Role of Cultural Capital Towards the Development of a Sustainable Business Model for Design Firm Internationalisation

Kerry London and Jessica Chen

ABSTRACT

This paper reports the results of three case studies of firms involved with design for the built environment who have been working in international markets for more than two decades. The first two firms are architectural practices and the third is a construction firm which designs and constructs. Their markets are diverse and their strategies have evolved over the two decades. There are numerous differences between countries including cultural, social, project governance structures, regulatory, procurement strategies, terminology, codes, etc. What is it that makes these firms able to develop sustainable business models in internationalisation? A grounded theory approach was used to examine the three case studies and develop a reflexive capability model drawing from the sociological theory of reflexivity to interpret the characteristics of the firms’ ability to be able to adapt to different international conditions. Twenty-two interviews were conducted across the three firms. Results indicated that sustainable business models rely upon the management of social, cultural and intellectual capital. The strategic management of capital leads to the development of increasing reflexive capability within the processes related to internationalisation. Reflexive capability is a characteristic of the three successful case study firms internationalising and working within global models of practice. This paper focuses on the role of cultural capital in a reflexive capability model for sustainable internationalisation.

Keywords: Design Internationalisation, Reflexive Capability, Case Studies, Cultural Capital
1. INTRODUCTION

The internationalisation of design in the property and construction industry has become increasingly significant in recent years as economies have become more globally interconnected (World Bank, 2005). This has been keenly felt by Australian firms responding to various demands; for example, the Chinese construction boom afforded by the Olympics; the Middle East boom afforded by growth in the tourism sector and then various natural disasters requiring large scale reconstruction work. The Australian Federal Minister for Trade has for some years aimed to double the number of exporters by focussing on small exporting businesses (Anderson, 2003). Notwithstanding assistance provided for design firms through international trade missions, export firm support networks and information packages by government agencies, evidence suggests that there are still perceived barriers to market entry and long term economic sustainability for small to medium sized firms. For the purposes of this paper ‘design firms’ are defined as any firm in the property and construction industry who provides a design service; including contractors, specialist subcontractors and consultants.

Given the nature of government performance indicators it is suspected that the focus on market entry and the subsequent lack of attention given to long-term economic sustainability issues poses problems for those seeking to export design services within property and construction. The rise of globalisation has not been without problems and in particular areas of inequality and environmental and cultural degradation are prominent. It is speculated that the sensitive response to local conditions, desires and/or needs may be a characteristic of design firms who are able to address these issues consistently; have built a reputation on being able to deliver in international markets a credible promise and have built trust and credibility through highly regarded past achievements.

The internationalisation process and market entry has been well established within the international business research literature but little attention has been afforded on design related SMEs and the problem of business sustainability. The emphasis in past research has been given to large manufacturing organisations who deliver a standardised product to a market (Coviello and Martin, 1999). Studies on the international construction business environment have been typically limited to exploratory case studies (Pietroforte, 1997; London, 2001), which only sought to describe market entry strategies used by firms (Root, 1987; Terpstra and Yu, 1988; Erramilli and Rao, 1990; Crosthwaite, 1998; Hoang, 1998). Various innovative strategies exist for construction firms to enter markets (Doherty, 1999) but less is known about long-term business sustainability.

There is even less research in the construction industry on SMEs attempting to internationalise. This is problematic because 94% of the Australian construction industry is made up of SMEs and of those involved in design services they would typically deliver a customised product and/or service (ABS, 2005). A previous survey conducted by the Royal Australian Institute of Architects (RAIA) identified the key barriers to internationalisation were primarily costs and lack of overseas networks. The success factors to internationalisation were identified as establishing overseas networks and
understanding cultural and regional differences. The RAIA study is an important contribution to our understanding of barriers and success factors in the internationalisation process of architectural firms and was a useful starting point in our research. However, it does not provide an in-depth examination of the experiences that firms have on projects. It also has not provided insights into the complexities that need to be overcome in relation to the barriers identified, particularly in relation to long-term sustainability.

This paper reports the findings of a study conducted to identify factors impacting upon the long-term successful internationalisation of Australian construction design firms (London et al, 2005). This research aims to go beyond the identification of success factors to clarify in detail how they are achieved and to understand the characteristics of firms who are successful in developing sustainable business models internationally. In the beginning of the project we suspected and conceived the research problem from a perspective of firm performance related to adaptability. We conceded that there would be a high degree of market variability and associated responses by firms and developed a broad interpretive framework of adaptive performance which was then refined as a result of the findings of three case studies of firms who have achieved some measure of sustainability in international markets to develop the Reflexive Capability Model.

It has not been explicitly studied, however, it is commonly accepted that sustainability in international markets is supported by other considerations that are non-financial (Skaates et al, 2000). The consideration of other non-financial indicators of performance, which includes social, cultural and intellectual capital, assists the financial success of the export enterprise of firms. Social capital is the creation of personal relationships and networks based on trust built over time and has relevance for the project team networks and firm and client networks (Cohen and Prusak, 2001). Cultural capital entails physical ‘dispositions’ such as ‘building visible buildings, winning design competitions, or obtaining important tenders’ (Skaates et al, 2002) premised on the reputation of the firm in that the success of marketing architectural services ‘depends upon the firm’s ability to sell and deliver a credible promise’ (Lowendahl, 2000). Intellectual capital is a firm’s collective skills, experience, competences and knowledge and is critical to the sustainability of firms, particularly in international markets (Stewart, 1997).

The paper outline is:

- Description of research methodology
- Brief overview of key findings
- Discussion of the role of cultural capital in overcoming barriers to internationalisation
- Discussion of the Reflexive Capability Model and the role of cultural capital in the reflexive capability model
2. RESEARCH METHODOLOGY

A case study methodology was used through the study of three design firms who have been successful in achieving some measure of sustainability in international markets. The reason why case study was chosen was because of the desire to understand the cases of firms who had developed sustainable business models by virtue of being successful in market entry and then by a degree of longevity in the particular market. We chose three instrumental case study firms to examine and provide insights into the ideas about business sustainability and the role of cultural, social and intellectual capital. The cases provide information to refine the theory. The questionnaire survey approach had been taken in the RAIA study discussed previously and this did little to advance our understanding about the success factors and the diversity of how firms behave and manage to achieve long term business sustainability.

The single most important source of data for this research was in-depth, interviews conducted across the three firms between one and three hours duration (refer to Table 1.1). Descriptions of the following concepts have been completed for each case:

- organisation’s experiential and market knowledge and design management, policy and procedures
- internationalisation processes and project processes
- successful strategies and inhibitors to success

The analytical methodology has been drawn primarily from the perspective of grounded theory (Strauss and Corbin, 1990). This research was developed as exploratory and inductive. Grounded theory was used as a means of data organisation and theory generation, particularly useful in its capacity for providing structured guidelines for conceptual relationships and explanatory frameworks. Each case study has been analysed as an independent unit and subjected to three stages of analysis. The results reported in this paper are a result of the final stage of analysis, which included a comparative analysis between case studies to ascertain common themes and irregularities.

**Table 1.1 Case study firm/participant overview**

<table>
<thead>
<tr>
<th>Firm</th>
<th>Firm type</th>
<th>Markets, longevity &amp; organisational structure</th>
<th>Interview Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Architectural</td>
<td>China; 10 yrs; one office in Aust capital city</td>
<td>7; 4 Senior staff, 3 Design team staff</td>
</tr>
<tr>
<td></td>
<td>design</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Architectural</td>
<td>Multinational; 20 yrs; offices in all major cities in Aust &amp; 6 offices in Asia, Europe and Middle East</td>
<td>11; 4 Senior staff, 5 Design team staff</td>
</tr>
<tr>
<td></td>
<td>design</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Design &amp; Construct</td>
<td>Primarily China, also Asia, Eastern Europe, South America, South Pacific; 30 yrs; 1 office in Aust capital city &amp; 3 offices in China</td>
<td>5; 3 Senior staff, 2 Design team staff</td>
</tr>
</tbody>
</table>
3. RESULTS: OVERVIEW OF FINDINGS

The first stage of analysis identified the firms' internationalisation and project processes including market entry strategies and factors influencing choice of entry mode as well as motivations for internationalising, design management policy and practices and level of market knowledge. Despite quite different entry modes and organisational strategies, the firms encounter relatively similar barriers impacting on their design management practices and processes. Furthermore, the manner in which firms responded to these challenges, while different in approach, are relatively comparable in their underlying principles. Primarily the measures taken to manage the difficulties arising in international contexts revolved around the strategic management of social, cultural and intellectual capital resources within the firm. As we proceeded to the next stage of analysis, key themes were identified in relation to how the firms utilised each type of non-economic capital to develop sustainable business models in the different international markets, which in turn lead to the firms' increased flexibility and adaptivity in those markets. In relation to the firms' management of social, cultural and intellectual capital, there were four, two and two key themes identified respectively. The next section is focused on examining the ways that the firms' utilisation of cultural capital influenced the firms' business practices to generate financial sustainability in international contexts.

4. CULTURAL CAPITAL

The two identifiable but inter-related themes identified in relation to the management of cultural capital within the firms were:

- the acquisition of culturally significant projects as accumulation and demonstration of cultural capital in developing reputation
- The acquisition of cultural capital as firms' cultural understanding.

The ability to effectively acquire certain significant projects and/or the impact of winning design competitions on the firm’s image is central to the accumulation of cultural capital. It is the accumulation and demonstration of the acquisition of an array of cultural ‘artefacts’ (ie the suite of projects) that is significant in developing a firm’s reputation after initial entry into a market. The ability to then produce culturally appropriate designs that engage and complement local contexts and surrounding environments is a central concern of the firms. The extent to which this is possible depends on the ability to facilitate a ‘deep local engagement’ that provides detailed information concerning the local issues. The second main theme concerning cultural capital was the firms’ capacity to develop a deep level of cultural understanding and the different ways that they were able to utilise and leverage this capital for strategic advantage.

4.1 CULTURAL CAPITAL AND DEVELOPING REPUTATION
Three main dimensions were identified within the primary theme of acquiring cultural capital in developing reputation including:

- Acquisition and accumulation of cultural capital through evidence of culturally sensitive designs
- Internationalisation status perception by clients as evidenced through design competitions
- Development of winning designs based upon differentiation and cultural sensitivity

This involved the acquisition and accumulation of cultural capital – developing a reputation for building culturally appropriate and sensitive designs. The Chinese market is acknowledged as increasingly discerning in regard to the reputations of international firms, and firm 1 is highly dependent on social networks for delivering clients. The impact this has on reputation is a high level of dependency on previous success, client satisfaction, and ultimately successful built forms.

“The way we work is basically not as heavily marketed as most people. I believe that our work markets itself and I’m a strong believer that you can go around singing the praises, but if there is nothing to back it up, you actually end up disappointing people so I’d rather people actually see the product” (Sr Partner – firm 1).

While acknowledging the importance of the end product in developing a reputation, the firm also recognised that winning competitions provides a large amount of cultural capital. Interestingly, the firm attributes its success at winning competitions to its status as international, as related to its strategic decision to organise as a Sydney based firm through local partners and joint ventures.

“Most of the projects are won through design competition. Its interesting that even the American firms that have offices in China...although they've got the American name there, the graphics, the look, even the ideas are all very similar. Then there’s this one that stands out, which is the Australian one done in Sydney remote...it looks quite different because the influences are different” (Sr Partner– firm 1)

The distinction of this firm is perceived by clients due to the internationalised nature of the design firm, and hence winning the design competition from a field of international competition enhances the reputation of the firm. Furthermore, importantly in terms of reputation, is the fact that in the minds of clients and the greater market in which the reputation circulates through social networks, the reason why the firm won the competition is its status as an international firm.

“This is the reason we are winning because they see it as different...You've taken on board all the cultural issues...I try to get as much information & understanding of what's going on, come back & we do it our way. If we had our office up there I think the people start to become localised & blend in”. (Sr Partner– firm 1)

The firm’s decision to organise away from a local office structure was primarily to support the image and reputation as international. The capacity
for cultural awareness is exercised towards gaining an understanding of cultural nuance necessary to deliver a culturally appropriate design. Taken together, these two factors produce designs that simultaneously ‘fits in’ and is differentiated. The end result for the firm is continued success at winning design competitions.

4.2 CULTURAL CAPITAL AS CULTURAL UNDERSTANDING

The theme of cultural capital as cultural understanding had three key dimensions:

- Recognition of cultural capital as a form of intellectual capital for understanding and adapting firm operational practices and processes to suit international markets
- Accumulation of cultural capital and exchange and transformation to social capital for responsive client interactions
- Strategic management of cultural capital to intellectual capital through the awareness of cultural differences to manipulate business scenarios toward favourable outcomes

The recognition of cultural understanding as a type of knowledge and a particularly valuable resource for the firm establishes its connection with intellectual capital. While all the firms acknowledged the importance of cultural understanding as a form of cultural capital, both firms 1 and 2 equated it more strongly as a form of intellectual capital – a specific skill as much as a form of knowledge, transferable between cultures. This perception of cultural understanding as simultaneously cultural and intellectual demonstrates the fluidity of these forms of non-economic capital.

For firm 3 cultural understanding was recognised as a useful resource in three different ways. First it was considered a crucial means of relating to, and operating within the host market. The capacity to understand the cultural dynamics caused by the interplay of national and business culture within a given market is of course dependent upon an awareness of the language. However this is only a starting point – a point of access to the meanings underlying the traditions, rituals and operations of culture. In this sense the gap between investment and return is caused on one hand by the need to develop social networks yet on the other hand can be attributed to a period of time in which an understanding of culture can and must develop. In some respects this second time lag can be even greater than the first, as it is an ongoing exercise without a well-defined end goal. The following quote identifies the extensive duration of this time-lag acknowledged as the time taken to entrench oneself in the market through rudimentary social networks.

“It took us probably 5, 6 years to understand how the whole system works up there...you’ve got to go through a myriad of departments to get things approved...so you’ve got to do it a certain way. That helps us now - local knowledge to sell jobs”. (Sr Partner – firm 3)
The quote highlights the importance of developing a functional understanding of the dynamics of national and business culture in the use of the term ‘the whole system’ identifying the bureaucratic institutions and government agencies with whom the firm must interact. This understanding of the ‘system’ is a necessary prerequisite to being able to comply – ultimately it is the firm that must adapt its process and procedures to the regulations imposed by the ‘myriad of departments’ that comprise the governmental influence in the market. The quote clearly relates the development of this functional understanding of culture to financial impacts upon business practices.

The second manner in which firm 3 recognised the usefulness of cultural understanding was in facilitating inter-personal relationships. This aspect of cultural understanding demonstrates the close relationship between cultural and social forms of capital – which is not to say that they exactly approximate one another or that they can be superimposed onto one another. Rather they are highly fluid and the accumulation of cultural capital is largely beneficial precisely because it can so easily be exchanged or transformed into useable social capital. For firm 3, an understanding of the subtleties of the host national culture is instrumental in the development of social networks based in trust and mutual respect. In this instance the ability to relate to clients through humour is identified as beneficial to the establishment of a personal level of relationship that goes beyond the often-rigid confines of the business mode interaction.

“I often try and make a joke I mean the Chinese are not bad for a joke they like to hear a joke, they take a bit of stick and I think if it doesn’t come back the right way again you know that it has not been done properly, you’ve got to be very, very, very careful of that because it gets you in a lot of trouble because you are totally relying on them”. (Sr Partner – case 3)

This example also recognises through the phrases ‘very, very, very careful’ and ‘a lot of trouble’ the potential for misrepresentation when attempting to communicate through a culturally specific mode such as humour. This apprehension highlights that while cultural understanding demonstrated an appreciation of another culture’s sense of humour may be advantageous in getting beyond the confines of the business interaction it can also potentially backfire and have the opposite effect. It is thus all the more important that this type of strategy is based in a thorough awareness and understanding of the cultural subtlety and nuance that define and influence a quality such as humour. Yet another way in which firm 3 identifies cultural understanding as a significant form of cultural capital is a further extrapolation of the previous two. The first related to understanding the culture as it influences the market structure through bureaucracy in order to adjust the firm’s procedures to efficiently integrate with that system. The second related to understanding the cultural sensibility as expressed through something such as sense of humour to use that understanding to facilitate the development of business networks high in social capital. Whereas both these two methods perceived an understanding of culture as a precondition to interacting efficiently with the culture – the third method perceives an understanding of the culture as the means of leveraging power
strategically, in a much more overt manner. In the case of firm 3 this notion centres on a functional understanding of the Chinese culturally specific concept of ‘face’.

What is highly significant regarding the conception firm 3 has of the concept of face is that it is functionally based. It represents experiential knowledge translated into resources in that it is drawn from the direct experiences of individuals interacting with the culture and the market. For example, there is no awareness demonstrated of the philosophical underpinnings of the concept and its place in Chinese culture based in Confucian ideals of filial piety. Rather, the understanding of face is based in how the members of firm 3 have seen that the cultural concept makes the Chinese individuals behave with whom they have had interactions.

“It’s very important to let them win a few and you know keep their face. Face is very important to them you know and they can’t be seen to look stupid. I mean they live in some very, very primitive flats and units some of them but they can’t see where they live so it’s more important for them to have a flash car than a good house”. (Sr Partner – firm 3)

The above quote clearly identifies an understanding of face as based in the maintenance of exterior appearances as being a central concern of the Chinese. The essentially important aspect of this discussion of face is that for firm 3, cultural capital in the form of this particular mode of understanding generates the capability of manipulating the Chinese by behaving in certain ways that will provoke certain known types of reactions. The following quote shows how a functional understanding of face as a motivation for behaviour can be utilised as a method of strategically leveraging power within a situation to promote outcomes desirable for the firm.

“The saving face approach of Chinese is very prevalent. We’ve got this guy in Beijing…he knows they are saving face and so he’ll purposefully embarrass the man in front of his boss so that he actually performs next time on the project - to use it to our advantage. A lot of other guys tried to save the persons face, don’t embarrass him in front of his boss but you know, whatever works better, there’s different ways of doing things”. (Design Staff – firm 3)

This passage demonstrates the importance of cultural understanding as a form of cultural capital. Through the discussion of three levels at which a degree of cultural understanding impacted upon the business practices of a firm in an international context it is hoped to evoke an appreciation of the strategic relevance culture can have upon a firms conduct and financial outcomes. A functional understanding of culture is crucial for being able to engage with both the ‘system’ and the individuals that comprise a foreign market. Knowing how things work is tantamount to knowing how to get things done. The capacity to develop social networks is also an outcome of the ability to utilise an understanding of culture to develop positive interpersonal relationships. Furthermore, knowing how a culture operates, understanding the dynamics produced by the interplay of national and business cultures is highly advantageous when seeking to manipulate business scenarios toward favourable outcomes. The ability to identify
points of potential influence and to ‘push people’s buttons’ through an understanding of cultural concepts such as ‘face’ is but one option available.

This discussion is not culture dependent, that is, not restricted to ‘face’ and the Chinese culture. All cultures have values and sensitivities that when understood proficiently can provide points of potential articulation through which situations can be leveraged for strategic advantage. Thus it is all the more important to perceive cultural understanding as an extremely valuable commodity in an international market as understanding the culture at a deep level is the first step in being able to use culture strategically. As well as being a form of cultural capital, cultural understanding is considered by the firms as a primary form of intellectual capital that exists as a general ability rather than a culturally or market specific range of knowledge. In this form, cultural understanding refers not to an understanding of any given national culture, but rather an understanding of how culture works – its contexts and dynamics – and this knowledge is applicable across cultures as an ability or skill, a form of intellectual capital.

5. REFLEXIVE CAPABILITY MODEL

We suspected that there would be a high degree of market variability and associated responses by firms and developed the Reflexive Capability model. Early findings confirmed that the societal, cultural and economic differences across the various geographic regions which the three firms indicated success brought about extreme differences in institutional arrangements and responses (London et al, 2005). It was the varying levels of each firm’s ability to respond to extreme differences and local conditions which allowed for the emergence of the reflexive capability model. Reflexivity has its derivation in sociological research (Giddens, 1991). It is based in a positive interpretation of change and a continual responsiveness to change by participants in the system. There are three key dimensions to reflexivity:

- Awareness: Staff members need self-awareness about what international process practices they are embedded within and to be conscious or perceptive of constantly changing international markets.
- Responsiveness: Staff, individually and collectively need to have openness to changes in the firm’s international practices and procedures. The firm business culture also needs to be supportive to change.
- Adaptability: Firms need to consciously identify the core principles which are non changeable versus changeable and adapt accordingly their practices and procedures based on the staff adaptive skills and the firm value, culture and procedural mechanisms that facilitate institutional change. To facilitate this adaptability, firms need to actualise a proactive attitude towards change.

The outcomes of reflexive capability in design processes and firm operational procedure views that improvements can occur within the lifecycle of a project not simply between projects. Given the cultural,
physical, economic and institutional differences across different regions and
markets a reflexive capability to the internationalisation process by design
firms is needed. We concede that perhaps a reflexive capability of the firm
and its institutionalised culture is the ideal and that in reality design firms, are
typically responsive by nature but not necessarily all constantly vigilant of
conscious responsiveness with such a determined strategy. The reflexive
capability approach is appropriate to all design processes but what is
speculated upon is that the reflexive capability is *particularly intrinsic*
to design firms who work globally and who are successful in that process.

The extent to which firms formalise and disseminate within the firm the
experiences of individual staff of the host market culture largely indicates
their capacity to overcome problems, which in turn indicates their degree of
reflexive capability. This capability of firms consists of a detailed awareness
of practices and systems, a positive interpretation and openness to change
and a high degree of adaptivity that allows the overcoming of barriers to
internationalisation. The three firms’ strategic management of social,
intellectual and cultural capital to develop the three key dimensions to
reflexivity is the primary means through which barriers to market knowledge,
financial challenges and cross cultural communication are overcome. Each
of these key dimensions of reflexivity as demonstrated by the firms’ strategic
use of cultural capital is now briefly recapped.

First, firm 3’s accumulation of cultural capital through an understanding
of bureaucratic institutions and government agencies was critical to its ability
to work in the international market. The firm’s awareness of the market
structure and influences afforded the ability to adjust its procedures to
efficiently integrate with those systems of the international market not only
on new projects but as changes occurred on existing projects.

Second, firm 1’s ability to win projects was enabled by their reputation
to consistently deliver designs that simultaneously ‘fits in’ and is
differentiated. The capacity to win design competitions despite a dissociation
from local cultural context was afforded by the firm’s exercise of openness to
‘take on board’ the cultural issues in international markets and increasing the
level of cultural capital, which in turn allowed the firm to be responsive
towards the development of culturally appropriate designs.

Third, the accumulation of cultural capital in the form of cultural
understanding was considered by all three firms as a valuable commodity
and as useful for minimising the difficulties arising from cross cultural
communication in the formal business and informal social contexts. Cultural
capital in this way also provides an understanding as to why certain
problems might arise and how best to alleviate them as they occurred. It can
thus be related to the formalisation of experiential market knowledge into a
resource for the firms enabling improvements to take place within the
lifecycle of a project not simply between projects. The significance of the
accumulation of cultural capital to adapt instantaneously to different
situations experienced in international markets was demonstrated by firm 3’s
experience with the Chinese business approach of ‘saving face’ whereby the
firm was able to utilise cultural capital as a method of strategically leveraging
power within a situation to promote outcomes desirable for the firm. This
opportunity could have been lost if the firm lacked the necessary cultural capital required to respond accordingly.

Although this paper has specifically focussed on the role of cultural capital in a reflexive capability model for successful firm internationalisation, a general theme running through the analysis is the fluid nature of forms of non-economic capital and their interconnectivity. The strategic management of non-economic capital provide the facilitation of the primary characteristics of reflexive capability, and allow the immediate micro-management of issues that potentially arise within the intense and dynamic environment of international projects. A highly significant outcome of this research has been the identification of the central relation between a firm’s level of reflexive capability and its level of success in international markets. A reflexive capability is a characteristic of successful firms internationalising and working within global models of practice. This research has demonstrated that sustainability in international markets is supported by other considerations of non-financial indicators of performance, which facilitate a firm’s level of reflexive capability. This paper has specifically discussed the role of cultural capital as instrumental towards the development of sustainable business models by three Australian firms who have been successful in internationalisation.

6. REFERENCES