new technologies. Egemen and Mohamed (2007) also refer to the limited technology and innovation in this sector. They show that 92.5% of the contractors in North Cyprus have never used any statistical or mathematical model to assist their bid/no bid or mark-up size decisions, and 97.5% of the contractors use intuition as their primary tool for decision-making process. Moreover, even though the IT infrastructure is available on the island, construction companies in North Cyprus consider investment in this as an unnecessary additional cost (Sertoglu et al., 2012).

3. Results and Discussion

In the past few decades, the internationalisation of firms and their ability to provide services across boundaries has changed the dynamics of business. Some states, however, face unique challenges because of a combination of geographical location, their small size, conflict and political challenges. This has meant that they are unable to compete in the global marketplace. Globalization has created the need for businesses to improve competitiveness. Increased demand in production and quality and customer satisfaction is a major factor that affects competition in a lot of industries, and is also valid for the construction sector globally.

Adaptation of new techniques in project management for the increased success of projects is a method suggested in the literature. However, challenges facing states and communities vary, and project management methods may not be directly transferrable from one state to another. Before trying to adopt changes in management in North Cyprus, the project context influences need to be addressed. Based on the PEST analysis of the construction industry in North Cyprus, this paper has explored the harsh political, economic, social and technical environment faced by the local industry. The construction industry in North Cyprus is affected by a unique combination of challenges in its environment. It is small in land area, on an island divided by political conflict and recent war. Being an isolated, *de facto* state, the lack of international recognition adds additional difficulties to daily business. In such an environment,

the life cycle of a project might alter drastically with unexpected events. These include cultural clashes, unexpected changes in the law and government, unrest with the state, inflation and embargoes. Consequently, management in the local infrastructure construction companies are primarily concerned with managing external political stakeholders and reacting to the external environment. Over time, this has become an accepted part of the local life style where the public and the companies alike cannot predict the future and do not plan. This has led to the lack of focus on project planning and control and the lack of investment in supporting training and technology as was mentioned by (Yapicioglu and Lawlor-Wright, 2014).

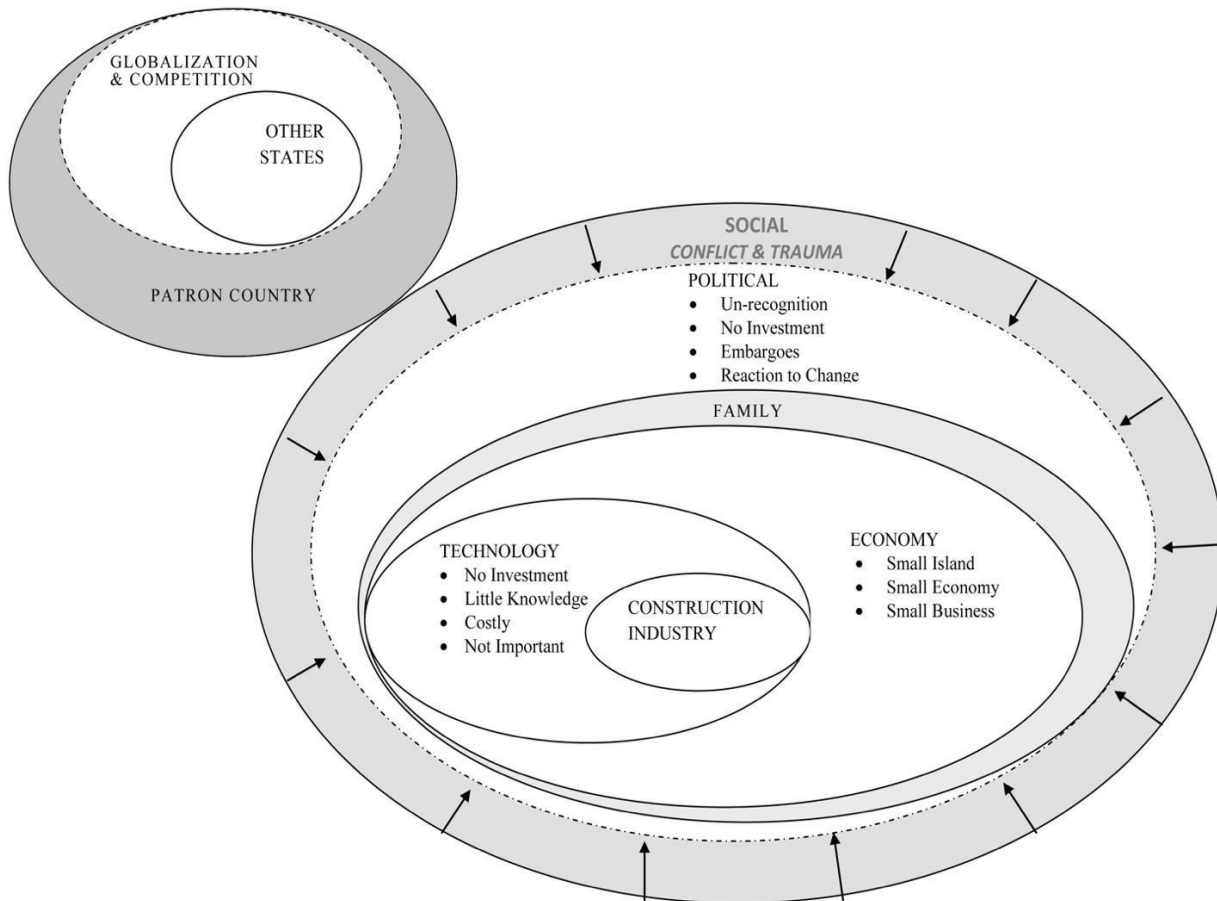


Fig. 1. The business environment framework to construction in North Cyprus (Yapicioglu, 2015).

A framework depicting the business environment in construction in North Cyprus is shown in Fig. 1, to illustrate why managing projects in construction is highly influenced by the influence of project stakeholders (Yapicioglu, 2015). As can be seen in Fig.1, the family owned construction businesses are tied to the politics of the *de facto* state which is 'enclaved' or separated from the international community. The business, political and economic environment is under the control of the patron country. This reinforces the collective memory of the owner/managers of the past which was dominated by the violent conflict. Growth of the industry in the past has been constantly interrupted (and prevented) by external factors beyond the control of the local industry. This lack of political resolution is not conducive to business growth or investment, and leads to a management approach where appeasement of powerful external stakeholders takes priority. In addition, it reinforces the tendency for the SMEs to remain as micro-enterprises keeping control of the business within a tight family circle. The ability of the businesses to expand and develop is therefore restricted by the knowledge and experience within the family as well as the limited opportunities within the state.

4. Conclusion

In North Cyprus, a combination of political, economic and social factors presents major challenges to the local industry and increases the tendency of SMEs to maintain the control of their organisations within a tight family circle. This restricts the future growth of the company and is not conducive to the adoption of new methods of management.

It is widely recognized that the project context has a great impact both on project success and the management approach used. The political environment of projects in conflict zones eventually leads to a situation where management of stakeholders and adapting to changes in the external environment take precedence over management of the project itself. The challenges of political conflict also play a significant role on the financial, material, information technology and human resource necessary to achieve the project aims.

However, being a small island economy driven mainly by small businesses, and being a *de facto* state results in a society which rejects change. The factors leading to resistance to change in North Cyprus are unique and more social-political than industry specific. The management of local construction companies claims a willingness to adopt project management methods and approaches, but does nothing to improve their practice. With limited international competition and the political influence over awards of project contracts, they have managed to survive due to the high effort expended on nurturing their local stakeholders.

The outcome of this study indicates that the political climate of North Cyprus has the potential to suppress the development of the construction industry. Advancement of technology and improving their project management methods is not their priority. Managing the constant changing political environment to ensure the award of future contracts is more important for their business survival. It is imperative that the local government provides support for the improvement of project management practices and use of supporting technology. Unless this is addressed, the potential risk for the local construction industry is that, by the time the conflict is resolved, local companies will be unable to compete. The next stage in this research is to conduct qualitative research with the local industry and the political stakeholders to identify the support needed and how this can be most effectively delivered.

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