

Projects in Unfamiliar Markets: Challenges and Strategies

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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.



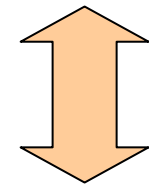
Institutional Theory

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**

Regulative:	Rules, Laws, Governance Systems, Property Rights
Normative:	Values, Expectations, Conventions, Roles, Taboos, Practices, Protocols
Cognitive-Cultural:	Mental Models, Categories, Identities, Schemas, Beliefs, Scripts

Formal, explicit



Informal, tacit, taken for granted



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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

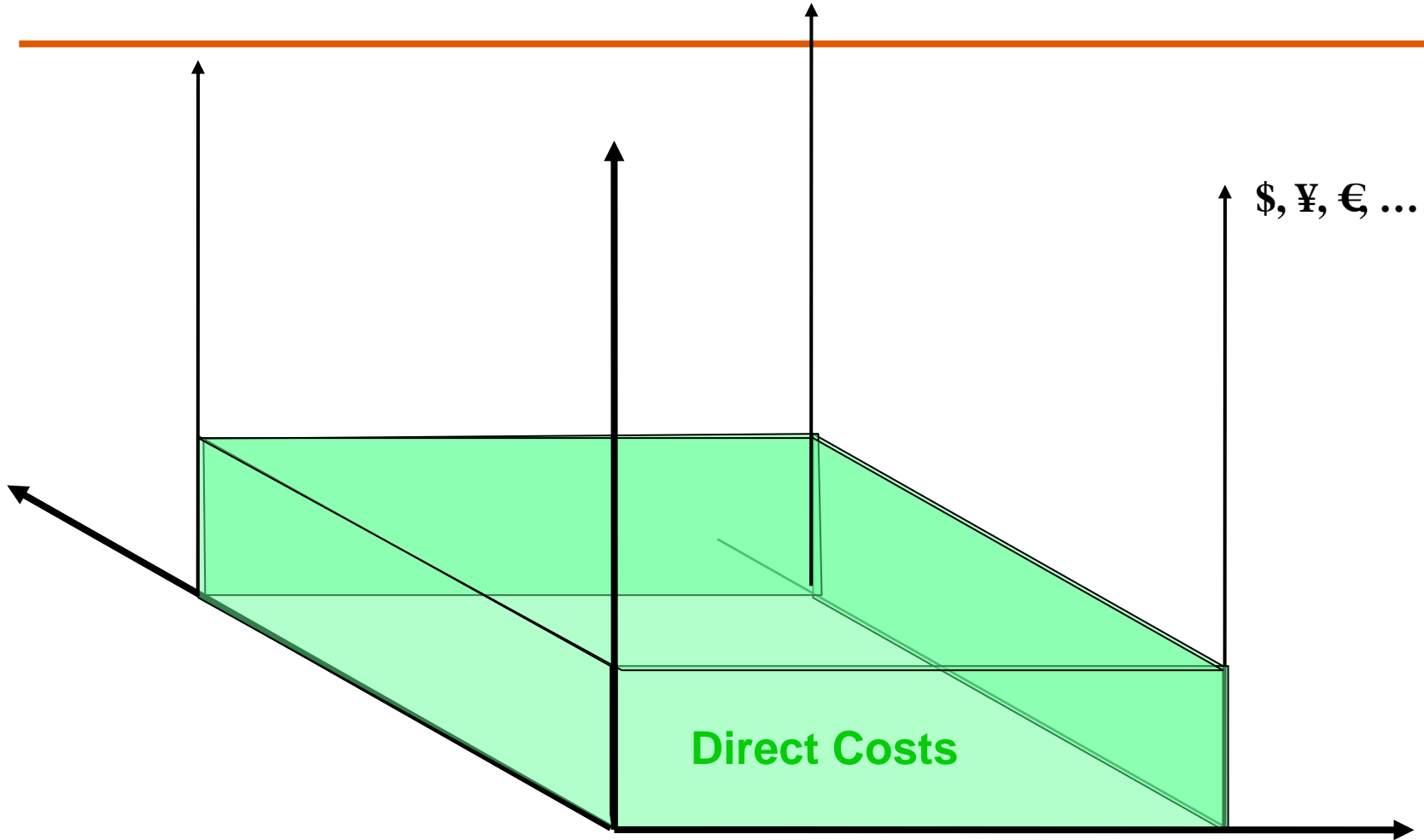
ICs are the **unforeseen costs** that arise when an entrant lacks familiarity with host country institutions.

Each case involves several distinguishing attributes:

- global project as context,
- foreign entrant firm,
- local host entity,
- transaction/ relation/ interface,
- differing institutions

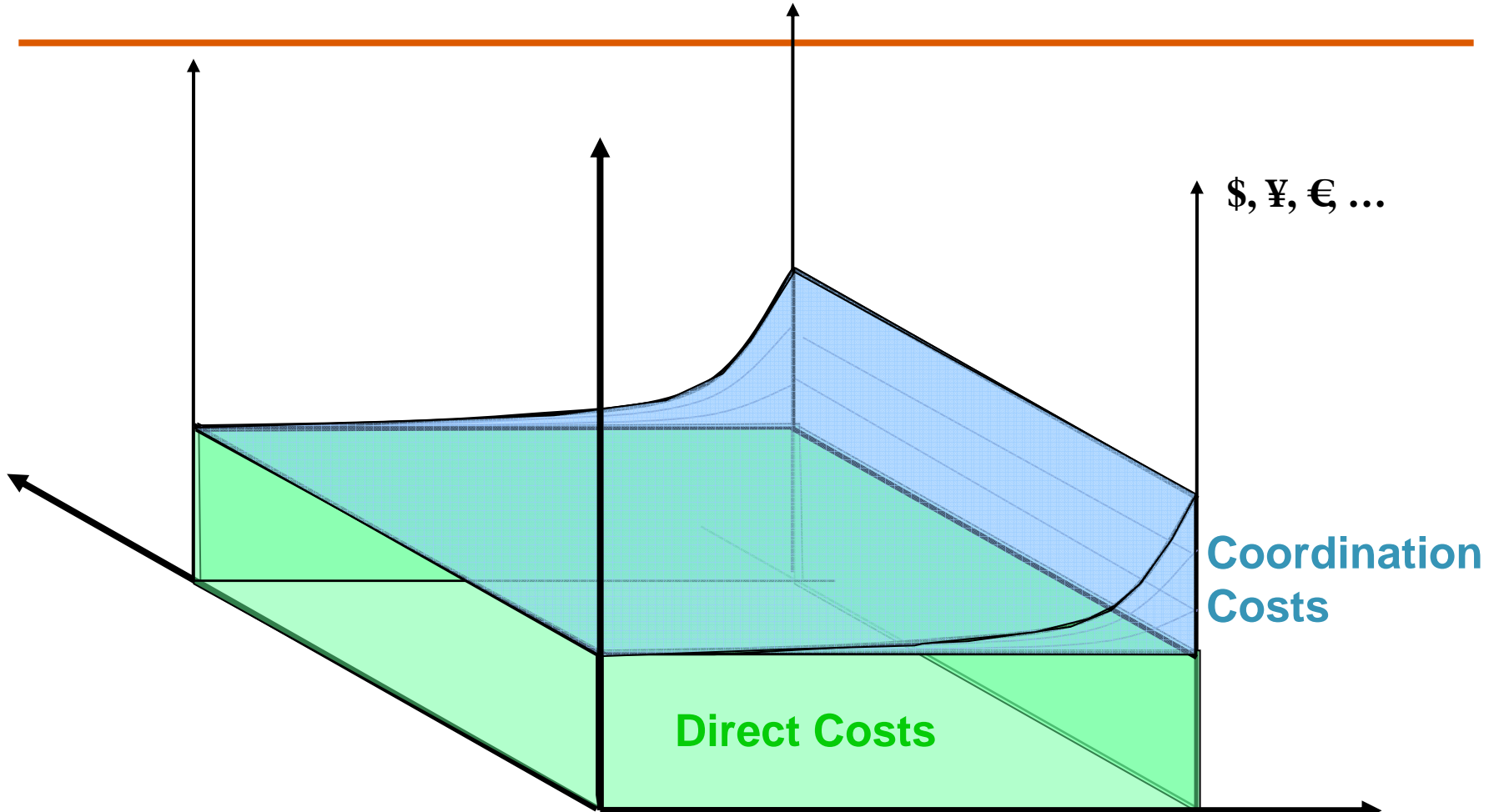
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One further conceptualization



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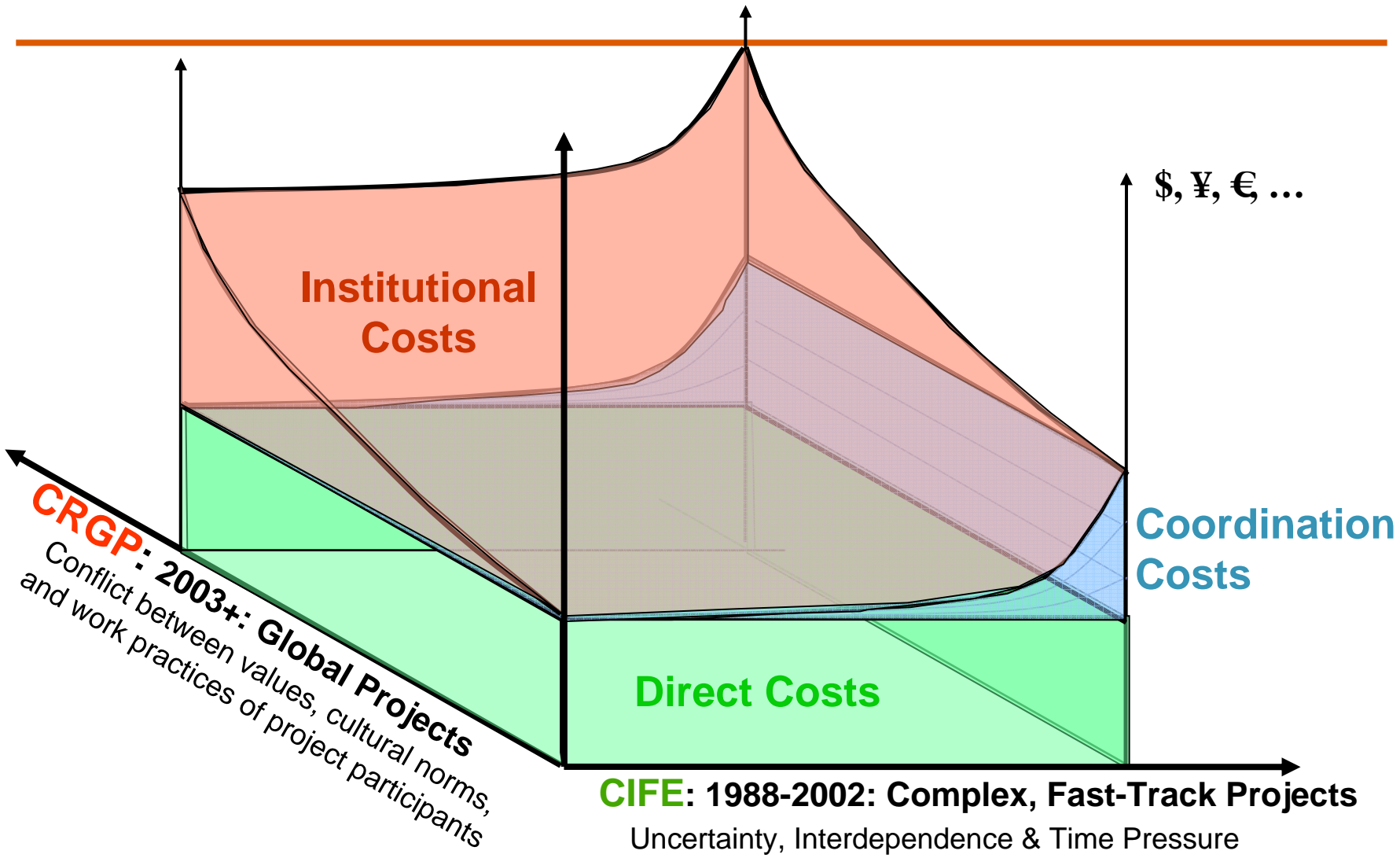
CIFE: 1988-2002: Complex, Fast-Track Projects

Uncertainty, Interdependence & Time Pressure



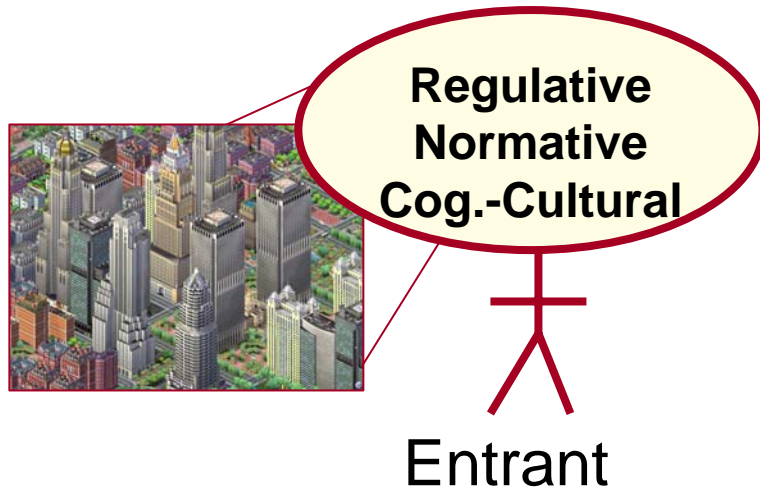
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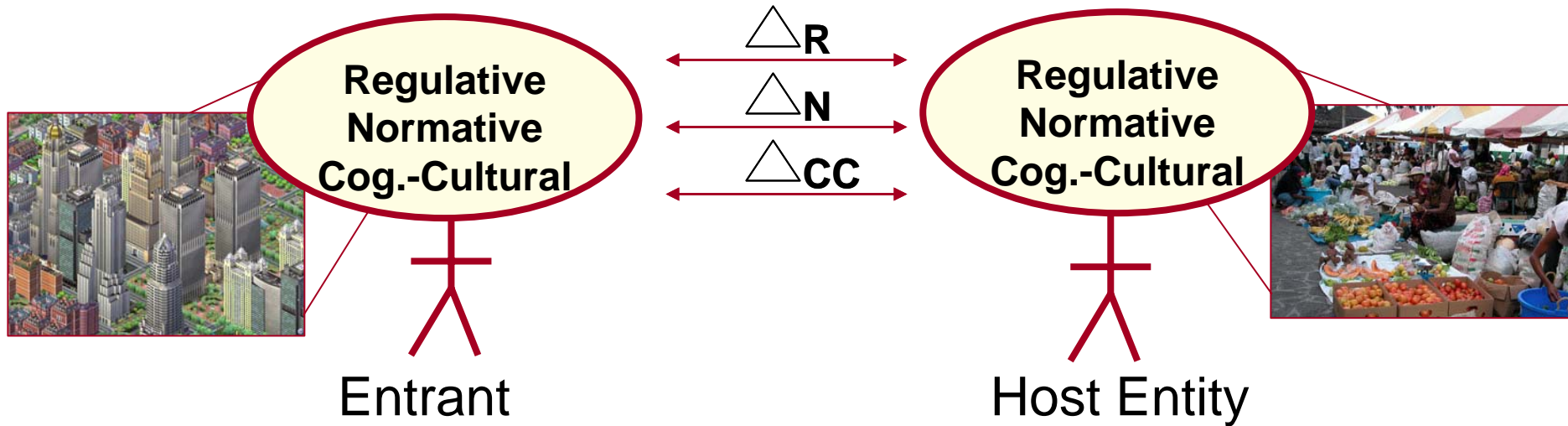
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A generalized process model



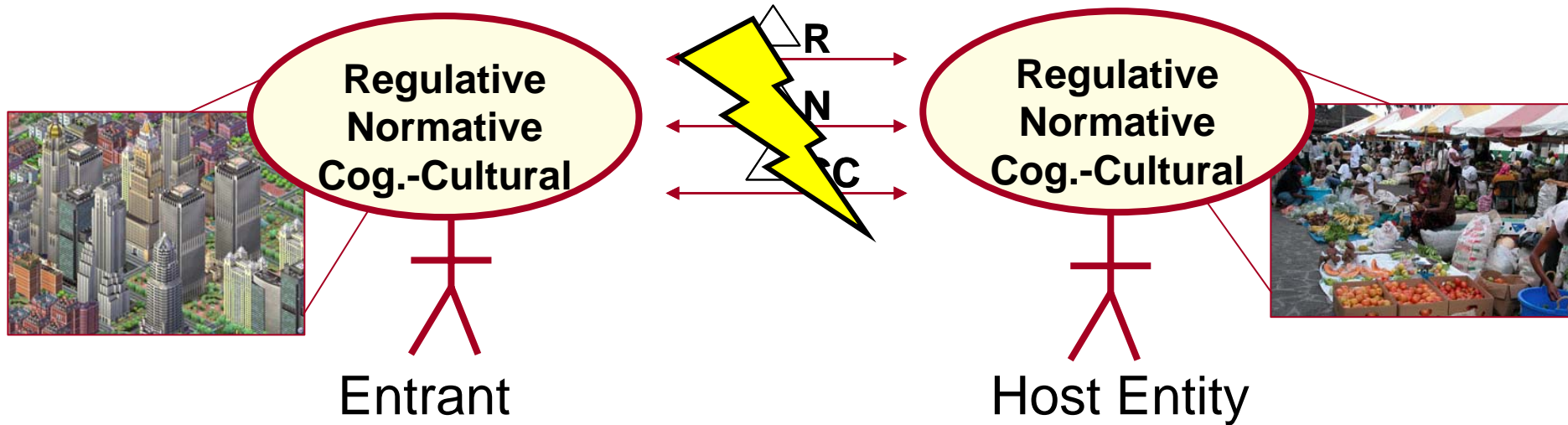
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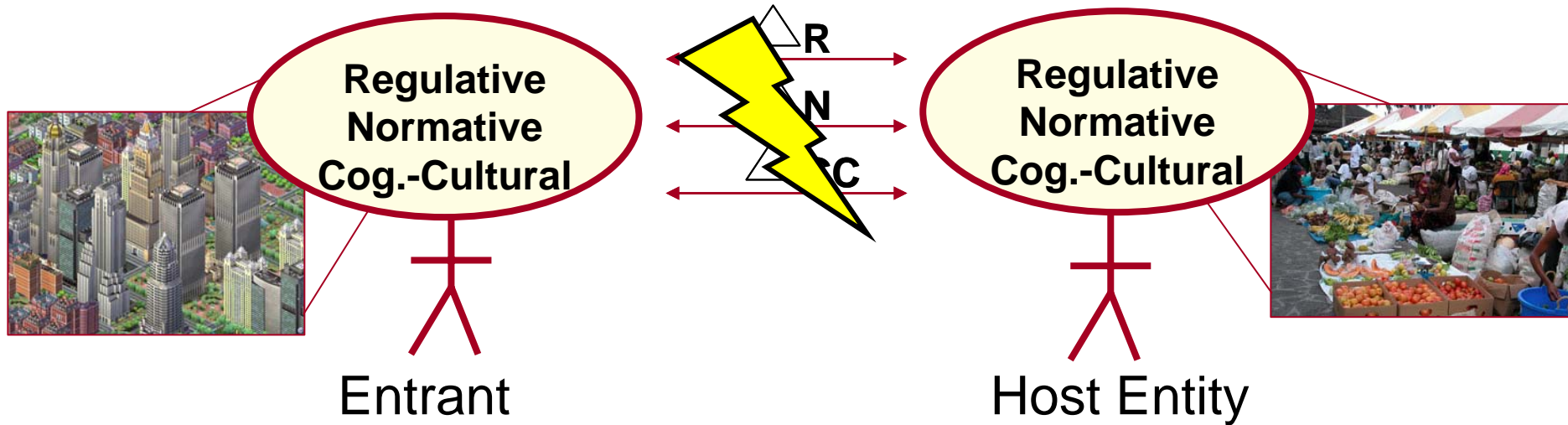
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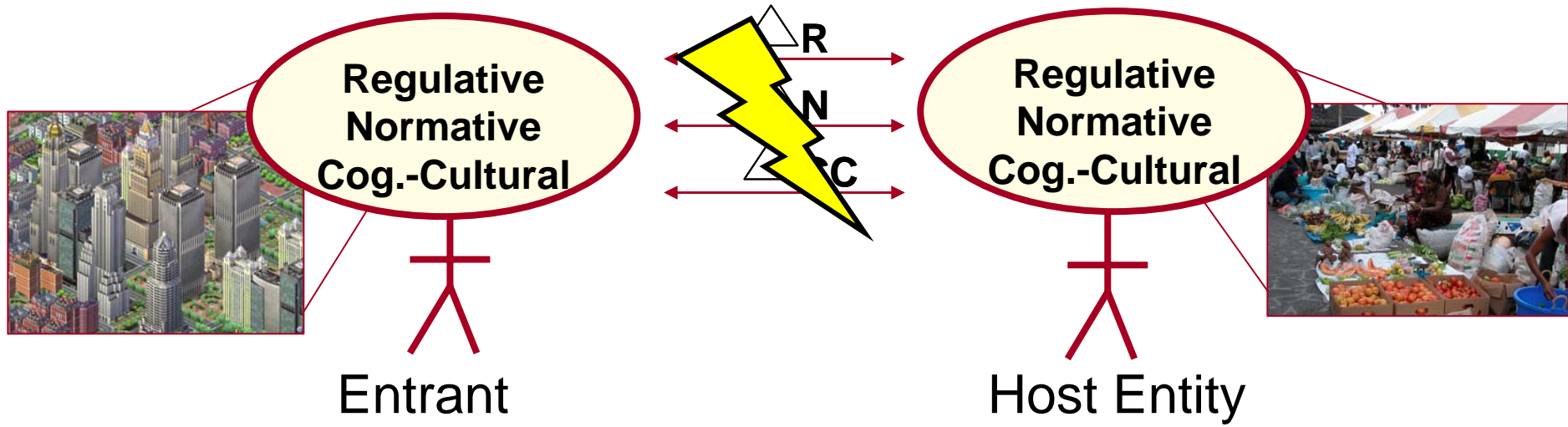


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**Institutional
Exceptions**
misjudgments,
misunderstandings,
conflicts

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2. How do ICs arise?

A more detailed process model

Institutional exceptions unfold according to a **typical process**:





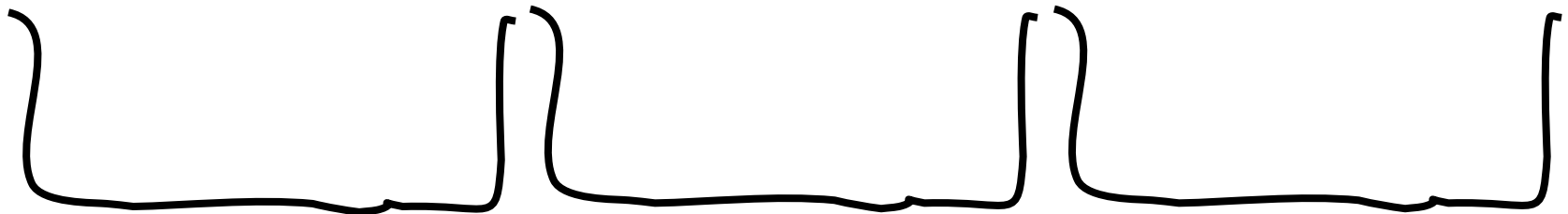
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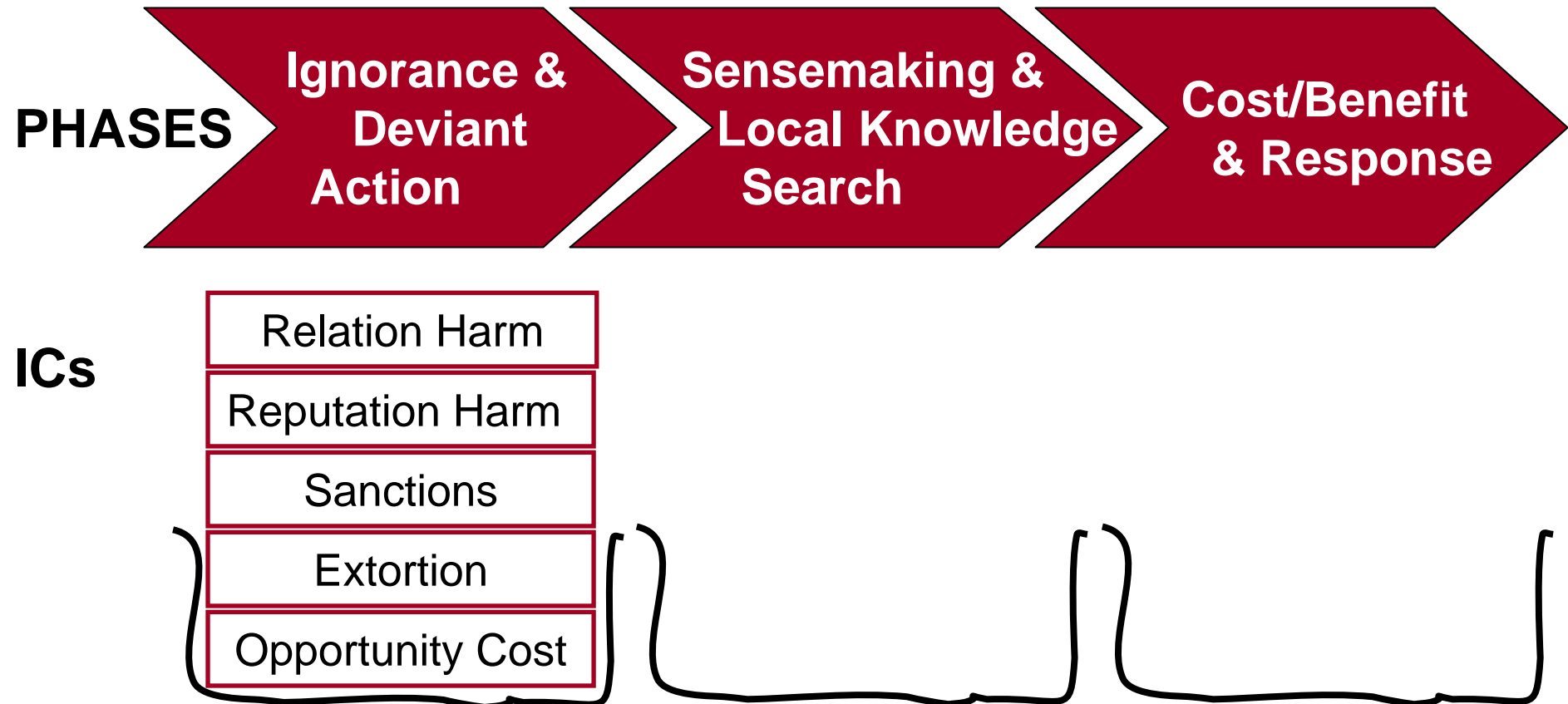




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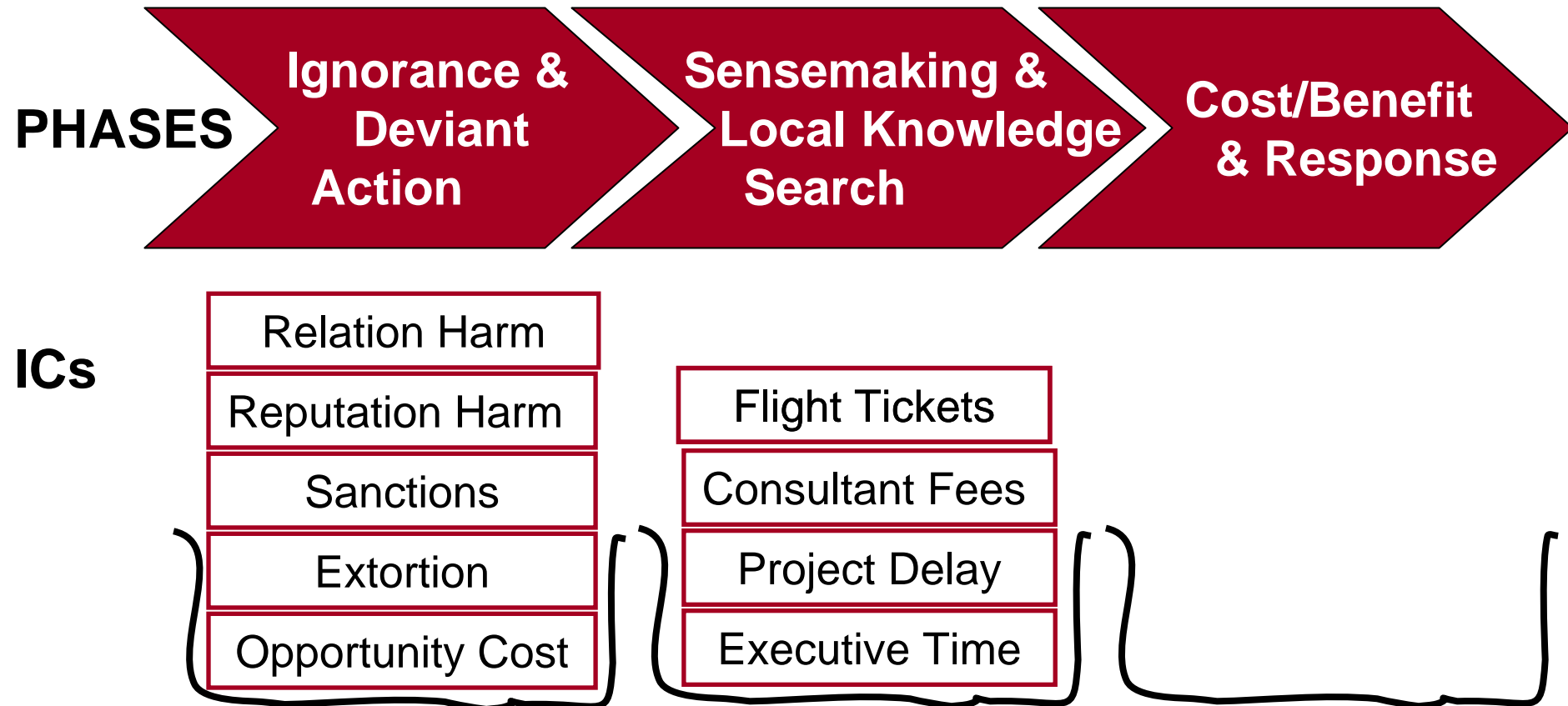




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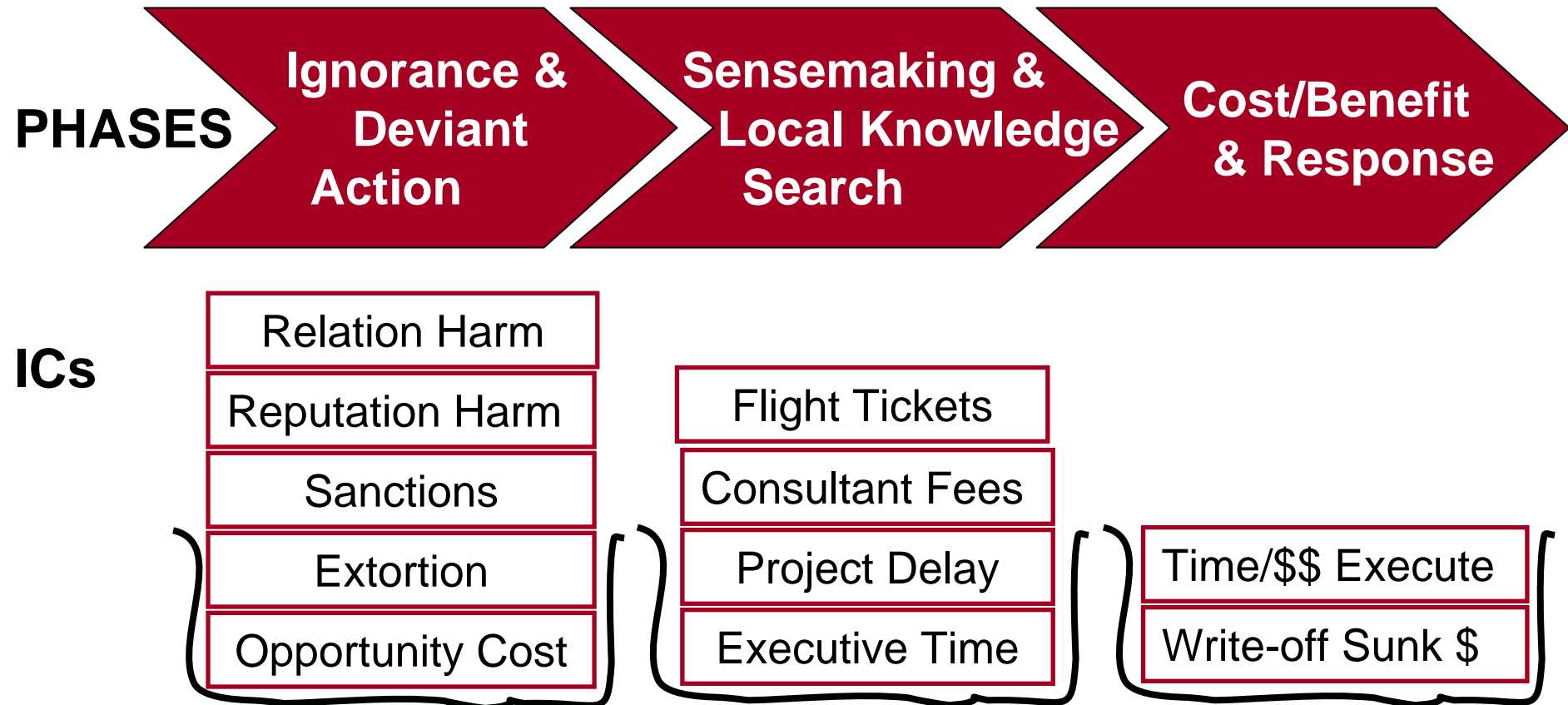




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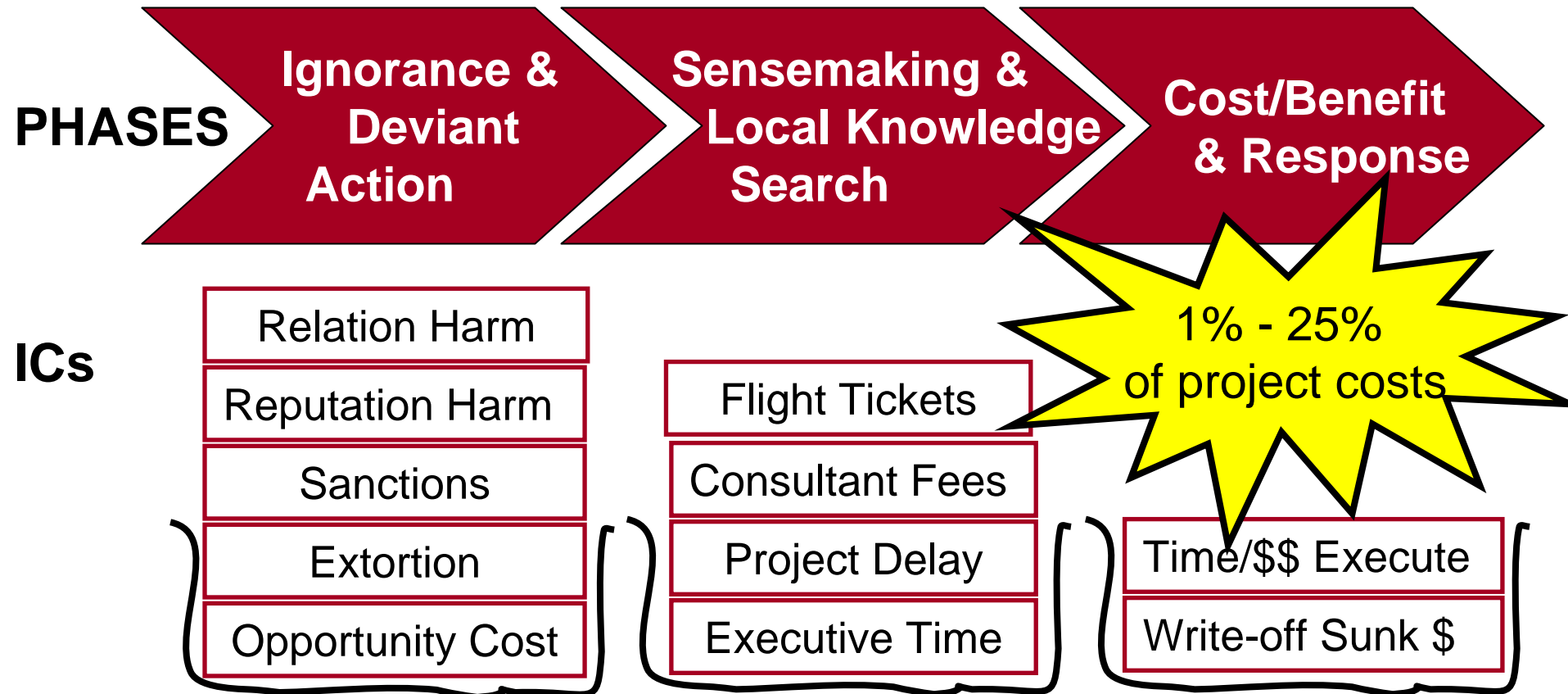




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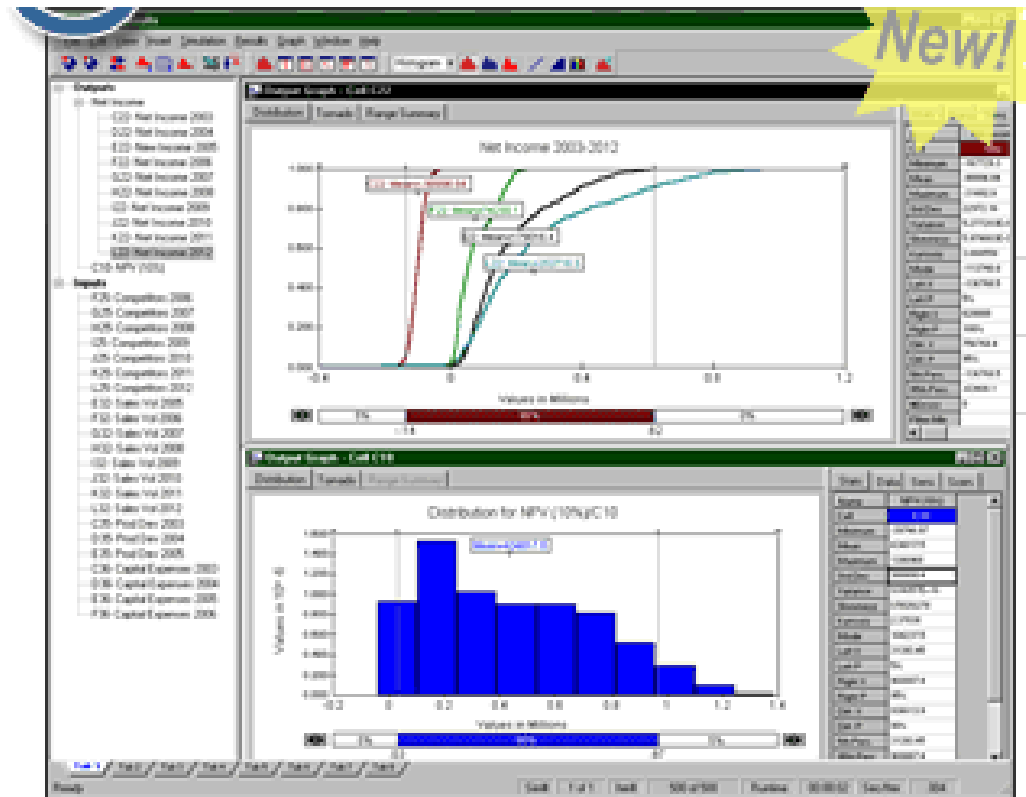


3. Can ICs be predicted *a priori*?

Risk Consultants



Risk Software



The @RISK Results Window gives you countless graphing and reporting options!



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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

Type of Relation	Systems Contractors ^a	Developers ^b	Project Consultants ^a	General Contractors ^a
Formal Regulatory Relations	4	14	17	16.75
Formal Market Relations	36	64	78	1123
Informal Community Relations	0	10	22	12
Informal Project Relations	12	2	166	20.75
Total	52	90	283	1172.5

^a N = 4; ^b N = 5



5. How do firms cope?

3 theoretically-distinct internationalization strategies

FIRM TYPE

GENERAL STRATEGY

TACTICAL VARIANT

**General
Contractors
1200+**

**Developers 90
Systems
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**Engineering
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~280**



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Engineering Consultants ~280	Reduce cost of a local knowledge deficit	Don't assume any risk.



5. How does Nokia cope?

An “arsenal” of strategic responses to ICs

GENERAL STRATEGY

**Increase supply
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**1) Country entry survey;
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**1) “Shared risk” modes of operation;
2) Remote project service provision
concept;**



5. How does Nokia cope?

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;



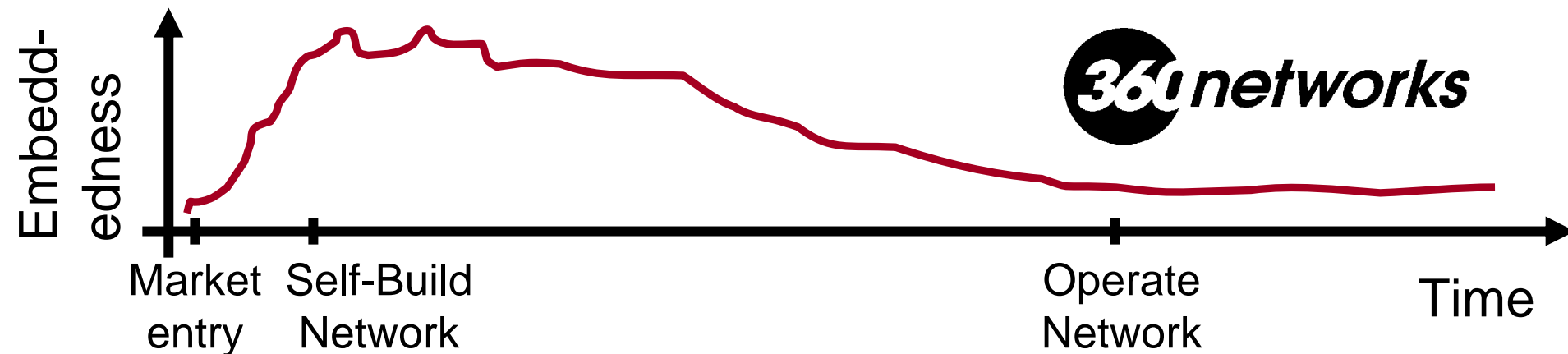
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- What did 360networks do **WRONG?**





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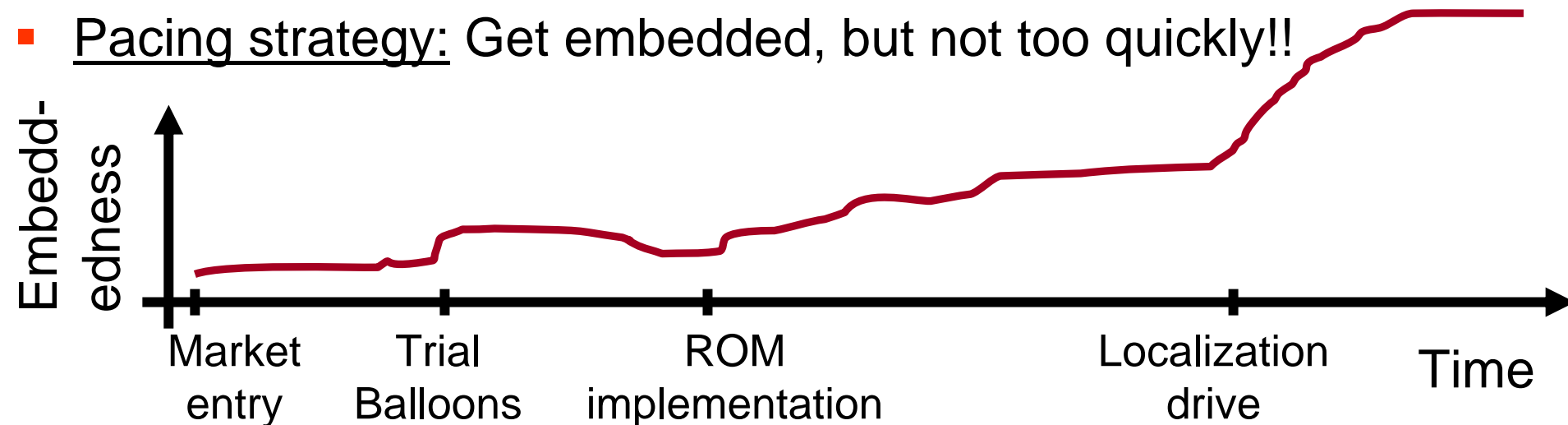
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- What should Nokia do?
- Pacing strategy: Get embedded, but not too quickly!!



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



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Working paper @ <http://crgp.stanford.edu>



Implication to Nokia Project Managers

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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.

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- Recognize that that these costs exist. They are not insignificant, immeasurable or imaginary!!!!
- Understand how they escalate. You can intervene!
- 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.

Implication to Nokia Project Managers

- Recognize that that these costs exist. They are not insignificant, immeasurable or imaginary!!!!
- Understand how they escalate. You can intervene!
- 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.**