Projects in Unfamiliar Markets: Challenges and Strategies

Ryan J. Orr, Ph.D.
Executive Director, Collaboratory for Research on Global Projects, Stanford University
5 Questions

- What are ICs?
- How do ICs arise?
- Can ICs be predicted with risk analysis?
- What is embeddedness?
- What strategies do firms adopt to cope?
Motivation
How are *project* supply chains unique?
They are different from mfg. supply chains in six key ways.

- Support a unique, non-routine product, created outside of a controlled factory environment
- Temporary systems
- Undergo simultaneous structuring & operations
- “Learning disabled”
- Large numbers of transactions w/ local entities
- Embedded in locally-devised institutions:
  - Buying land, Clearing customs, Applying for permits, Hiring labor, Getting replacement parts, Working with trade unions, Avoiding mafia, Hiring security.
### Institutional Theory
Theory of socially-constructed determinants of human behavior.

**Institutions** -- Human devised cognitive-cultural, normative & regulative elements that enable, guide & constrain social behavior. *Scott ’95*  Matrix of sanctions & incentives that influence human behavior. *North ’90*

<table>
<thead>
<tr>
<th>Regulatory:</th>
<th>Rules, Laws, Governance Systems, Property Rights</th>
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<tbody>
<tr>
<td>Normative:</td>
<td>Values, Expectations, Conventions, Roles, Taboos, Practices, Protocols</td>
</tr>
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<td>Cognitive-Cultural:</td>
<td>Mental Models, Categories, Identities, Schemas, Beliefs, Scripts</td>
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- Formal, explicit
- Informal, tacit, taken for granted
1. What are ICs?
Five vignettes from interviews with global project managers

- US Investor → Vietnam
  - No legal system, exclusive MOU not honored → $300k+, 1 yr top execs
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- Cdn Eng. Firm → Cameroon
  - Protocol of meeting village chieftain → delay, sabotage
1. What are ICs?
A simple definition

ICs are the **unforeseen costs** that arise when an entrant lacks familiarity with host country institutions.

Each case involves several distinguishing attributes:

- global project as context,
- foreign entrant firm,
- local host entity,
- transaction/ relation/ interface,
- differing institutions
1. What are ICs?

One further conceptualization

Direct Costs

$, ¥, €, …
1. What are ICs?
One further conceptualization

Uncertainty, Interdependence & Time Pressure

Direct Costs

Coordination Costs

$, ¥, €, …
1. What are ICs?
One further conceptualization

- **Direct Costs**
- **Institutional Costs**
- **Coordination Costs**

**CIFE**: 1988-2002: Complex, Fast-Track Projects
Uncertainty, Interdependence & Time Pressure

**CRGP**: 2003+: Global Projects
Conflict between values, cultural norms, and work practices of project participants

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2. How do ICs arise?
A generalized process model

Regulative
Normative
Cog.-Cultural

Entrant
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A generalized process model

Entrant

Regulative
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△R
△N
△CC

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Host Entity
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Institutional
Exceptions
misjudgments,
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ICs

time costs,
$$ costs,
relation damage,
reputation damage

Institutional Exceptions

misjudgments,
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A more detailed process model

Institutional exceptions unfold according to a typical process:

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- Ignorance & Deviant Action
- Sensemaking & Local Knowledge Search
- Cost/Benefit & Response
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Consultant Fees
Project Delay
Executive Time
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1% - 25% of project costs

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3. Can ICs be predicted \textit{a priori}?

- Risk Consultants
- Control Risks Group
- Pegasus Consulting, Inc.
- Risk Software
- @RISK
- PERTMASTER

The @RISK Results Window gives you countless graphing and reporting options!
3. Can ICs be predicted *a priori*?

- Human-devised institutional systems are:
  - Wholly unique, product of human imagination, thus infinite possibilities
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  - Known knowns, known unknowns, *unknown unknowns* (Howard)
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  - Without recent/relevant country experience, very difficult to model risks

* A priori risk analysis has limits & is *extremely difficult*
4. What is embeddedness?
Definition, influences & hypotheses

Embeddedness is the total # of relations that an entrant has with local entities.

- Embeddedness is influenced both by:
  - Characteristics of the project; (i.e. Handsets vs. Network roll-outs)
  - Strategic management decisions (i.e. Self-perform vs. Outsource)

- The greater an entrant’s embeddedness, the greater their:
  - Level of interaction, negotiation, coordination with locals,
  - Level of need for local institutional knowledge,
  - Likelihood of incurring ICs should they lack an appropriate level of local institutional knowledge;
4. What is embeddedness?
Examples of differing levels of embeddedness

<table>
<thead>
<tr>
<th>Type of Relation</th>
<th>Systems Contractors&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Developers&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Project Consultants&lt;sup&gt;a&lt;/sup&gt;</th>
<th>General Contractors&lt;sup&gt;a&lt;/sup&gt;</th>
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<tbody>
<tr>
<td>Formal Regulatory Relations</td>
<td>4</td>
<td>14</td>
<td>17</td>
<td>16.75</td>
</tr>
<tr>
<td>Formal Market Relations</td>
<td>36</td>
<td>64</td>
<td>78</td>
<td>1123</td>
</tr>
<tr>
<td>Informal Community Relations</td>
<td>0</td>
<td>10</td>
<td>22</td>
<td>12</td>
</tr>
<tr>
<td>Informal Project Relations</td>
<td>12</td>
<td>2</td>
<td>166</td>
<td>20.75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>90</strong></td>
<td><strong>283</strong></td>
<td><strong>1172.5</strong></td>
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<sup>a</sup> N = 4; <sup>b</sup> N = 5
5. How do firms cope?

3 theoretically-distinct internationalization strategies

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5. How does **Nokia** cope?
An “arsenal” of strategic responses to ICs

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Pacing strategies: Get embedded, but not too quickly!!

- A paradox:
  
  **On the one hand**, it is necessary to get embedded in order to operate a local telecom network; **On the other hand**, becoming too embedded too quickly without adequate localization leads to a host of ICs;
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- What did 360networks do WRONG?
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5 Answers

- What are **ICs**?
  - Unexpected costs that arise from unfamiliar institutions

- How do ICs **arise**?
  - Institutional exceptions: ignorance, sensemaking, response

- Can ICs be predicted with **risk analysis**?
  - Extremely difficult

- What is **embeddedness**?
  - The level of exposure to local institutions via local relations.

- What strategies do firms adopt to **cope**?
  - (1) Increase supply of local knowledge, (2) Decrease demand for local knowledge, (3) Reduce severity of a local knowledge deficit, (4) Pacing
Questions

Ryan J. Orr, rjorr@stanford.edu

Working paper @ http://crgp.stanford.edu
Implication to Nokia Project Managers

- Recognize that these costs exist. They are not insignificant, immeasurable or imaginary!!!!
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- Recognize that these costs exist. They are not insignificant, immeasurable or imaginary!!!!
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- Recognize different coping strategies.
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- Understand that some institutional differences can be predicted in advance, and that others will be emergent and require on-the-fly sensemaking and adaptation.
- Recognize that every relation with locals brings the potential for these costs, so the greater your embeddedness in local relations, the greater the aggregate level of these costs.
- Recognize different coping strategies.
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- Understand that some institutional differences can be predicted in advance, and that others will be emergent and require on-the-fly sensemaking and adaptation.
- Recognize that every relation with locals brings the potential for these costs, so the greater your embeddedness in local relations, the greater the aggregate level of these costs.
- Be equipped w/ general strategies & tactical variants.