



Institutional exceptions on global projects: a process model

Ryan J Orr and
W Richard Scott

*Collaboratory for Research on Global Projects,
Stanford University, Stanford, USA*

Correspondence:

RJ Orr, Collaboratory for Research on
Global Projects, Room 556i, Building 550,
Stanford University, 380 Panama Mall,
Stanford, CA 94305, USA.
Tel: +1 650 387 6415;
Fax: +1 650 723 4806;
E-mail: rjorr@stanford.edu

Abstract

This inductive study offers an examination of 23 cases in which informants from firms engaged in large-scale global projects reported unforeseen costs after failing to comprehend cognitive-cultural, normative, and/or regulative institutions in an unfamiliar host societal context. The study builds on the conceptual framework of institutional theory. The findings, which include propositions and a generic narrative model, contribute to theoretical knowledge of how institutional exceptions arise, how they are resolved, and how they typically involve three general phases: ignorance, sensemaking, and response. The findings also articulate the kinds of institutional transaction costs that an entrant incurs in each of the three phases, and the conditions that lead to the growth of these costs.

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When you hear hoof beats think Horses, not Zebras – unless you're in Africa.

INTRODUCTION

There is an ever-growing body of scholarly research to assess and categorize differences in cross-national cultural values (e.g., Hofstede, 1984; House, Hanges, Javidan, Dorfman, & Gupta, 2004) and social institutions (e.g., Busenitz, Gomez, & Spencer, 2000; Hall & Soskice, 2001) as they affect business practice and economic performance. Within this corpus of research, terms such as “liabilities of foreignness” (Hymer, 1976; Zaheer, 1995), “psychic distance” (Johanson & Vahlne, 1977), “cultural distance” (Kogut & Singh, 1988), “institutional distance” (Xu & Shenkar, 2002), and “institutional idiosyncrasies” (Henisz, 2003) have become increasingly common. Although there is considerable variation in terms and rubrics, these studies typically draw out a general hypothesis that differences between cultures and social structures impede the success of cross-societal collaborative ventures. In the words of Javidan and House (2002): “From a practical point of view, the complexity of cross-national negotiations, mergers, assignments and leadership probably depends on the extent of the difference between the two cultures.” Despite widespread support for this premise, there has been relatively little empirical effort to examine the underlying processes – the actual

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dynamics and conditions – by which cross-societal variations in rules, norms, and cultural beliefs are translated into the kinds of complications and costs that have been documented by mainstream researchers (Shenkar, 2001).

To enhance understanding of how cross-societal friction actually arises, we analyzed a set of 23 case studies collected from cross-border contractors and investors, such as Bechtel, Walt Disney and the World Bank, involved in large-scale global projects. The considerable volume of cross-border business carried out in large-scale global projects has only recently begun to be explored in the international business literature, although there are several studies of such projects from a project management perspective (e.g., see Chan & Tse, 2003; Miller & Lessard, 2000; Stinchcombe & Heimer, 1985; and work by our colleagues Mahalingam & Levitt, 2007a, b). Such projects offer a promising context for researching what happens in encounters across institutional systems. All of the case studies examined here involve an *institutional exception*, which we define as *an episode that involves an entrant first being surprised by, then making sense of, and then adapting to institutional differences arising between itself and local project players or external stakeholders*. Our analysis explores the dynamics by which these situations of accidental deviation from established institutions, unfold and the conditions under which they have more or less costly consequences for the entrant organization.

Utilizing a broad view of institutions as encompassing three general classes of socially constructed elements – cognitive-cultural, normative and regulative (Scott, 2001) – together with an examination of 23 empirical cases, we propose a set of propositions and a generic narrative model to address four research questions:

- (1) How are institutional exceptions triggered?
- (2) How are they resolved?
- (3) How are the consequences manifested?
- (4) What conditions increase the likelihood that institutional differences will negatively impact on cross-societal collaborations?

Through this work, we hope to contribute both to theoretical development of the nature and implications of institutional exceptions and to practical knowledge of how managers learn to navigate – and can be trained to cope better – within an unfamiliar institutional milieu.

BACKGROUND

As Kobrin (1976) observed 30 years ago:

The development of international management as a distinct field is based upon an assumption that the problems of conducting simultaneous operations in a large number of varied environments are different in kind rather than degree from those encountered in a single society or polity.

Studies during the intervening years have explored interactions among three kinds of variable:

- (1) the types of societal difference that are relevant to firm performance;
- (2) the types of firm-level decision that are affected; and
- (3) the strategies and structures that firms employ to cope with the differences encountered.

Societal-institutional Differences

Viewed in the aggregate, investigators have explored a wide range of societal differences (see Henisz, 2003). A number of scholars have examined cultural differences, with a majority employing Hofstede's (1984, 1991) value dimensions to calculate cultural distance (e.g., Barkema, Shenkar, Vermeulen, & Bell, 1997; Beamish & Kachra, 2004; Horii, Jin, & Levitt, 2005; Kogut & Singh, 1988; Park & Ungson, 1997; and see a review by Robson, Leonidou, & Katsikeas, 2002). Others have concentrated on various facets of host government policies or behavior, including laws and regulations surrounding the acquisition of property (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002), the protection of intellectual property (Lee & Mansfield, 1996), the propensity of the government to invest in technological development (Mahmood & Rufin, 2005), and the fairness of processes for acquiring government licenses. More general attributes or capacities of governments have also been examined, including the overall stability of a regime (Kobrin, 1979), policy/political alignment across branches (Henisz, 2000), the adequacy of the court system (McMillan, Johnson, & Woodruff, 2002), and the extent of corruption (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Johnson, McMillan, Kaufmann, & Woodruff, 2000). Broader conditions affecting the business climate in a society would include: the level of goodwill or trust among firms operating in the same field or sector (McMillan & Woodruff, 1999); the number and quality of specialized intermediary organizations providing supportive business services (Khanna,



Palepu, & Sinha, 2005); the prevalence of contractual hazards such as technological “leakage”, where proprietary knowledge is usurped by alliance partners or subsidiaries (Oxley, 1999); and the hazards associated with free-riding on brand name and reputation (Gatignon & Anderson, 1988).

Broader, comparative work deals with many of these and other societal differences. For example, studies by Whitley and associates in both Europe (Whitley, 1992a) and Asia (Whitley, 1992b) point to differences among countries (and regions) in what are termed “business recipes”, and include firm structures and the modes in which firm interdependencies are managed (Whitley, 1991); and variations in the regulation of work systems (Whitley & Kristensen, 1997). In a similar vein, Hollingworth and Boyer (1997) describe differences in what they term “social systems of production”, which vary because of differences in resource base and human capital, historically specific development processes, and the actions of governmental entities, trade unions, employers, and business associations. Another research team with a long tradition of utilizing a more broadly devised institutional theory and research program is the Uppsala School (Eriksson, Johanson, Majkgård, & Sharma, 1997; Johanson & Vahlne, 1977; Melin, 1992). At a more macro level, scholars Hall and Soskice (2001) categorize societies more generally into those that rely principally on competitive markets, characterized by arm’s length relations and formal contracting among firms (liberal economies), and those that rely on strategic modes of coordination, characterized by denser networks of cross-shareholdings among firms, the activities of industrial trade associations and labor unions (coordinated economies), and the actions of a more intrusive state. Their approach stresses the importance of history and culture, shared experience, informal rules and understandings. This and related work emphasizes that firms and industries in different countries will react to the “same” stimuli – for example, global competitive pressures – in different ways (for an empirical test, see Biggart & Guillén, 1999; Guillén, 2001).

Considered together, these works signal a strong resurgence of interest in the nature of the institutional factors affecting business practice and economic performance. That is, cross-societal differences are increasingly being viewed as instances of variations in institutional environments – a formulation that helps us to replace “place” names with more abstract (and general)

concepts that are more readily translated into specific variables and indicators (Przeworski & Teune, 1970). More particularly, it usefully connects research on international business with theoretical developments in neoinstitutional theory. Eleanor Westney (1993) was a pioneer in making this connection to the sociological variant by recognizing the utility of viewing multinational companies as enterprises operating in multiple institutional fields operating under varying rules, norms, and cultural frameworks. And, on the economics front, Oliver Williamson (1994) recognized the value of embedding his transaction cost approach to the design of corporate structures in a wider institutional environment, noting that these macro differences could influence the parameter settings affecting the comparative costs of governance structures (see also Henisz & Williamson, 1999).

Types of Firm Decision

Turning more briefly to the kinds of firm-level decision affected by institutional differences, we see studies on a wide range of behaviors, including: efforts to assess the stability of the policy environment (Henisz, Zelner, & Guillen, 2005); choice of country, sector, and location (Henisz & Delios, 2001); mode of entry, including acquisitions, joint ventures, and greenfield investments (Doh et al., 2003; Kogut & Singh, 1988); responsiveness to host cultural routines and preferences (Pralhad & Doz, 1987); and legal recourse to international arbitration in order to avoid domestic courts (Wells & Ahmed, 2006).

Types of Firm Structure and Strategy

Earlier institutional theorists (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1977) tended to portray organizations confronting institutional pressures as passive conformists, but subsequent research has demonstrated that firms are by no means helpless when confronting institutional differences and challenges. Theoretical formulations have been revised to consider the ways in which firms play an active role in their fate, and researchers have examined firm-level characteristics, such as size, sector location, and linkages to other organizations, that mediate response to institutional pressures (Scott, 2001: Chapter 7, 2003). Firm attributes that have been examined in international business research include: the extent of previous experience in a given, or related, societal context (Delios & Henisz, 2003; Guillén, 2002); whether a company is organized as a

domestic or multinational entity (Henisz, 2003); whether the firm is affiliated with a business group (Khanna & Palepu, 2000); and whether the firm brings distinctive knowledge or has ties to powerful allies (Henisz & Zelner, 2005). More experienced firms, multinational companies, and firms connected to business groups were more likely to be able to capture “local” knowledge, including ways to be effective in local economic transactions and political contests.

INTENDED CONTRIBUTION

Our study offers a somewhat different emphasis and perspective from previous work on institutional environments and efforts by firms and their managers to cope with unexpected differences encountered.

- Unlike most empirical research, we purposely embrace a broad conception of institutions, emphasizing that cultural, political, legal, or normative differences may be activated. Our conception of institutions is elaborated in the following section.
- Rather than focus simply on varying attributes of institutions and firm-level choices, we develop a process model that shifts attention from outcomes and impacts (what happened?) to social process (how did the observed effects occur?).
- And, unlike many scholars doing research in this arena, who embrace a rational choice conception of managerial decision-making, we explore an intendedly rational, but more cognitively circumscribed, sensemaking perspective to consider how institutional exceptions are experienced and managed, or mismanaged.

INSTITUTIONS AND INSTITUTIONAL EXCEPTIONS

Our study is grounded in a relatively broad conception of institutions, which we view as symbolic frameworks that provide guidelines for behavior, and lend stability, regularity, and meaning to social life (Campbell, 2004; Scott, 2001). For analytic purposes, it is helpful to sort the universe of institutional elements into three general categories: regulative, normative, and cultural-cognitive – three types of “pillar” constraining and guiding social behavior (Scott, 2001).

Regulative elements include formal regulations and rules that govern behavior such as constitutions,

laws, and property rights (North, 1990; Scott, 2001). The regulatory pillar is

distinguished by a prominence given to explicit regulatory processes: rule setting, monitoring and sanctioning activities. In this view, regulatory processes involve the capacity to establish rules, inspect another’s conformity to them, and as needed, manipulate sanctions – rewards or punishments – in an attempt to influence future behavior. (Scott, 2001: 52)

Regulations may be created and maintained by transnational authorities, nation-states, or provinces and local regimes with power to create rules and sanction deviance (Djelic & Quack, 2003). Individual organizations such as firms and unions also issue rules, monitor behavior, and attempt to enforce compliance by their participants. Economists and rational choice political scientists direct most of their attention to regulative elements (e.g., Aoki, 2001; Weingast & Marshall, 1988).

Normative elements include the informal norms, values, standards, roles, conventions, practices, taboos, customs, traditions, and codes of conduct that guide behavior and decisions (North, 1990; Scott, 2001). “Emphasis here is placed on normative rules that introduce a prescriptive, evaluative and obligatory dimension to social life. Normative systems include both values and norms” (Scott, 2001: 54). Values are conceptions of the preferred or the desirable. Norms specify how things should be done; they define legitimate means to pursue valued ends. Normative systems define goals and objectives (e.g., winning the game, making a profit), but also designate appropriate ways to pursue them (e.g., rules specifying how the game is to be played, conceptions of fair business practices). Many occupational groups, both professional and craft-based, generate and enforce work norms and actively promulgate standards and codes to govern conduct (Brunsson & Jacobsson, 2000; Van Maanen & Barley, 1984). Emphasizing normative rather than regulative features of institutions shifts attention from employing a “logic of consequentiality” to a “logic of appropriateness” (March & Olsen, 1989: 23). Sociologists are particularly likely to emphasize the normative aspects of institutions.

Cultural-cognitive elements – the “operating mechanisms of the mind” (North, 2005) – include shared beliefs, categories, identities, schemas, scripts, heuristics, logics of action and mental models (Scott, 2001). These elements are cultural in the sense that social reality is referenced and



rationalized against external symbolic frameworks, and cognitive in the sense that social reality is interpreted and constructed through internalized frames of meaning-making. Thus both external cultural benchmarks and internalized interpretive processes shape perceptions and explanations of social reality (Sen, 2004). Some of the most important cultural-cognitive elements provide archetypes for dividing labor, constructing organizations and project teams, and crafting recipes and routines for conducting work (Greenwood & Hinings, 1993; Whitley, 1992b). Cultural anthropologists and organizational theorists emphasize cultural-cognitive elements (Douglass, 1986; Geertz, 1973; Powell & DiMaggio, 1991).

The overarching construct guiding our study is the *institutional exception*. This construct employs the vocabulary of organization theory, where the concept of an “exception” has a long history. In the information-processing view of organizations pioneered by March and Simon (1958), exceptions describe situations where an actor lacks some or all of the information necessary to perform a task, and therefore must forsake existing conventions and routines and engage in search behavior in order to formulate a response (Galbraith, 1974, 1977; Jin & Levitt, 1996; Saastamoinen, 1995). Building on this line of thinking, the term “institutional exception” describes an occasion when a knowledge void about pertinent institutional elements interferes with task completion, and requires troubleshooting.

Institutional exceptions come in many forms, but *differences among institutional elements* create some characteristic forms. Ignorance of local regulative elements – laws, rules, requirements – often leads to missteps and embarrassing misunderstandings. Encounters with divergent normative frameworks – conventions, structured expectations, work practices – are not easily resolved. Also difficult are the exceptions grounded in differing cultural-cognitive elements, when the framings of situations conflict, basic values are challenged, and entrant and host find themselves “on a different page” or “on a different wavelength”. While many exceptions involve combinations of elements, we employ these categories to broadly categorize the types of exceptions encountered.

A defining characteristic of institutional exceptions is the naivety of the offending actor. To use a sport’s analogy, consider for a moment what would happen if a football player were put out onto a basketball court and told to play, never having watched a basketball game, never having touched a

basketball, and never having been taught the rules. The result would be a classic institutional exception, characterized by the player blundering around on the court trying to learn to play the game while the game was in motion, causing delay of game violations, angering members of the opposing team, certainly looking ludicrous from the perspective of the fans in the crowd, and facing penalties from the referee.

Thus, because they are accidental, institutional exceptions are not like other kinds of institutional conflict that are intentionally confrontational, such as: bigotry, racism, and intolerance between Muslims and Christians (Huntington, 1993); contests of jurisdiction between professionals in corporate mergers (Greenwood & Hinings, 1993); or disputes over environmental and business priorities in multilateral forums (Mol, 2003). Nor do institutional exceptions involve intentional deviations from established rules and norms that are calculated by rational economic actors to be personally beneficial, as in a game-theoretic framework, where actors choose either to cooperate with institutions or to cheat, defect, renege, shirk or transgress (Greif, 1994, 2000, 2006; Weingast, 1995). On the contrary, institutional exceptions tend to be born more of ignorance, arising out of a lack of familiarity with the existence, applicability or salience of the novel institutions encountered. Basic misjudgments and misunderstandings of a more accidental and unexpected nature give rise to misconceptions, confusion, and false impressions, and, as we will show, generate a host of unanticipated institutional transaction costs – that is, resource costs, time costs, relational friction, and reputational damage.

METHODS

Method Selection

A case-based method was selected for four reasons. First, case-based methods provide a level of in-depth scrutiny that survey methods miss, and permit the analysis of rich multivariate phenomena (Eisenhardt, 1989; Glaser & Strauss, 1967; Yin, 2003). Second, there have been calls in prior literature to use case studies to examine the high incidences of failure and instability in global ventures (Parkhe, 1993). Third, case-based methods contrast with and complement earlier quantitative methods that were intended to explain the performance of cross-national ventures based, for example, on measures of political instability or



corruption (Hines, 1995) or abstract cultural distance measures (Kogut & Singh, 1988). Finally, the case-based method is an ideal mode of inquiry for addressing research questions regarding “how” things occur – the investigation of social processes (Yin, 2003).

Data Collection

Data sources. The primary mode of data collection was by interviews conducted by the first author. The interviews, which occurred during the 18 months between May 2003 and November 2004, lasted 1-2h and were digitally recorded for subsequent transcription and review. Informants also provided extensive secondary archival data relevant to the projects described that enriched the contextual background surrounding many of the institutional exceptions, including newspaper articles, project briefs, internal memos, e-mail, organization charts, budgets, schedules, and other project documents.

Informants. In total, 39 managers were interviewed. The managers had all worked on projects in areas including management, engineering, design and supervision of construction. The managers were affiliated with 29 unique organizations ranging in size from small consulting firms to the US Navy. In combination, the collection of informants had experience on projects in over 60 countries across various sectors, including oil and gas, power, heavy civil and commercial construction. The goal of interviewing informants from many unique organizations, in many industry sectors, across many projects and countries was to develop a model that was general rather than a model that was overly fitted to a single industry or project type.

Informant selection. The selection of informants was guided by several factors. As a basic prerequisite, it was necessary that informants had direct experience on a project involving participants from diverse societal systems and that their experience be sufficiently recent, within the previous 10 years, to permit adequate recall of events. It was also necessary that they agreed to have the interview digitally recorded. A practical consideration was access. Leads to alumni and industry affiliates were obtained through the authors’ personal contact network and through the engineering program at their university.

Starting-point of investigation. Although we had institutional theory in mind as a conceptual guide for fieldwork, and a strong sense from reviewing the literature that institutional differences would lead to conflicts and costs, we did not know *how* these situations would actually unfold. Thus we made every attempt to begin our interviews with a *tabula rasa* – an open mind – as recommended by established methodology texts. Glaser and Strauss (1967: 37) advise:

An effective strategy is, at first, literally to ignore the literature of theory and fact on the area under study, in order to assure that the emergence of categories will not be contaminated by concepts more suited to different areas. Similarities and differences with the literature can be established after the analytic core of categories has emerged.

Interview questions. The interviews followed an open-ended format. Informants were encouraged to talk about challenges their organization had faced on a recent global project. These interviews started out with open-ended questions, such as “Take me on a grand tour of the project” or “Tell me about the challenges on the project that were surprising”. There are two key points to note about these broad questions. First, by requesting a broad overview of a project, including many challenges beyond the scope of the study, such as challenges with an unfamiliar natural environment or a new technology, we could direct later stages of the interview toward specific challenges that had arisen from the unfamiliar social world – such as differences in beliefs, informal protocols, or formal rule systems. Second, while these general questions created opportunities for spontaneous discussion around emergent topics, they were not so specific as to prime the informants to talk only about problems in coping with the institutional requirements of the host country. Once a story about a specific institutional exception *did* emerge, we encouraged respondents to give more details about the associated chain of events, resolutions, and costs with questions such as “I see – what happened next?”, or “Oh – there was a meeting?”, or “Really – how much did that cost?”

Data Analysis

Unit of analysis. Given the project focus and the nature of the data – individual interviews based on personal experience – this article relies on the individual managers’ interpretations and actions. But although the individual manager appears to be



the unit of analysis, in virtually all cases this person served as an informant to describe the experiences of a project team or organizational unit. Hence the unit under study is best described as an organizational subsystem, with information provided by an officer responsible for, or associated with, that component.

Inductive method. Data analysis followed the approaches variously known as grounded-theory building (Eisenhardt, 1989), analytic induction (Robinson, 1951; Znaniecki, 1934), and the constant comparative method (Glaser & Strauss, 1967: 105). The constant comparative method entails

first, coding each incident in the data into as many categories of analysis as possible and comparing incidents [in] each category; second, integrating categories and their properties ... resulting in a unified and ... developing theory; and third, delimiting the theory ... and reformulating it with a smaller set of higher level concepts.

This approach differs from enumerative induction, which applies statistics to assess the strength of relationships between variables. Instead, through constant comparison, “Cumulative growth and development of theory is obtained by formulating a generalization in such a way that negative cases force us either to reject the generalization or to revise it” (Lindesmith, 1947: 12).

Iterative analysis. Within this method, vignette preparation, random-member checks, analysis, concept development, and follow-on interviews were performed in a highly iterative and dynamic process. Institutional exceptions, where an unforeseen challenge on a global project could be traced back to a lack of familiarity with pertinent institutions, were transcribed in vignette format with a chronological story-like summary of key details and events (Miles & Huberman, 1994: 81). As vignettes were completed, random-member checks (Lincoln & Guba, 1985) were conducted by e-mail to ask informants to verify accuracy and approve the disguise of potentially sensitive details,¹ such as dollar values and names of geographical locations. As analysis progressed, brief follow-up interviews – from five to 30 min – were conducted by telephone to clarify facts, thicken data and better ground the emerging conceptual framework.

Vignette selection. Of the 39 informants, 19 were able to confidently describe details surrounding an

institutional exception in enough detail to support the preparation of a vignette. Four informants provided data for two vignettes. In total, 23 vignettes were developed and, for each, Table 1 displays the major characteristics of the informant, their organization and the project. Interviews with the other 20 informants did not yield a detailed vignette describing an institutional exception. Many of these informants talked primarily of technical challenges and unforeseen problems posed by the vagaries of the natural environment, or discussed in vague terms culture, management styles, or local customs, but did not share in-depth, specific examples of divergent institutional understandings and the resulting dynamics. Hence these interviews did not generate vignettes.

Sample vignettes. Table 2 summarizes important details of the 23 vignettes analyzed in the present study. Because of length constraints, full-length versions of the vignettes are not included in this article, but they are available in Orr’s (2005) dissertation.

Cross-vignette analysis matrix. In order to compare and contrast institutional exceptions, we “stacked comparable cases” in a condensed tabular format (Miles & Huberman, 1994: 69). This cross-vignette analysis matrix provides a factual basis for the “generic narrative model” or “typical story” that emerged from the analysis (Abbott, 1992).

Concept development. A hallmark of case study research is the use of multiple methods and sources of evidence to establish key concepts (Miles & Huberman, 1994). In our study, the cross-vignette analysis matrix introduces a number of concepts to enable comparative analysis of the cases. The concepts that we employ are cobbled together from a variety of sources, including informants, scholarly works, and conventional usage. Conceptual clarifications of the three umbrella constructs – ignorance, sensemaking, and response – and all other sub-constructs are provided in the text as they appear.

Use of terms “entrant” and “host”. We use the terms “foreign entrant” and “local host”, or just “entrant” and “host”, throughout as labels to capture the parties to each institutional exception. Our naming convention is that the informant, or the informant’s organizational sub-unit, is always defined as the “entrant”, and the second party in



Table 1 Summary of informants, entrant organizations, and projects sampled

<i>ID no.</i>	<i>Number of interviews</i>	<i>Informant's position in the entrant organization</i>	<i>Entrant organization type</i>	<i>Entrant^a nationality</i>	<i>Local host nationality</i>	<i>Project type</i>	<i>Project value^b</i>	<i>Project phase^c when exception occurred</i>
1	3	Vice president	AEC ^d prime consultant	US	Korea	Transportation	<1 bn	Design and engineering
2	2	Anthropologist	Environmental consultant	US	Uganda	Hydroelectric	<1 bn	Feasibility
3	2	Engineer	Design consultant	US	China	Manufacturing	<100 m	Commissioning
4	2	Project manager	Steel manufacturer	Japan	US	Bridge	<100 m	Implementation
5	2	Assistant ops officer	US Navy	US	Albania	Road building	<10 m	Procurement
6	4	Vice president	Developer	US	Europe ^e	Real estate	<100 m	Feasibility
7	2	Senior project manager	Developer	US	China	Soccer stadium	<100 m	Implementation
8	3	Project director	AE prime consultant	US	Israel	Transportation	<1 bn	Implementation
9	2	Vice president	Contractor	Canada	Russia	Fiber optic	<100 m	Feasibility
10	3	Vice president	AEC prime consultant	US	Korea	Transportation	<1 bn	Design and engineering
11	1	Project manager	Steel manufacturer	Japan	US	Bridge	<100 m	Implementation
12	4	Vice president	Developer	US	France	Real estate	<100 m	Design and engineering
13	2	Project engineer	AEC prime consultant	US	Tajikistan	Dam construction	<100 m	Implementation
14	2	Director of operations	US Navy	US	Spain	Building	<100 m	Implementation
15	3	Project manager	General contractor	Japan	US	Manufacturing	<100 m	Implementation
16	4	Project engineer	Non-profit	Canada	Cameroon	Development	<100 k	Implementation
17	2	General superintendent	Subcontractor	Canada	Malaysia	Transportation	<100 m	Implementation
18	2	President	Consultant	US	Philippines	Water diversion	<1 bn	Implementation
19	3	Project manager	US Navy	US	Japan	Building	<1 m	Design and engineering
20	4	Vice president	Developer	US	Spain	Real estate	<10 m	Design and engineering
21	3	Project manager	US Navy	US	Japan	Base construction	<1 m	Implementation
22	3	Vice president	AE prime consultant	US	Vietnam	Infrastructure	<100 m	Design and engineering
23	1	Project executive	Chemical plant developer	US	Canada	Chemical plant	<100 k	Feasibility

^aIn each of the cases, the informant and the entrant organization share the same nationality.

^bApproximate overall project values in US\$. Note that in each case the informant's organization was responsible for only a percentage of the overall project value, depending on the size and nature of their specific contractual responsibilities.

^cProject phases occur in the following sequence: feasibility; design and engineering; procurement; implementation; and commissioning.

^dAEC stands for architecture, engineering, and construction. This acronym is standard jargon in the construction industry.

^eThis case represents business partners in France, Germany, Russia, Poland, and Czechoslovakia.

the cross-societal encounter is always defined as the "host". In most cases the entrant is an engineering, design or construction firm, and the host is any local entity, be it a partner, supplier, interest group or government body, whether internal to or

external to the cross-border project. We recognize that the joint venture and FDI literatures have a widely shared definition of the term "local host", to mean stakeholders external to the cross-border activity – that is, local government, state or

Table 2 Condensed vignette summaries*ID no. Key sequence of events*

1	A US architect reported design progress by a US reporting convention that unintentionally misled a Korean client to infer that design was progressing faster than was the case; this hurt the relationship.
2	A foreign proposal to dam a river for hydroelectric power generation infuriated locals, who believed in an ancestral spirit in a waterfall on the river that would cease to flow; this caused a public outcry.
3	A US firm offered a Chinese workforce a performance incentive that failed because of local beliefs that an excellent employment record might attract government harassment; this damaged productivity.
4	A US manager's patterns of informal conversation confused a Japanese manager, who misinterpreted a sarcastic statement as an urgent request; he sent for a tugboat and crew on the wrong day.
5	A US manager in charge of procuring local materials violated norms of personal exchange in Albania; he faced unexpected extortion from clan members who were responsible for sanctioning deviators.
6	A group of US investors imposed a standard US format for the preparation of pro-forma financial statements on several European partners, who at first were unwilling to comply; this hurt the relationship.
7	A US project manager threatened to reject a subcontractor's beam installation on a Chinese holiday associated with good luck and good fortune; this damaged the relationship.
8	Joint venture partners had diverging cultural philosophies towards pursuing change orders to return a project that was losing money to profitability; a long-standing dispute destroyed the relationship.
9	A Canadian contractor evaluating a project in Russia failed to understand the locally accepted function of paying bribes to secure work; they failed to win a contract they thought had been promised to them.
10	A US design team held "working design meetings" with a Korean client whose unfamiliarity with this practice led them to be uncooperative and question the US team's technical ability; this soured relations.
11	A Japanese firm's focus on technical excellence and professional duty caused them to fall victim to a US firm's intentional attempts to delay a project by refusing to pass quality inspections; this cost millions.
12	A US firm's standard design for a high-rise office building was unacceptable to a local partner, who refused to collaborate unless the plan was modified; this caused friction in the relationship.
13	A US contractor was unfamiliar with protocols of negotiation in Turkey, and went ahead with a project without obtaining the necessary local approvals; this hurt the relationship and delayed the project.
14	US designers expected a Spanish contractor to prepare shop drawings, but the Spanish industry is organized so that contractors do not normally prepare shop drawings; a 1-year delay was incurred.
15	A Japanese firm failed to understand the US process of submitting formal change orders when they overran the budget on a guaranteed maximum price contract; they lost 15% of the contract value.
16	A Canadian engineering team failed to comply with the local protocol of meeting with the village chieftain for approval of village projects; they faced sabotage and other mysterious barriers to productivity.
17	A Canadian firm violated the local taboo of promoting employees of a particular ethnicity to positions of management; they faced ostracism and ridicule by other locals.
18	A US contractor failed to consider the tribal traditions of a Philippine patriarchal society; their project was sabotaged and they faced costly delays.
19	A US design team tried to persuade a Japanese client to change an expensive, but customary, building material listed on a blueprint; this cost several months of negotiation.
20	A US team had a Spanish subcontractor sign a standard contract document; it was deemed unenforceable by Spanish legal counsel, and ended up costing the US firm many hundred thousand dollars.
21	A US organization forced a Japanese firm to comply with US safety regulations that violated a long-standing Japanese work practice; this created friction in the relationship.
22	Several US organizations tried to invest in projects in Vietnam, but were unable to sign exclusive contracts with Vietnamese agents for lack of a modern legal system; they fled Vietnam and wrote down the investment.
23	A US firm developing a new chemical plant in Canada was unaware of a provincial government requirement that called for a local engineer to certify project design drawings; this added unexpected costs and delays.

community. For the purposes of this paper we bundle both local project participants and local external stakeholders together under the "host" label. In a few cases other terms might have been more fitting, but for brevity we use "entrant" and "host" throughout.

Limitations

Isolation of institutional elements. In the real world it is both naïve and arbitrary to isolate beliefs, norms or rules from other co-occurring and inter-reliant institutional elements (Hirsch, 1997). Indeed, fully

fledged institutional systems comprise a tangled web of mutually reinforcing elements. Tacit beliefs uphold, and are shaped by, informal norms, which in turn give rise to and are influenced by formal rule creation and maintenance (Giddens, 1979; Greif, 1994, 2006; North, 2005). Thus our differentiation of elements – cultural-cognitive, normative and regulative – is an analytic attempt to identify the main element at work, although we recognize the interdependence of these elements and acknowledge the complexity of real world systems.

It is equally difficult to unpack and disentangle institutional and technological effects. For example, it is problematic whether differences in work practices between US and Chinese scaffold workers reflect differing institutions or differing technologies. While the scaffolding technologies differ in obvious ways (i.e., steel vs bamboo), it is also true that across the two societies there is great variation in the logics and work practices of vendors, workers and safety inspectors in the scaffolding industry. This is but one example of how technologies are shaped by social structures and conventions, and vice versa (Bijker, Hughes, & Pinch, 1987; Orlikowski, 1992). Here we attempt to defocalize or bracket the effects of technological differences in order to concentrate on institutional aspects.

Finally, some conflicts arise out of relatively straightforward differences in the economic interests of the parties involved. These are excluded from our analysis, which attempts to focus on that subset of disagreements that arise because of institutional disparities. However, even this is an artificial distinction since, in our view, all interests, including those based in economic differences, are grounded in an institutional matrix of beliefs, assumptions, norms, and rules.

One-sided perspective. All of the cases were constructed from interviews with a respondent from an entrant firm – admittedly a one-sided point of view. One of the dangers of gathering data from a single informant in a cross-cultural encounter is that of assuming that the informant's perceptions of the "other" are an accurate or fair account of the situation encountered. However, because our approach was intentionally designed to assess the sensemaking and interpretive processes employed by foreign entrant firms, we felt justified in relying on their account of events. Any discussion as to how a host perceived, interpreted, or responded to an entrant's contested actions

reflects our own inferences based on the entrant's recollections.

Simplification of interactive process. The evolution of cooperative teamwork is known to be a complex, iterative, feedback-driven process (Doz, 1996). When teamwork processes involving multiple participants and interests are examined over time, instances of confusion, sensemaking, and assessment will occur and reoccur. In the present analysis we linearize this process, compartmentalizing these interactions into discrete, ordered stages. While this dissection involves simplification – reality is less linear – it captures the general trajectory of temporal development from problem recognition to response.

FINDINGS

How are institutional exceptions triggered? How are they resolved? How are costs manifested in this process? What conditions increase the magnitude of these costs? Can these costs be avoided? Analysis of the 23 vignettes revealed a three-phase generic narrative model. Each phase has three parts: a mindset, an associated behavior, and an outcome. In our account the factual basis of the generic narrative model is displayed in the three-part cross-vignette analysis matrix, shown in Tables 3–5, and propositions are presented both to challenge and to fortify extant theory.

Phase 1. Challenging a Host's Institutions

The evidence employed is summarized in Table 3, arranged to show how the first phase of all 23 institutional exceptions is described by a three-step sequence:

- (1) an entrant in a mindset of ignorance
- (2) acts in a way that deviates from local institutions, which
- (3) results in cues of disapproval and accompanying costs originating from the host.

Institutional ignorance. *Institutional ignorance* has two key conceptual aspects: lack of knowledge about applicable institutions in the action arena; and reliance on non-local institutional knowledge that crowds out sensemaking processes. The term is not intended in the pejorative sense, as when ignorance denotes deliberate intent to ignore certain facts in order to suit one's needs or beliefs. Instead, it implies a more neutral state of being unaware of institutional systems differing from one's own, and, consequently,

Table 3 Ignorance, deviant action and outcomes

ID no.	3a Institutional ignorance ^a		3b Deviant action ^b		3c Outcomes of ignorance ^c		
	ID	RN	AC	AO	IC	PC	CI
1	c	X	c, am		s	m	rl
2	c	X	v, a		so	w	rl, t, r, rp
3	c	X	v, s		s	d	rl, t, r
4	c	X	c		o	h	rl, r
5	c, n	X	c		so	w	r
6	c, n	X	c		s	w	rl, t
7	c, n	X	a		s	h	rl
8	c, n	X	v		so	d	rl, t, r
9	c, n	X	am, a		s	w	rl, t, r
10	n	X	c		s	d	rl, t, r
11	n	X		po	s	w	t, r
12	n	X	c		s	h	rl, rp
13	n	X	c, v		so	d	rl, t
14	n	X	c, am		s	m	rl, t, r
15	n	X		po	s	m	rl, r
16	n	X	a	v	o	d	rl, t, r
17	n	X	v, a		o	w	rl, rp
18	n	X		a	so	m	rl, t, r
19	n	X	c		s	w	rl, t
20	r	X	po		so	m	rl, t, r
21	r	X	v		o	d	rl, t
22	r	X	c, s		so	m	rl, t, r
23	r	X	c		o	w	t, r

^aID = institutional differences and knowledge deficit: c = cultural-cognitive, n = normative, r = regulative. RN = reliance on non-local institutional knowledge (pre-existing mental models, experiences, expectations, judgements and rules of thumb, etc.).

^bAC = act of commission, AO = act of omission; c = confuses LH, a = angers LH, v = violates LH, s = scares LH, am = accidentally misleads LH, po = creates predatory opportunity for LH.

^cIC = intensity of cues of disapproval: s = subtle, o = overt, so = subtle building to overt; PC = elapsed time to perceive cues: h = hours, d = days, w = weeks, m = months; CI = costs of ignorance: t = time costs, rl = relationship damage, r = resource costs, rp = reputational damage.

a reliance on previously scripted mental models that do not reflect the new context.

Table 3a attempts to classify the 23 vignettes in terms of the primary sort of institutional difference encountered. For example, problems were triggered on a project in Albania when a US manager lacked knowledge about local trading protocols of personal exchange and assumed, incorrectly, that US trading practices would be agreeable to local vendors (5: i.e., see Case ID no. 5 in Table 2). In other cases the entrant’s knowledge deficit and assumptions variously concerned: keywords marking design milestones (1); beliefs in ancestral spirits (2); preferences for traditional building materials (12); habits of hiring and promotion (17); and norms of contract enforcement (20). A knowledge deficit occurs when an entrant is unfamiliar with local institutional elements and arrangements. Table 3a indicates that, in six cases, the entrant’s knowledge deficit related primarily to cognitive-

cultural institutions; in 13 cases, to normative institutions; and in the remaining four cases, to regulative institutions.

The existence of an institutional exception, by definition, points to the presence of a knowledge deficit on the part of the entrant (see Table 3a). (Although the deficit may well involve both interacting parties, we focus on the entrant, because the situation is viewed from his/her perspective.) The entrant must perforce rely on *non-local institutional knowledge* constructed from prior experiences in an institutionally dissimilar setting. Unquestioned reliance on non-local institutional knowledge is detrimental because it crowds out sensemaking and leads to inadvertent overconfidence (see Louis, 1980).

Several of the critical incidents involved an entrant who was confused by the absence of expected social actors or the presence of unanticipated new types of actor (16, 18, 22). “Social

Table 4 Sensemaking, local knowledge search, and outcomes

ID no.	4a Sensemaking ^a			4b Local knowledge search ^b		4c Outcomes of sensemaking ^c	
	CM	IB	OM	ML	CT	NC	CS
1		×		×		2	m, ct
2			×	×	f, c	1	m, c, ct
3			×	×	f, c	1	m, c, ct
4	×			×		3	m, ct
5	×			×		3	m, ct
6		×		×	f	2	m, ct
7		×				1	m, c, ct
8	×			×		3	m, ct
9		×		×	f	2	m, ct
10	×			×		2	m, ct
11	×			×		3	m, ct
12		×		×	f	1	m, ct
13		×		×	f	2	m, ct
14	×			×		3	m, ct
15		×		×	c	1	m, c, ct
16			×	×	f	1	m, ct
17			×	×	f	1	m, ct
18		×		×	c	2	m, c, ct
19			×	×	f, c	1	m, c, ct
20		×		×	f, c	2	m, c, ct
21		×		×	f, c	1	m, c, ct
22	×			×	c	3	m, c, ct
23			×	×	c	1	m, ct

^aCM = closed-mindedness (rigid adherence to non-local institutional knowledge); OM = open-mindedness (sensitivity both to new institutions and to one's own bias); IB = in between.

^bML = meetings with local host; CT = consultations with third parties: f = friends and public, p = paid consultants.

^cNC = new clarity of local institutional knowledge: 1 = high, 2 = medium, 3 = low; CS = costs of sensemaking: m = managerial effort in meetings, c = consultant fees, ct = communication and travel costs. (An additional cost is project delay; the time durations shown in the "ET" category in Table 5c are indicative.)

actors" refers to either individuals or organizations that occupy, in the former case, specified roles or, in the latter, standardized organizational forms within a given society (Cummings & Doh, 2000; Scott, Ruef, Mendel, & Caronna, 2000). In the US, familiar social actors include "lawyers", "venture capitalists", "corporations", and "501(c)3 not-for-profits". Across societies, however, there is substantial variation in the forms and functions assumed by legitimate social actors – in the rule sets, logics and expectations that they embody, and in the relative positions in the organizational fields in which they exist and operate. Some of the most intractable institutional exceptions occurred when an entrant manager was unable to locate a social actor who had been expected, or encountered a social actor who was both unexpected and extremely influential in the local context. For example, a US manager on a soccer stadium project in China reported surprise in the absence of bonding agen-

cies and trade unions, as well as the unwelcome discovery of a government design institute and a government inspection company. This discrepancy between entrant and host in the assumed field of actors and in the matrix of routines and logics that each embodies led to many unbudgeted project costs. This represents, in a broad sense, an important class of cultural-cognitive sources of divergence.

Deviant act. The term *deviation* has been used in the institutional literature to describe the act of departing from an established norm, standard or cultural belief (Dalton, 2005; Weingast, 1995; Witt & Lewin, 2007). In our study, being guided by non-local institutional knowledge, the entrant in each case committed an act of deviation – either by commission or by omission – that provoked negative feelings and reactions from the host. *Commission* is an act of perpetrating an offense

Table 5 Response, response action, and outcomes

ID no.	5a		5c		
	Response ^a	Response action ^b	Outcomes of response ^{c,d}		
	WM	ER	ET	CR	II
1	1	c, e	w	n	i
2	3	m, av	m	f,e	i
3	3	c	w	n	i
4	1	ac	h	n	w
5	1	c	w	n	w
6	2	m, e	m	f,e	w ^e
7	2	ac	h	f	l
8	1	d, av	m	n	w,o
9	1	d, av	d	n	w,o
10	1	c, e	w	n	w,o
11	1	ac	m	f	w,o
12	3	c, e	m	n	i
13	2	ac	d	n	i,o
14	1	d, av	m	f	w,o
15	2	c	m	n	w,o
16	2	ac	w	f	i
17	3	d, av	w	n	w ^a
18	1	ac	w	f	i
19	2	ac	w	f	i
20	2	ac	d	f	i
21	2	m, e	d	f,e	i
22	1	av	m	n	w,o
23	3	ac	d	f	i,o

^aWM = weigh merits of response alternatives: 1 = one alternative considered, 2 = two or more alternatives considered.

^bER = enact response action: ac = acquiesce, m = manipulate, c = compromise, av = avoid, d = defy, e = educate.

^cET = elapsed time in sensemaking and response: h = hours, d = days, w = weeks, m = months; CR = costs of response: f = further resource outlays, e = programs to educate local host, n = no additional cost; II = impact on earlier costs of ignorance: w = relational damage worsens, i = relational damage improves, o = other costs of ignorance written off.

^dAlthough not shown explicitly, all informants indicated some amount of experiential learning.

^eFurther relational damage was carefully selected by the entrant as the best possible response, given the unique circumstances of this particular situation.

against the beliefs, norms or laws of a host. For example, in Uganda, a US bank enraged locals when it proposed a project that would have destroyed a waterfall that was said to house an ancestral spirit (2). *Omission* is an act of leaving something out or failing to take an action that is required under the host's institutions. For example, in Cameroon, a Canadian engineering team angered a village chieftain by initiating a community development project without at first seeking his direct consent, as is customary in that society (16).

In other cases, contested acts ranged from applying a new pay incentive system, which violated local norms and alarmed a host (3); to mandating

an obligatory format for pro-forma financials, which confused a host (6); to failing to pay usual bribes, which misled and angered a host (9); to failing to submit contractual change orders, which created predatory opportunities for a host (15).

From the entrant's frame of reference, few of these actions would have been viewed as deviant: generally speaking, the entrant was acting in a way that would have been perfectly acceptable and appropriate within the norms and conventions of their own societal context. Yet, although not violent or criminal, they were viewed as inappropriate by the host. Of the 23 cases, 18 were classified as acts of commission, three were classified as acts of omission, and two were counted in both categories (see Table 3b).

From the host's perspective – as reported by the entrant – these contested acts were the source of negative emotions and responses. Table 3b indicates that, in 13 cases, feelings of confusion were triggered; in nine cases, the local host felt violated; and in two cases each, feelings of fright, deception, and exploitation were provoked. These emotions, along with a complex of other factors – such as the apparent centrality of the institution broken by the entrant, the host's culturally preferred styles of communication and conflict resolution, and the host's level of sensitivity and tolerance towards the entrant's institutions and interpretive schemes – influenced the host's response. For example, when a US engineering team proposed damming a river, which would disrupt a waterfall containing an ancestral spirit, an angry chieftain in the Cameroon sabotaged equipment and materials that belonged to the entrant engineering team. The inadvertent proposal by the entrant was viewed by the host as a deliberate disregard of its core cultural values, requiring a vigorous response of protest. Several cases reveal this dynamic (5, 11, 12, 15, 16, 18).

Outcomes of ignorance. An entrant's deviation from local institutions triggers cues of disapproval from the host, and unexpected costs: these are the *outcomes of ignorance*. The fact that the host is experiencing negative emotions towards the entrant is communicated through *cues of disapproval*, including verbal statements, body language, facial expressions, and other communicatory signals and reactions. For example, at a design meeting on an airport project a Korean client showed visible displeasure – through pained facial expressions – at a design consultant's lack of progress on a set of architectural drawings (1). The cues were sufficiently overt that the consultants

became instantly aware that there must have been a misunderstanding. But by the time these signals were received and interpreted, the trust relationship between the design consultant and the client had been “crippled beyond repair”.

In other cases cues of disapproval ranged from a client verbally stating that a tugboat had been ordered for the wrong day (4), to an angry sponsor demanding that a project be halted (13), to a client simply failing to respond to escalating cost reports within a reasonable time period (15). Associated costs included strained relations and a fee for a tugboat and crew (4), several days of project delay with senior managers locked in heated debate (13), and \$20 million in cost overruns (15).

When the entrant finally begins to perceive the host’s cues of disapproval, they act surprised or confused, because at that point they are still unaware of having failed to comply with a local institution (13, 11). In many cases this point of realization starts with a “gut feeling” that things are not going according to plan (14, 11). As one informant noted: “The project just wasn’t working out; we knew we had to change our tack” (19).

Cue intensity is a term that describes the explicitness and observability of the host’s verbal and non-verbal reactions to the entrant’s deviant action. (Such differences in mode of response also reflect differences in underlying institutionalized conventions.) Across the cases, cue intensity varies considerably. Table 3c indicates that, when a host’s signals were more frequent or overt, the entrant perceived them more rapidly than when they were more subtle. Overt responses occurred when a host was frightened, and acting in a mode of self-protection (18, 2), or angered, and acting in a mode of retaliation (17). In contrast, subtle responses, such as passive silent treatment (12), or steady pressure to conform to local expectations (6), typically resulted when a host was troubled or uncertain about how to react (14, 19), or afraid to react at all (3). Cue intensity was classified as subtle in eight cases; as overt in seven; and as subtle escalating to more overt in eight.

Each deviant action is accompanied by different kinds of costs, which we refer to as the *costs of ignorance*, and which fall into four general categories identified from the data: relationship damage, reputation damage, resource costs, and time loss (Table 3c). Relationship damage occurs when an entrant’s trust relationship with local players deteriorates (1). Reputation damage happens when an entrant is publicly ostracized,

ridiculed, or defamed and thereby loses legitimacy among a group of its peers or in the public spotlight (2). Resource costs result when an entrant faces monetary penalties, fees, or fines as punishment for its deviant action; when property or capital equipment are vandalized or damaged; when rework is necessary because a mistake has been made; or when investments must be written-off or abandoned (18, 21). Time costs occur when scheduled work is delayed (11). From an entrant’s outlook, these costs – which are not budgeted for in advance – are unforeseen, unpredicted, and surprising.

Several authors hypothesize that deep-seated cultural-cognitive institutions lead to the most irreconcilable challenges in cross-cultural encounters (e.g., Hofstede, 1984). However, the projects in our case analysis afford a different view. In our sample of cases the large majority of institutional exceptions stemmed not from national value differences, but from a mismatch in normative elements. Moreover, when entrants misjudged normative and regulative elements, the costs were just as severe as when cognitive-cultural elements were the culprits (see Table 3).

A more useful indicator of cost severity proved to be the *elapsed time to perceive cues*, which is defined as the elapsed time between an entrant’s contested action and their “point of realization” – or first awareness that an institutional difference was the cause of problems. This elapsed time varied greatly: in three cases, it could be measured in hours; in seven, days; in eight, weeks; and in five, months. The data indicate that the longer this time period, the more irrevocable are the entrant’s decisions and resource commitments, and the more difficult it is to correct mistakes and repair relations (see Table 3c). There was no obvious link between the type of element underlying the exception – cultural-cognitive, normative, or regulative – and the length of this time lag. One factor that did seem to be associated with time lag was the level of intensity of the host’s cues. Relational dynamics were also crucial. Another factor that appeared to be indicative, but which we could not assess effectively with our interview data, was the level of sensitivity or perceptiveness of the entrant in recognizing the host’s cues. To summarize more formally and tie to the next stage:

Proposition 1: The more ignorant an entrant is of local institutions, the more prone the entrant will be to engage in acts of omission and acts of commission that deviate from the host’s institutions.

Proposition 2: When an entrant's behavior is viewed as deviant, the host will react in a manner that sends cues of disapproval to the entrant.

Proposition 3: The more subtle a host's cues of disapproval, the longer the elapsed time for the entrant to perceive those cues.

Proposition 4: The longer the elapsed time to perceive cues, the greater the costs of ignorance incurred by the entrant.

Phase 2. Making Sense of a Host's Institutions

What happens after an entrant perceives cues of disapproval from the local host? Table 4 depicts a three-part process of sensemaking that applies to all our cases:

- (1) with a mindset of sensemaking,
- (2) an entrant begins to search for local knowledge, which
- (3) results in a new level of understanding of local institutions, but at the cost of investing time and resources in sensemaking activities.

Sensemaking. Once an entrant perceives a host's reactionary cues, they then become aware of an exception and enter a mode of sensemaking. Weick (1995) conceptualizes *sensemaking* as a thought process whereby active agents construct meaning by placing stimuli into frameworks that enable them to "structure the unknown" (Waterman, 1990: 41), "comprehend, understand, explain, attribute, extrapolate and predict" (Starbuck & Milliken, 1988: 51) surprises based on retrospective accounts (Louis, 1980). Our analysis indicates that cross-cultural sensemaking operates on a continuum between two polar extremes: being open-minded and closed-minded, where *open-mindedness* is an attitudinal disposition of being more receptive to divergent views and more sensitive to the possibility of one's own bias.

For example, upon realizing that local natives worshipped a spirit in a waterfall, a US bank that was developing a dam project that would eventually submerge the waterfall said to house the spirit was largely open-minded and spent several months attempting to decipher the intricacies of the native religious beliefs and way of life (2). In contrast, the US Navy was closed-minded on a project in Spain; even after a 1-year delay and after much time and effort devoted to troubleshooting the situation, they remained unable to understand

why a Spanish contractor was unable to complete the required shop drawings (14).²

The entrants that we coded as being open-minded exhibited greater curiosity and interest in explaining the specifics of the institutional differences that they encountered (3, 16).³ By contrast, entrants that we categorized as closed-minded stubbornly denied responsibility for their mistakes (10, 11, 22), wrongly blamed the host (4), or were irritated that a host did not respond favorably to their repeated attempts to "rectify" the situation (10, 11, 14). Despite recognizing cues from the host, it was evident that the more closed-minded entrants were not able to alter their pre-existing mental models, so that their interpretations continued to be inaccurate and dysfunctional. Other entrants exhibited a mindset that was in between these two polar extremes (6, 15, 20).

By and large, the informants and their teams were intelligent and experienced personnel. Many had advanced degrees and specialized training in cross-cultural management and foreign languages. Almost all had done their homework and engaged in what might be called anticipatory sensemaking to ready themselves for their international assignments. All recognized considerable variation in the contexts in which they worked. And yet, strikingly, many still encountered institutional elements of a totally unexpected nature.

In general, the cases confirm that greater *international experience* – in terms both of duration and of diversity – led to more open-minded sensemaking and better diagnosis of new institutional elements (2, 3). In contrast, entrants working abroad for the first time tended to be inflexibly closed-minded (4, 12). This is consistent with the international business literature on the role of international experience in reducing the liability of foreignness (Reuber & Fischer, 1997; Zaheer, 1995).

The cases also indicate that open-ended sensemaking processes occur at a more conscious level of awareness, as opposed to closed-minded sensemaking processes, which are more likely to be more subconscious and guided by preprogrammed scripts. Open-minded entrants actively question, ponder, and discuss within their teams the events, conversations, and decisions leading up to an exceptional incident; they introspectively examine the origin and applicability of their own expectations and routines; and they more often evaluate and adapt their behaviors to be more compatible with the local institutional code. By contrast, closed-minded entrants persist in opposing local



institutions, even after recognizing that relations with the host have become awkward or have started to falter, justifying their actions by employing internal reference frames (10, 22). None of our informants admitted to a fundamental distaste for the local way of life or business practice, but, in many of the vignettes, it was obvious that prior mental models were at odds with local institutions, and were blocking open-minded reflection and adaptation.

Local knowledge search behavior. The *search for local knowledge* is the behavioral outcome that arises out of an attitudinal disposition of open-mindedness, and includes any active effort to gather intelligence information or decipher the local institutional codes (Cyert & March, 1963; Geertz, 1983; March & Simon, 1958). For example, when a US bank became aware that locals were concerned about a project that was going to destroy an ancestral spirit, they engaged in local knowledge search: they sent a cultural anthropologist to investigate religious practices and beliefs; they held “town-hall” meetings to listen to concerns; and they met internally to discuss facts, opinions and possible courses of action in a collective process of mutual learning and consensus-building (2). In other cases, entrants sought advice from consultants (15), held formal and informal meetings with colleagues (12) and local stakeholders (14), spoke with friends (19) and members of the local population (16), and sought out background materials about local culture, language, and history (13).

Entrants used meetings with the local host and consultations with unconcerned third parties to gather information about unanticipated institutional elements. *Meetings with the local host* included personal, small and large group meetings between the entrant and host to troubleshoot problems. In some cases, this was merely a short conversation (4). In other cases, multiple meetings involving dozens of individuals took place on multiple continents (6). In one case a local staffer within one of the entrant’s joint venture partners recognized the cultural *faux pas* and quickly made the offending entrant manager aware of his gaffe, obviating the need for such a meeting (7). *Consultations with unconcerned third parties* included private discussions with individuals outside the institutional exception who were trusted as sources of independent advice. Several informants reported going to close friends, university alumni and other members of the general public (3, 9, 12, 13). One

described the key role of a joint venture partner (7). In several of the more costly, complicated, and confidential exceptions, entrants reported the engagement of paid consultants, local legal advisors, management consultants, and accounting firms (3, 15, 18, 21). Finally, many entrants relied on translators to play the role of intermediary and to assist in clarifying communications. Several informants noted that, because of disputes with local entities, they could not fully trust the translation provided by their counterparty, and thus they retained their own translator (7, 20). Generally, the case data indicate that entrants who were more open-minded also tended to use multiple sources of local advice and opinion, as well as published books and online sources, to increase the breadth and validity of their understandings (3, 16, 19).

Outcomes of sensemaking. The *outcomes of sensemaking* are twofold: changes – sometimes modest – in the entrant’s state of knowledge about local institutions; and the incurrence of costs associated with local knowledge search. For example, on a dam construction project in Turkey, an entrant reported that the sensemaking period lasted several days, involving tense negotiations with the project sponsor, internal meetings, reading a book (*The Arab Mind*), and a string of sleepless nights (13). In other cases, sensemaking resulted in new insight into local building codes (23), a clearer conception of tribal traditions and values in an indigenous community (18), a new awareness of a traditional Japanese work practice to wear soft-toed shoes for scaffold work (21), a new knowledge of Chinese beliefs about good luck (7), and new awareness of how payments to political officials are applied to secure work in Russia (9).

Not all sensemaking efforts brought clearer understandings. In several cases the entrant remained confused, even after perceiving cues, recognizing an exception and attempting to understand the situation. For example, a Japanese contractor was never able to decipher the use of sarcasm in US conversation (4), the US Navy did not seem to comprehend the division of labor in Spain (14), and a US manager could not fathom the norms of personal exchange in Albania (5) (see Greif, 1994).

The key outcome of the sensemaking process – when it goes well – is a *new clarity of knowledge about the institutions* under scrutiny, which serves to reduce the entrant’s initial institutional ignorance. The more open-minded entrants, who had aggressively inquired about local institutions, were

generally able to recount specific details and explain subtle nuances of the local institutional elements in question. For example, when we asked a Canadian manager why he had been ridiculed on a project in Malaysia for promoting Indian employees to management positions, he launched into a 25 min explanation of 100 years of Malaysian history, telling how the balance of power had historically been divided between Chinese, Malays, and Indians, and how long-standing Malaysian traditions had influenced the norms and expectations that had penetrated into his specific project (17). In contrast, the entrants who were closed-minded were unable to give similar clear or coherent accounts (14). Our cases indicate that an entrant's open-mindedness is linked to the amount of effort that they expend to acquire local knowledge, but that this is not without its costs.

The *costs of sensemaking* include: time spent both in meetings and in seeking information from third-party agents; money spent on communications, travel, and consultants; and the significant opportunity costs and delays that result when senior executives and entire project teams with hundreds of local staff are tied up for extended time periods (1, 2, 8, 15, 20). To summarize more formally:

Proposition 5: The greater an entrant's global experience, the greater their open-mindedness in sensemaking.

Proposition 6: The greater an entrant's open-mindedness, the more extensive is their search for local knowledge.

Proposition 7: The more extensive an entrant's search for local knowledge, the greater their clarity of institutional knowledge, but also the greater the costs incurred in sensemaking.

Phase 3. Responding to a Host's Institutions

After sensemaking, an entrant moves into a mindset of response. Table 5 depicts a three-step process:

- (1) an entrant formulates and compares response alternatives,
- (2) enacts a response, and
- (3) experiences some outcome, a process that is typically associated with further costs.

Response. The final phase of an institutional exception commences when the entrant evaluates and then selects a *response* to minimize the impacts

of its earlier deviant act. Many studies of decision-making describe how agents select responses from among alternatives (see Cyert & March, 1963; Tversky & Kahneman, 1974). *Weighing the merits of response alternatives* is a process that entails comparing the expected costs and benefits of each alternative against preferences (March, 1994). Our analysis suggests that an entrant enters a mindset of response after having become convinced, whether rightly or wrongly, that they understand the institutional elements at play and the range of feasible response possibilities.

For example, a US manager on a soccer stadium project in China was angered when a Chinese contractor erected a truss that failed to meet quality standards. But, after threatening to have the contractor eliminated from the project, he learned from a Chinese staffer that this particular day of the year was a Chinese holiday associated with good luck, and that the truss had only been erected to show "symbolic progress" (7). Armed with this new knowledge, the US manager was able to consider several alternative responses other than firing the contractor. In other cases, the entrant's mindset of response focused on repairing a strained relationship (16), recovering an unpaid fee (15), avoiding the payment of bribes (5, 9) improving the productivity of a Chinese workforce (3), and negotiating an agreeable work plan (13).

The cases also suggest a link between an entrant's clarity of local knowledge at the end of their sensemaking efforts and the number of alternative responses considered. Indeed, in all ten cases where an entrant's clarity of knowledge at the end of sensemaking was classified as high (Table 4c), the entrant consciously considered and weighed the costs and benefits of multiple response alternatives (Table 5a). On the other hand, in all six cases where the entrant's clarity of knowledge at the end of sensemaking was low (Table 4c), the entrant appeared to consider only a single mode of action (Table 5a). This suggests that a greater clarity of local knowledge enables greater flexibility in considering innovative response alternatives.

As with sensemaking, the mindset associated with response ranges between two extremes: conscious and unconscious. This familiar dichotomy distinguishes decisions made by intuition – fast, effortless, automatic and associative – from those made by reasoning – more deliberate, controlled, effortful, and rule-governed (Kahneman, 2003; Smith, 2003). Although the case data were limited in this regard, it appeared that when sensemaking



was closed-minded, decisions made were more likely to be intuitive, and that intuitive decisions were less likely to take local institutions into account (see Louis, 1980).

Response action. *Response action* is the enactment of a mindset of response. A typology proposed by Oliver (1991) consists of five strategic response actions to institutional pressure: acquiesce, defy, compromise, avoid, and manipulate. This typology was employed to sort out the range of responses enacted across the 23 cases. For example, after trying for months to get European partners to adopt a standard format for pro-forma financials, a US developer sent their CFO to manipulate – negotiate with and change – their partners' practices to ensure that future pro-forma reports would be prepared in the necessary format (6).

In other cases, the entrant's response was: to acquiesce, by meeting a village chieftain to seek approval and give gifts (16); to compromise, by negotiating to have 50% of a cost overrun passed on to a foreign client (15), or by redesigning a pay system to conform better to Chinese workers' expectations (3); to avoid, by forgoing a project altogether, because paying bribes was deemed intolerable (9); or to defy, by terminating a soured relationship with a partner after refusing to acquiesce or compromise (6).

The case evidence reveals that acquiesce or compromise strategies generally reduce damage to host relations, whereas avoidance or defiance approaches entail further damages (Table 5). For example, in the six cases involving an acquiescent strategy, relations improved in four; and in the 11 with a compromise strategy, relations improved in seven. In contrast, in the five cases with a defiance approach, relations worsened in four, and in all four cases with an avoidance approach, relations deteriorated. In three cases involving a manipulation strategy, relations worsened in two and improved in one.

There is always dynamic and iterative interaction between an entrant's end strategy and a host's end response (Doz, 1996). Acquiescence and defiance strategies typically come in pairs: if an entrant acquiesces, for all intents and purposes, the host is able to defy; likewise, if an entrant defies, the host must acquiesce or relations will undoubtedly worsen. A compromise strategy works only if both sides can communicate effectively and agree on a mutually beneficial alternative. A manipulation strategy requires the entrant to provide incentives,

or sanctions, to motivate a host to alter its underlying institutions or, perhaps, to alter the host's understanding of which interests and issues are of most importance to the host (Bazerman & Neale, 1992). An avoidance strategy severs interaction, typically terminating relations.

While Oliver's typology was useful for understanding entrant responses, we did find it helpful to include a sixth category: "educate". Since institutional exceptions are of an accidental or unintended nature, an important part of their resolution often involves education (1, 6, 10, 12, 21). While education may be viewed as a subtle form of manipulation, it does not have the same coercive undertone, particularly if both parties participate in the teaching as well as the learning. Education, especially when it is mutual, can frequently result in a win-win situation for the two parties.

Outcomes of response. The *outcomes of the response process* include reductions in – or the writing-down of – the original costs of ignorance; additional costs of response; and/or overall advances in experiential learning. For example, on a dam construction project in Turkey, after US managers learned to negotiate in a manner that fitted the cultural and historical setting better, their relations with the project sponsor improved dramatically, and the project moved forward. The informant recalled: "We did it the local way – you know, sat and had five cups of tea – and there were no more problems" (13). However, the "local way" turned out to be more time-consuming than had been budgeted, costing several weeks of unplanned delay to make allowance for the protracted negotiation process. In other cases, relations with a village chieftain improved, but at the cost of numerous gifts and lengthy meetings (16); relations with a US client were critically damaged and a \$5 million overrun incurred (15); relations with a Russian client were terminated and many months of project feasibility planning written down as sunk costs (9); and relations with a joint venture partner were terminated, causing the "largest losses in recent history" for one entrant firm (6).

An important aspect of the final outcome of each case study was whether or not the initial costs of ignorance were lessened through the response process, or whether they could not be altered. For example, the response of one Japanese manager, who had delivered a tugboat and crew to a jobsite on the wrong day, was to re-plan delivery for the following week and to beg forgiveness from a US

project manager (4). Or in the case of another Japanese firm, which had missed the legal window of opportunity to submit change orders, the end response was to admit a misjudgment and to request partial recovery for a US \$20 million cost overrun (15).

Costs of response were sorted into three types: absorbing initial costs of ignorance when an act of deviance had irreversible consequences (2, 23); committing time resources to educate a host (6); and expending further resources to execute response actions (20).

While resource costs, time costs, and reputational damage prove difficult to recoup, the cases indicate that damaged relations can be improved dramatically. In the cases where a deviant action had irreversible consequences, the mindset of response was more about impact minimization than about damage reversal. Table 5c shows that in 11 cases relations were improved; in eight they worsened; and in four they did not noticeably change. A significant finding of the study is that end relational outcomes are closely associated with the entrant's degree of open-mindedness in the sense-making process. Comparisons across the columns in Tables 4 and 5 suggest that there are clear causal linkages between an entrant's sensemaking mindset, breadth of local knowledge search, clarity of new understanding about local institutions, selection of a response strategy, and end relational outcome. When sensemaking was open-minded, more often than not this causal chain led to a positive relational outcome.

For each case, we estimated the *elapsed time in sensemaking and response*, which is measured from the point of first recognition of an institutional exception to the point of response implementation. This period varied substantially across the cases: in two cases, it was measured in hours; in five, days; in eight, weeks; and in eight, months. Longer sensemaking and response formulation durations tended to involve situations where an entrant was closed-minded and complacent (8, 11, 14, 22) or where the stakes were very high (2, 6, 15).

Finally, the cases indicated that the longer the elapsed time between an entrant's deviation and selection of an end response, the more locked-in are costs and irreversible are relational damages and other costs of ignorance (8, 11, 14, 15). To summarize more formally:

Proposition 8: The greater an entrant's clarity of institutional knowledge, the more likely they are

to weigh alternative responses to fit local institutional constraints.

Proposition 9: The greater an entrant's clarity of institutional knowledge, the more likely they are to select a compromise or acquiesce response strategy.

Proposition 10: The poorer an entrant's clarity of institutional knowledge, the more likely they are to select an avoidance or defiant response approach.

Proposition 11: Use of an acquiesce or compromise strategy is more likely to result in the mending of a damaged relationship; use of an avoidance or defiance approach is more likely to result in greater damage.

Proposition 12: The greater the elapsed time between sensemaking and response, the less likely it is that relationship damage and other costs of ignorance can be reversed.

Toward a Generic Narrative Model

This study has explored how differences in institutions lead to unforeseen costs for foreign firms. The findings do not take the form of a set of verified propositions but a collection of hypotheses to be tested and the generation of a generic narrative model, depicted in Figure 1.

How common are institutional exceptions? Of the 39 informants, 19 reported institutional exceptions in their cross-border projects. The high number of cases where we could not explicitly identify this same pattern implies that although institutional exceptions are pervasive, they do not afflict all global projects. A quantitative approach examining a more representative collection of cases would be necessary to ascertain the frequency and variety of institutional exceptions encountered in cross-border projects, and the extent of reputational, relational, time and resource costs associated with these exceptions. Of course, frequency, type of cost and magnitude would no doubt vary by firm type and sector, and such comparisons would also be interesting.

How do institutional exceptions arise? The findings suggest that institutional ignorance – a knowledge deficit concerning local institutions together with overconfidence in one's non-local institutional

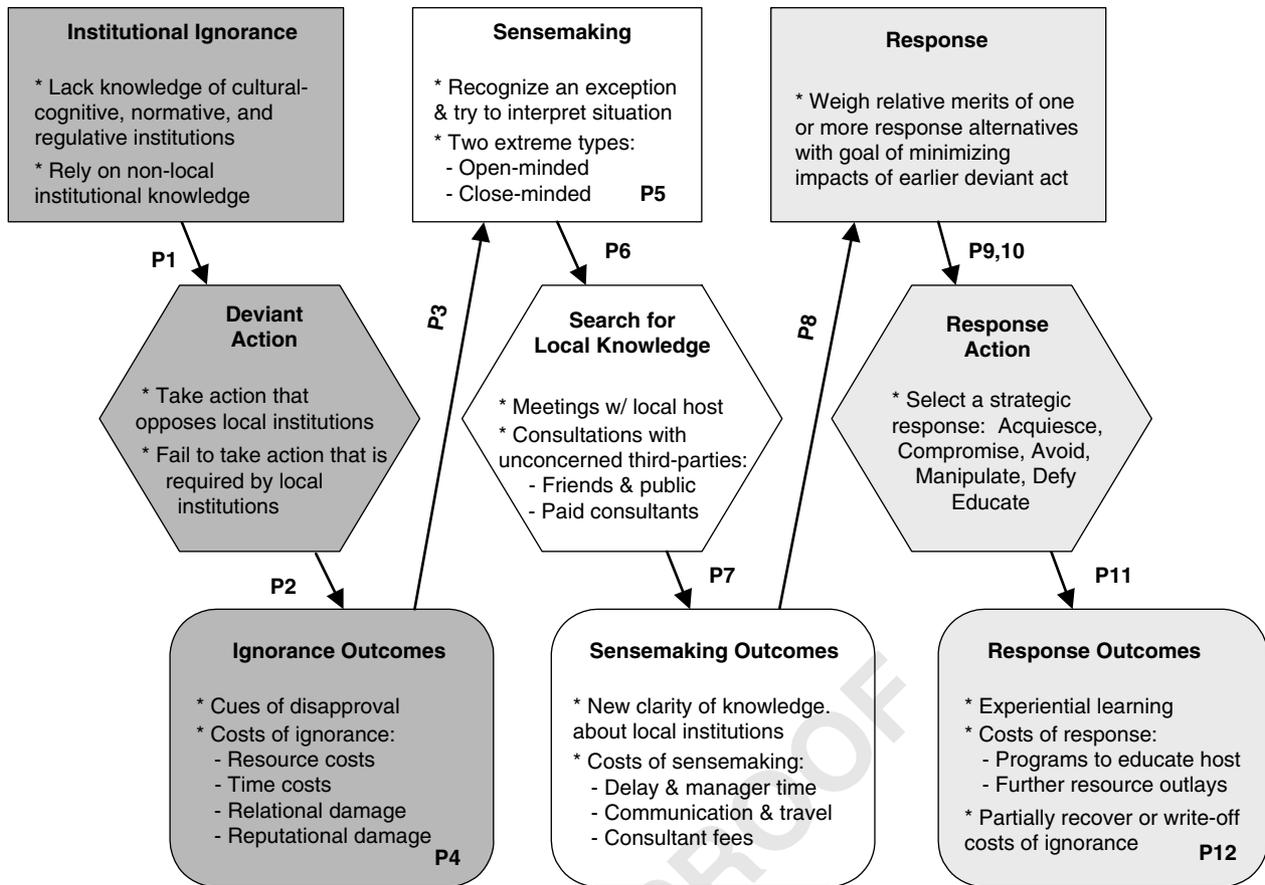


Figure 1 A generic narrative model.

knowledge – is the condition that triggers an entrant to deviate unintentionally from local institutions – either by commission or by omission – which provokes negative feelings – confusion, violation, deception, fright, and anger – and cues of disapproval from the host. When the entrant perceives these cues, they recognize an exception and enter a mode of sensemaking.

How are institutional exceptions resolved? The findings indicate that sensemaking, which varies in degree of open-mindedness, is a process of examining the host's institutions. Meetings with the local host and external parleys with trusted third-party advisors can bring an entrant to a new clarity of understanding about logics and rules. Once the entrant is confident that accurate knowledge has been acquired, a response must be selected. Options include acquiescence, compromise, manipulation, defiance, avoidance – and education. Depending on how the response is evaluated by the host, the end result is either an improvement or a worsening of relations with the

host, and learning, or failing to learn, how to cope with host institutions.

How are costs manifested in this process? Costs are incurred in each phase of an institutional exception. These so-called *institutional transaction costs* include: costs of ignorance (reputation damage, relationship damage, resource costs, and time costs); costs of sensemaking (time spent in meetings, delay, communication and travel expenses, and consultant fees); and costs of response (further resource commitments, recognition that costs of ignorance may be irrecoverable). And of course, there are costs that the host incurs that are not captured here owing to the limitations of the one-sided nature of the data. Indeed, it is not always the entrant who learns, adjusts, and absorbs costs; often the host is forced to bend, especially when power is asymmetric.

How are these costs unique from other kinds of transactions costs? In the writings of North (1990) and Williamson (1979), transaction costs are defined as the costs of measuring the value of

what is being exchanged (overcoming the problem of a human agent's limited ability to retrieve, store and process data) and enforcing agreements (overcoming the problem of human agent's opportunism). But the transaction costs observed here are of a different nature. They are the costs of creating common understanding (overcoming the problems of misalignments in beliefs, informal institutions, and formal institutions). As such, institutional transaction costs are argued to be an important additional type of transaction cost, a type that is likely to become more prevalent in an era of globalization, with increasing numbers of global projects and cross-border transactions.

What conditions lead to the greatest costs? The evidence from the case studies indicates that there are five conditions that increase the costs of institutional exceptions:

- (1) high levels of task and outcome interdependence between entrant and host;
- (2) an entrant who is exceedingly closed-minded or arrogant, and defies the host's core institutions repeatedly over a long period of time;
- (3) an entrant who, despite being relatively open-minded, misinterprets the host's institutions in its sensemaking processes over a long period of time;
- (4) an entrant who must select a response under time pressure without having the luxury to investigate the cause of an exception fully; and
- (5) an entrant who is in the business of operating machinery, ships, or aircraft with possibilities of costly and irreversible glitches.

How salient are these costs? The magnitude of institutional transaction costs across the 23 cases varied enormously – from less than 1% to more than 100% of a firm's expected project profits on a project. Owing to their unexpected nature, these costs quickly erode profit margins and are seldom easy to quantify because of the great variation across the three phases in the types of cost incurred. While increased monetary expenditures, such as air fares, consultants' fees, and liquidated damages, can be captured in existing cost accounting systems, it is next to impossible to calculate opportunity costs – for example, the value lost when a key executive is distracted from his normal responsibilities to take part in crisis management. Nor is it easy to estimate the cost of a tarnished image or soured relationship.

Can these costs be avoided? The kinds of cost that result from institutional exceptions are largely unanticipated. The question is: can they be predicted *a priori* and avoided? For the most part, the informants that we interviewed were thoughtful, intelligent, competent managers, many of whom had advanced degrees, and most of whom had attempted to prepare themselves to undertake the particular international assignment. Moreover, many of them had prior experience abroad. Nevertheless, a substantial number encountered institutional exceptions and faced institutional transaction costs. We offer the following explanation.

Institutional systems are products of social construction, varying over time and space. Moreover, they are subject to change – both incremental and abrupt, with non-linear variations, oscillations, spirals, and branching developments (North, 2005; Sorokin, 1964) – providing an opaque and shifting target. Conventional approaches for addressing exceptions arising from these systems rely on expert assessments of probabilities and consequences of *known knowns* and *known unknowns*, but do not address the set of *unknown unknowns*. Unfortunately, many institutional exceptions fall into the latter category. And many of these uncertainties emerge only as the project unfolds, after initial plans and investments have been committed. We conclude that without recent and relevant country and sector experience, and without specific knowledge of people and place, it is extremely difficult to anticipate the full set of institutional idiosyncrasies at play: each society has its own version of the “spirit in the waterfall” that we discovered in vignette 2! Thus it is very difficult, and it may be impossible, to wholly predict or avoid these kinds of institutional transaction costs *ex ante*.

The question becomes, then, how far should firms go in trying to reduce these costs? Firms can engage in preventive activities such as collecting local intelligence, attending “charm school”, studying the local language, hiring local agents, partnering with local firms, etc. However, it is important to note that these preventive activities are not costless. From an economic perspective, firms should engage in knowledge-acquisition activities only up to the point that their benefits exceed their costs (North, 1990). Thus some threshold level of unanticipated institutional transaction costs may actually exist as an efficient outcome.

Constraints on responsiveness. The exceptions described range greatly along the dimensions

discussed – institutional elements involved, sensemaking approaches utilized, costs incurred. Another critical dimension, which we have not considered within our framework, involves ethical issues (Kline, 2005). Conventional wisdom says “when in Rome, do as the Romans do”, but in many situations responsiveness to local practices could undermine one’s business code of conduct or, more seriously, violate the entrant’s ethical commitments, with repercussions in the firm’s wider institutional environment with spillovers to its other activities, both local and international. Consider a few examples. While it may be prudent and necessary to use bamboo scaffolding to comply with national building codes, it may be questionable or even illegal to mimic local norms of embedded racism, corruption and the use of child/slave labor. In such cases, entrants must weigh the costs of acquiescence – which may include feelings of wrong-doing or guilt and the possibility of home-country legal sanctions – with those associated with educational efforts to make clear to the host why acquiescence is not possible or desirable. Indeed, firms need *some* global standards in order to avoid serious moral conflicts, integrate subsidiaries, create global efficiencies, and capture knowledge (Bartlett & Ghoshal, 1987; Doz, Bartlett, & Prahalad, 1981; Prahalad & Doz, 1987). Thus, while acquiesce and compromise strategies generally produce better relational outcomes with host entities, they are not always appropriate.

Links to Theory

The “institutional exception” concept presented here offers a way to strengthen the linkage between institutional theory and the international business literature. Institutional theory, particularly the game-theoretic view, suggests that an individual who deviates unilaterally from a stable set of institutions – which exist within a social system as a Nash equilibrium where all players earn a maximum payoff so long as they abide within the established rules – will be punished or sanctioned (Greif, 2006). The liability of foreignness view common in international business suggests that a foreign entrant will face challenges and costs upon entering an unfamiliar market setting if they lack local institutional and business knowledge (Hymer, 1976; Zaheer, 1995). The “institutional exception” perspective bridges these two views, recognizing that an entrant’s liability of foreignness is at least partially a result of costly deviations from the stable set of institutions in a host societal system. Thus

the “institutional exception” concept makes it possible to better connect the ways in which differences in institutional understandings between foreign entrant and local host lead to real, quantifiable transaction costs.

International business scholars may find that the “institutional exception” concept is useful to understand the challenges of foreign market entry and internationalization, because a great many of these challenges originate from institutional exceptions of one variety or another. International business theory suggests that, with global experience, a firm develops a “know-how”, or tacit ability, to acquire relevant local knowledge upon entering a foreign environment (Eriksson et al., 1997; Melin, 1992). The findings here support this view. Each institutional exception is like a learning episode. As experience grows, managers become both more skilled at avoiding exceptions and more adept in troubleshooting and resolving exceptions when they arise.

Finally, scholars of institutional theory who are interested in the determinants and processes of institutional conflict will find a treasure trove of potential conflicts to study by moving into the international arena. Moreover, they may find that the generic narrative model developed here will have utility in describing other kinds of institutional conflict beyond merely those of a cross-societal nature.

CONCLUSIONS

Contributions to Science

There has been little agreement among scholars who have tried to explain the performance of cross-cultural collaborative ventures using cultural distance as a predictive independent variable (Robson et al., 2002; Shenkar, 2001). Other scholars have concentrated attention on legal and regulatory aspects of institutional differences. Our effort responds to calls to adopt a broader institutional framework in empirical studies. The perspective advanced here describes how all three facets of institutional differences – cultural-cognitive, normative and regulative – are translated into the kinds of intercultural friction and cost that beset cross-border projects and collaborative ventures. We propose a process model that depicts this translation by identifying the specific conditions that affect how institutional exceptions are triggered and explores how managers react in a way

that is intendedly rational, but within the limits of a cognitively circumscribed sensemaking process.

Agenda for Future Research

Institutional theory holds much potential to shed light on the performance of global projects that involve participants from multiple societal contexts. To unlock this potential, more work is needed to examine how institutional exceptions vary across settings, phases, and subsystems as a given project proceeds from planning to completion stages; to identify coping mechanisms – at interpersonal, inter-team, project, firm and wider levels – to deal with exceptions; to examine attributes of project leaders who best mollify conflicts; to identify managerial interventions – in organization structures, contracting practices, staffing policies and administrative procedures – to help bridge across institutional gaps; and to trace evidence of organizational learning that supports improved performance within and across projects and firms.

Data for our project came from single managers. We recognize the limitation of this approach. Additional research should rely on multiple participants and should be expanded to include not only the project but the firm and corporate levels. For example, how did the project's top management team get involved and react? Was there variation across individuals within the team? Is the "international experience" that facilitates "open-mindedness" necessarily that of the project manager, or can it be provided by others on the team, or by the capabilities of the firm? Is the manager able to draw on resources and knowledge outside the project but elsewhere in his/her organization? A further limitation of this study was that the host's perspective was largely ignored. Additional research needs to account for the perceptions and behavior of the multiple types of participant involved in and affected by global projects.

Advice to Managers

A divisional president at Bechtel with more than 45 years of experience in more than 80 countries ended one of our interviews with the following sage advice: "The toughest and most important thing [on global projects] is to train expats to see the world differently." This simple statement has two profound implications: it is crucial that expatriate managers adapt their thinking to accommodate local institutions and interpretive schemes; however, the task of fostering such a transformation in mental programming is a huge challenge!

Our advice to managers is fourfold. First, it is important to anticipate an almost infinite diversity of cultural-cognitive, normative, and regulative institutions on cross-border projects; and to investigate these new elements inquisitively with an openness of mind as to how they might bear on your operations in stunning and unimagined ways. The faster managers are able to identify institutional idiosyncrasies, the sooner they can diagnose their potential impacts. Second, managers should be aware that moving outside their own cognitive-cultural code is not easy; the most difficult part is getting past gut instincts and biases that were scripted during earlier experiences. Clearly, the cases reveal that even when entrants have convinced themselves that they are adhering to a rational course of action, in many instances their intuitions are rooted in non-locally applicable interpretive schemes and mental models. Indeed, when navigating unfamiliar institutions, past experiences may be invalid, assumptions may break down, rules of thumb may require recalibration, and previous knowledge may not bring advantage. Third, managers must learn to improve their exception-handling capabilities. Exceptions are not always preventable, so skills and processes to quickly troubleshoot, mediate, and reconcile are vital. Finally, managers must come to understand which of their own institutional norms and prescriptions are simply matters of habit or convention or preference and which are sufficiently central to their moral core so as not to be compromised. Western companies are too often prone to assume that *all* of their beliefs and practices are superior to those of others (Evans, 2004). While this overreaching stance is incorrect, that does not mean that all standards should be set aside when institutional exceptions arise. Managers must learn when to acquiesce, when to educate and compromise, and, if necessary, when to manipulate, defy, or avoid.

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NOTES

¹Excerpt from e-mail to informants: "I would like to publish a story from our interview in a scientific publication. It is important to verify two criteria: (1) that all factual details are accurately represented; and (2) that the content is appropriately disguised to ensure confidentiality of the parties involved. Please read the story and let me know if it meets these criteria. If it needs modification, please suggest appropriate changes."

²This exception, we think, based on discussions with non-Navy managers who had Spain country-experience, stemmed from the fact that the US and Spanish

AEC industries are organized differently. In Spain, contractors do not have in-house designers, architects or engineers to prepare shop drawings. Instead, this expertise resides in engineering and design firms. In the US, contractors typically have design expertise in-house. Thus the Spanish firm seemed to be confused by the Navy's demand that they do shop drawings. But the Navy, exhibiting closed-minded tendencies, could not pinpoint the root cause of this exception, even after a full year's delay.

³One prior study to operationalize the concept of open-mindedness did so with two items: "It concerns me that I might have biases of which I'm not aware"; and "It's important to me to understand what other people think about things" (Facione, Sánchez, Facione, & Gainen, 1995). Future researchers might operationalize this variable by counting the number of questions asked by the entrant of the host, or the proportion of time spent by the entrant listening vs talking to the host during meetings and discussions; likewise, laboratory researchers might build on methods used to assess emotional intelligence.

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ABOUT THE AUTHORS

Ryan J. Orr (rjorr@stanford.edu) is the Executive Director of the Collaboratory for Research on Global Projects at Stanford University. His research interests include global projects, global projects business, and infrastructure finance and development. He received his PhD from Stanford University, was born in Whitecourt, AB, and holds dual citizenship in Canada and the US.

W. Richard Scott (scottwr@stanford.edu) is an Emeritus Professor at Stanford, Department of Sociology, with courtesy appointments in the School of Business, School of Education, and School of Medicine. He is also a Senior Researcher with the Collaboratory for Research on Global Projects, School of Engineering. His current research focuses on the shaping of organizations by their institutional contexts. Professor Scott received his PhD from the University of Chicago, was born in Parsons, Kansas, and is a US citizen.

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