

**INSTITUTIONAL EXCEPTIONS ON GLOBAL PROJECTS:  
IGNORANCE, SENSEMAKING, RESPONSE & COSTS<sup>12</sup>**

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“When you hear hoofbeats, think Horses, not Zebras—unless you’re in Africa.”

This inductive study, which takes institutional theory as a starting point for interviews, offers an examination of 23 cases where an entrant firm reported unforeseen costs after failing to understand cognitive-cultural, normative or regulative institutions in an unfamiliar host societal context. The findings, which include propositions and a generalized model, contribute to theoretical knowledge of how institutional exceptions—misjudgments, misunderstandings and conflicts—arise, how they are resolved, and how they typically involve three general phases: ignorance, sensemaking, and response. The findings also identify the kinds of costs that an entrant incurs in each of the three phases, and the conditions that lead to the growth of these costs. <words = 108>

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There is an ever-growing body of scholarly research to assess and categorize differences in cross-national cultural values (eg. Hofstede, 1984; House et. al, 2004) and social institutions (eg. Hall & Soskice, 19xx; Busenitz, Gomez & Spencer, 2000). Within this corpus of research, terms like psychic distance (Johansson & Vahlne, 1977), cultural distance (Kogut & Singh, 198x), and institutional distance (Xu & Shenkar, 2002) have become increasingly common. Although there is considerable variation in terms and rubrics, these studies typically draw out a general hypothesis that socially-constructed differences between cultures impede the success of cross-cultural collaborative ventures. In the words of House et. al. (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, in reality there has been a dearth of investigation to examine the actual dynamics and conditions by which cross-national variations in cultural values and institutions are translated into the kinds of complications and costs that have been so readily assumed by mainstream researchers (Shenkar, 2001).

To enhance understanding of how cross-cultural friction actually arises, we analyzed a set of 23 case-studies collected from foreign entrant firms such as Bechtel, Walt Disney and the World Bank. All of the case studies involved an “institutional exception,” a concept that emerged during the course of this study that we define as a misjudgment, misunderstanding or conflict that occurs when a foreign entrant fails to understand host societal institutions. Our analysis shows the dynamics by which institutional exceptions unfold, and the conditions under which institutional exceptions tend to have the most costly consequences for the entrant organization.

We take a broad view of institutions, defining them to include three general classes of socially-constructed elements: cognitive cultural, normative, and regulative (Scott, 2002).

Our theoretical contribution involves a set of propositions and a generic narrative model, illuminating similarities and differences across the 23 cases and addressing four questions: How are institutional exceptions triggered? How are they resolved? How are the consequences manifested? And what conditions increase the likelihood that institutional differences will negatively impact cross-cultural collaborations? Through this work, we hope to contribute to practical knowledge of how managers learn to navigate—and can be trained to better cope—within the context of an unfamiliar institutional milieu.

## **BACKGROUND**

### **Gaps in the Literature**

This study addresses three key gaps in the literature. *The first gap is that the expected correlation between cultural distance and the lackluster performance of cross-national ventures has not been empirically validated.* The majority of studies to test this relationship have applied Hofstede's (1984) cultural value dimensions, with the Kogut & Singh (1988) approach, to calculate an abstract cultural distance metric as an independent variable, and have hypothesized that this metric should explain various measures of the performance of cross-cultural collaborations, ventures and alliances (eg. Park & Ungson, 1997; Morosini, Shane & Singh, 1998; Beamish & Kachra, 2004; Barkema et. al., 1997). Despite using the same general methodological approach, the findings produced by these efforts have been inconsistent and inconclusive (Robson, Leonidou & Katsikeas, 2002; Shenkar, 2001), which leads us to ask: Why

haven't these empirical efforts produced the expected correlations? One reason is that the cultural distance metric subsumes a number of theoretical illusions, and creates the unrealistic implication that relational friction will grow in proportion to value differences (Shenkar, 2001). Another reason is that the cultural distance approach may be too narrow to account for all of the potential sources of friction that arise from socially-constructed differences that are broader than just differences in cultural values (Barkema et. al., 1997; Harzing, 2003).<sup>5</sup> To get beyond these narrow, abstract, disembedded cultural distance variables, we adopt a fresh approach. We pose the basic question: Under what conditions and by what dynamics do cultural and institutional differences actually lead to relational frictions and costs, and we begin to provide an answer to this question by collecting and critically comparing a set of cases where these outcomes were actually observed.

*A second shortcoming is that scholars of international business have not drawn more heavily on recent developments in institutional theory in conducting their empirical studies.* A number of scholars have shown that institutional theory offers a comprehensive, robust framework to classify and evaluate the almost infinite variation in socially-constructed differences across societal systems (Westney, 1993; Kostova, 1999; Kostova & Zaheer, 1999; Xu & Shenkar, 2002). And yet, as promising as it may be, researchers have been sluggish to embrace a more comprehensive institutional perspective in framing their empirical inquiries. One group that has expressed support for a more broadly-devised institutional theory, and made some empirical headway, is that associated with the Upsalla school (Melin, 1992; Johanson and Vahlne, 1977). For example, Eriksson, Johanson, Majkgård and Sharma (1997) found strong

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<sup>5</sup> Yet another reason is that the basis, validity and measurement of approaches to quantify culture have been questionable (Oyserman et. al, 2003).

correlation between executives' perceptions of lack of institutional knowledge—measured on two scales: lack of language knowledge, and lack of knowledge of foreign laws/ norms/ standards—and their perceptions of the costs of global expansion.

*A third gap is that few studies, even among those guided by institutional theory, have focused on the collision of intercultural institutional systems.* Considerable research has been conducted to understand the construction, maintenance and effects of institutional frameworks. Two core research areas have been the influence of institutions on the long-term processes of economic change (North, 1990, 2005; Acemolgu, Robinson & Johnson, 2001; Greif, 1994) and the impact of institutions on the structuring of organizations and organizational fields (Powell & DiMaggio, 1991; Meyer & Scott, 1983; Scott & Meyer, 1994; Aoki, 2001). Both lines of work recognize that institutional conflict exists—that disputes over jurisdiction create uncertainty about which rules and routines should govern; that elites within established organizations have a self-interest in enforcing rules and socializing newcomers (Powell & DiMaggio, 1991:30); and that violence, including demonstrations, strikes, armed attacks, assassination and industrial disputes are often caused by institutional differences (Taylor & Hudson, 1972). Studies pursuing the theme of institutional conflict have examined differences stemming from competing organizing logics (e.g., DiMaggio, 1991; Greenwood & Hinings, 1993; Mol 2003; Thornton, 2004), between sectors (e.g., Heimer, 1999; Stark, 1996), and over time (Fligstein, 1990; Scott, Ruef, Mendel, and Caronna, 2000). But relatively few studies to date have examined institutional conflicts that arise during cross-cultural encounters, and fewer still look at how institutional conflicts unfold at the level of an individual, team or firm. Therefore, attending to

this shortcoming, our fieldwork concentrates on institutional exceptions (a concept that emerged in this study) as the primary unit of analysis and we seek to contribute to institutional theory by analyzing how institutional exceptions arise, transpire and are managed (or mismanaged).

### **Institutions**

It is essential to define institutions, and their component elements, as this provides the starting point for our fieldwork. Institutions consist of complex and interlocking sets of human-devised beliefs, values, norms, rules and laws that determine what behaviors are appropriate in a given context and that provide meaning, regularity and stability to social life. For the purposes of analytic comparison, it is helpful to sort the tremendous variety of institutional elements into three distinct categories—regulative, normative and cultural-cognitive (Scott, 2001).

*Regulative elements.* Regulative elements include formal regulations and rules for governing behavior such as constitutions, laws and property rights (Scott, 2001; North, 1990). 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 trans-national authorities, nation-states, or provinces and local regimes with power to create rules and sanction deviators. Firms and unions also issue rules, monitor behavior and attempt to enforce compliance. Economists and political scientists have directed much attention to regulative institutional elements (Aoki, 2001; Weingast & Marshall, 1988).

***Normative elements.*** Normative elements include the informal norms, values, standards, expectations, regimes, roles, conventions, practices, taboos, customs, traditions, and codes of conduct that guide behavior and decisions (Scott, 2001; North, 1990). “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 (eg. 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 (Van Maanen & Barley 1984; Brunsson & Jacobsson, 2000). Sociologists are particularly likely to emphasize normative aspects of institutions.

***Cultural-cognitive elements.*** 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 (Scott, 2001). Thus, both external cultural benchmarks and internalized interpretive processes shape perceptions and explanations of social reality. 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; 1992a; 1992b). Cultural anthropologists and

organizational theorists emphasize these cultural-cognitive elements (Douglass, 1986; Geertz, 1973; DiMaggio & Powell, 1991).

## 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 phenomenon (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; Parke & Shin, 1991). Third, case-based methods contrast sharply with earlier quantitative methods that were intended to explain the performance of cross-national ventures using highly abstract cultural distance measures. Finally, the case-based method is an ideal mode of inquiry when the research question begins with the word “how” (Yin, 2003).

### Data Collection

*Data sources.* The primary mode of data collection was by interview. The interviews, which were conducted during the 18 months between May, 2003 and November, 2004, lasted one to two hours and were digitally recorded for subsequent transcription and review.

Informants also provided extensive secondary archival data enriching the contextual background surrounding many of the institutional exceptions, including newspaper articles, project briefs, internal memos, email, organization charts, budgets, schedules and other project documents.

*Informants.* In total, 39 managers were interviewed. The managers had all worked on projects, with roles and responsibilities in management, engineering, design and construction. The managers were affiliated with 29 unique organizations ranging in size from small consulting

firms to the U.S. 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, on many projects, in many countries was to develop a general descriptive model.

***Informant selection.*** Many factors were considered in the selection of informants. As a basic prerequisite, it was necessary that informants have direct experience on a project involving participants from diverse societal systems; and that they agree to have the interview digitally recorded. Also, to reduce imperfect recall, it was necessary that informants share experiences from a project that was currently active, or from a project that had been completed within the last ten years. Another, practical consideration was access. Leads to alumni and industry affiliates were obtained through the authors personal contact network and through the Civil Engineering Program at Stanford 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 have a sense as to *how* these situations actually unfold. Thus, we made every attempt to begin our interviews with a *tabula rasa*—an open mind, as recommended by established methodology primers. 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 conducting a grand-tour 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 latter stages of an interview toward specific challenges that had arisen from the unfamiliar social world—such as differences in beliefs, taboos, protocols or rules. Second, these general questions created opportunities for spontaneous discussion around emergent topics. For example, questions like, “Really—how much did that cost?”, or, “Oh—there was a meeting?” encouraged respondents to offer more detail about costs and resolutions to an exception.

### **Data Analysis**

**Inductive philosophy.** Data analysis followed from the philosophies of grounded-theory building (Eisenhardt, 1989), analytic induction (Robinson, 1951; Znaniecki, 1934) and the constant comparative method articulated by Glaser and 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, by 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). In this manner, the exceptional instance is the point where science is extended, refined and forced to grow.

***Iterative analysis.*** Within this philosophy, vignette preparation, random-member checks, analysis, and follow-up 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 differing institutions—were written-up 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 and Guba, 1985) were conducted by email<sup>10</sup> to ask informants to verify accuracy and approve the disguise of traceable details, such as dollar amounts and locations. As analysis progressed, short follow-up interviews—from five to 30 minutes—were conducted by telephone to clarify facts, thicken data and test the emerging theory.

***Vignette selection.*** Of the 39 informants, 19 were able to confidently describe details surrounding an institutional exception well enough for a vignette to be prepared. Four informants provided data for two vignettes. In total, 23 vignettes were written up, and for each, Table 1 displays 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, unforeseen

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<sup>10</sup> Excerpt from email 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.”

problems posed by the natural environment, or discussed in general 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. Due to 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 so-called cross-vignette analysis matrix provides a factual basis for the “generic narrative model,” or “typical story” that emerged from the analysis (Abbott, 1992).

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 Insert Table 1 about here  
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## Limitations

*Isolation of institutional elements.* In a complex world, it is artificial to isolate beliefs, norms or rules from other co-occurring and inter-reliant institutional elements (Hirsch, 1997). Indeed, full-fledged institutional systems exist as a tangled web of mutually-reinforcing elements. In any human system, tacit beliefs underlie and are influenced by informal norms, and informal norms give rise to and are changed by formal rule creation and maintenance (Greif, 1994; North, 2005; Giddens, 1979). Thus, our analytic differentiation of elements—cultural-cognitive, normative and regulative—is an oversimplification employed to identify the varying forces at

work, but we recognize the interdependence of these elements and marvel at the complexity of real world systems.

It is equally difficult to unpack and disentangle institutional and technological effects. For example, it is questionable whether differences in work practices between US and Chinese scaffold workers a reflection of differing institutions or of differing technologies. While the scaffolding technologies differ in obvious ways, differing sets of logics, protocols and routines among scaffold vendors, workers and safety inspectors reinforce the respective work practices. This is but one of many ways in which technologies are shaped by social structures and conventions, and vice versa (Bijker, Hughes, and Pinch 1987; Orlikowski 1992). However, here we attempt to ignore or control for the effects of technological differences in order to concentrate on institutional aspects.

***One-sided perspective.*** All of the cases were constructed from interviews with an entrant—admittedly a one-sided point of view. However, because our approach was intentionally designed to assess the kinds of costs incurred by foreign entrant firms, we felt it largely unnecessary to solicit the host’s version of the story. Any comments made about how a host perceived, interpreted, or responded to an entrant’s contested actions reflect our own inferences based on the entrant’s recollections.

***Oversimplification of interactive process.*** The evolution of cooperative teamwork is known to be a complex, iterative, feedback-driven process (Doz, 1993). Not surprisingly, when teamwork processes are interrupted, by the kinds of misjudgments, misunderstandings or conflicts analyzed in the present study, what typically follows is a dynamic series of interactions between the involved parties. In the present analysis, we linearize this process, compartmentalizing these interactions into discreet, ordered stages. While this dissection is

somewhat of an oversimplification – reality is less linear – it has the benefit of illuminating the ways in which all institutional exceptions have remarkably similar stages.

## **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? Analysis of the 23 vignettes revealed a three-phase generic narrative model. Each phase includes three parts: a mindset, an associated behavior, and an outcome. On subsequent pages, the factual basis of the generic narrative model is displayed in the cross-vignette analysis matrix, and propositions are presented to challenge, and fortify, extant theory.

As for terminology, we use the terms foreign entrant and local host, or just entrant and host, throughout, rather loosely, as labels to capture the two parties involved in each institutional exception. Our naming convention is that the informant, or the informant's organization, is always defined as the entrant; and the second party in the cross-cultural interaction is always defined as the host. In most cases the entrant is a foreign consulting, engineering, design or construction firm; and the host is a local firm, interest group or government body. In a few cases, other terms may have been more fitting, but for simplicity, we use entrant and host throughout.

### **Phase 1. Challenging a Host's Institutions**

On the next pages, we describe the evidence summarized in Table 3 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 signals, hints and costs from the host.

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***Institutional ignorance.*** Institutional ignorance has two key aspects: a knowledge deficit about local institutional elements, and reliance on previously-scripted mental models. Table 4a reveals that all 23 exceptions were triggered by an entrant’s institutional ignorance, which precipitated misjudgment, misunderstanding and in many cases outright conflict. 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)<sup>11</sup>.

In other cases, the entrant’s knowledge deficit and assumptions 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 socially-constructed institutional elements and arrangements. Table 3a indicates that in six cases, the entrant’s knowledge deficit concerned basic cognitive-cultural institutions; in 13 cases, normative institutions; and in the remaining four cases, regulative institutions.

Table 3a indicates that in all 23 cases, the entrant’s knowledge deficit was exacerbated when they placed unquestioned reliance in pre-existing—and misleading—mental models, constructed from experiences in an institutionally-distant setting. Internalized experiences, pictures, rules-of-thumb, presumptions, inferences, expectations, priorities, taxonomies, know-how, judgments and algorithms are among the many mental models at the core of personal and

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<sup>11</sup> Numbers in parentheses throughout the findings section correspond to case ID numbers displayed in Table 2.

professional knowledge. Thus, the cases suggest that past experience is actually a detriment when non-locally validated and calibrated mental models lead to inadvertent overconfidence.

Several of the critical-incidents involved an entrant who was confused by an unfamiliar “social actor” (16,18,22). Social actors refer to legitimate roles and responsibilities for individuals and organizations (Scott et. al., 2000). In the US, social actors include lawyers, paralegals, venture capitalists, engineers, corporations, not-for-profits, states, counties, the FBI and the central bank (indeed, the US nation-state, itself, is a social actor). From country to country, social actors exist with a tremendous array of forms and functions, each with unique rules and logics. Some of the largest unforeseen costs were reported when a manager could not find an expected social actor, or discovered, often problematically, an unexpected one. For example, a US manager on a soccer stadium project in China reported the absence of bonding agencies, and trade unions; and the unpleasant discovery of a government design institute, and a government inspection company. This complete difference in the field of actors, and their corresponding sets of rules and logics, caused many unbudgeted project costs. To recap this evidence formally, and link to the next step,

*Proposition 1a: When an entrant’s institutional understandings differ from those of the host, then the entrant is prone to unintentionally deviate from the hosts institutions.*

*Proposition 1b: The more institutions differ, the more frequent an entrant’s deviations.*

*Proposition 1c: The greater an entrant’s reliance on previously-scripted mental models, the more frequent an entrant’s deviations.*

**Deviant act.** Following from inappropriate premises, in each case, the entrant committed an unintentional act of deviation—either by commission, or omission—that provoked negative feelings and a response, from the host. Commission is an act of committing or perpetrating an

offense against the beliefs, norms or laws of a host. For example, in Uganda, a US bank enraged locals when they 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 do something 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 seeking his consent, as is customary in that society (16).

In other cases, contested acts ranged from applying a new pay incentive system, which violated and scared 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 classified 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 home societal context. Although they were not flagrant acts of crime or violence, within the host's institutional context, 18 were classified as acts of commission, three as acts of omission, and two were counted in both categories (see Table 3b).

From the host's perspective, these contested acts were the source of negative emotions and responses. Table 3b indicates that in 13 cases, feelings of confusion were triggered; in 9 cases, the local host felt violated; and in 2 cases each, feelings of fright, deception and exploitation were provoked. These emotions, along with a complex of other factors—such as the 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 beliefs, norms and laws—influenced the host's response. For example, the angry

chieftain in the Cameroon sabotaged equipment and materials that belonged to the Canadian engineering team. From the engineering team's perspective, this response served as an overt signal or warning flag that something was awry. To summarize more formally, and to link to the next step,

*Proposition 2a: When an entrant's behavior is viewed as deviant, then it will lead to various kinds of signals and hints from the host, with associated costs for the entrant.*

*Proposition 2b: The more central the institution broken by the entrant, the more likely is the host to react in a severe manner, and the greater the costs for the entrant.*

*Proposition 2c: The more the host is tolerant and understanding, the less likely is the host to react in an extreme manner, and the less the costs for the entrant.*

**Outcome of ignorance.** The result of an entrant's deviation is two-fold: after some period of time, they perceive negative signals from the host; and they suffer a variety of unexpected costs. For example, at a design meeting on an airport project, a local client showed visible disapproval through body language and facial expressions with the lack of progress on architectural drawings (1). These signals were sufficiently overt that the US-British designers who had prepared the drawings became instantly aware of a misunderstanding. Yet, as a consequence of the underlying error, the trust relationship between the designers and the client was "crippled beyond repair".

In other cases, signals and hints ranged from a client explaining that a tugboat was ordered for the wrong day (4), to an angry project sponsor demanding a project be halted (13), to a client 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 debate (13), and US \$20M in potential cost overruns (15).

When the entrant finally perceives the host's cues, they recognize that an exception has arisen. At first, entirely unaware of having broken, or failed to comply, with a local protocol, they act surprised (13) or confused (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 tact (19)."

Table 4c 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). The cues were classified as subtle in eight cases; as overt in seven; and as subtle escalating to more overt in eight.

Unforeseen costs were associated with each deviant action. Five categories of costs emerged from the data: relationship damage, reputation damage, opportunity forgone, sanctions and extortion (Table 4c). Relationship damage is when an entrant's trust-relationship with local partners is harmed (1). Reputation damage is when an entrant is publicly ostracized, ridiculed or defamed (2). Opportunity forgone occurs when an entrant unwittingly commits resources to a losing course of action (6). Sanctions results when an entrant faces penalties or punishment as a consequence of a deviant action (21). Extortion occurs when an entrant faces threats of intimidation, public accusation, exposure or demands for payments of bribes (18). From an

entrant's outlook, these costs—which are not budgeted for in advance—are unforeseen, unpredictable and surprising; thus, they can have major impacts on project performance.

Other authors hypothesize that deep cultural-cognitive institutions lead to the most complex, costly challenges (e.g. Hofstede, 1984). However, the projects in our case analysis afford a different view. When entrants had misjudged normative and regulative elements, the costs were just as unpredictable and severe, as when they had misjudged cognitive-cultural aspects (see Table 3).

In the end, a far better indicator of cost severity was the elapsed time between an entrant's contested action and their "point of realization"—or first awareness of an exception. This elapsed time varied tremendously: in three cases, it was hours; in seven, days; in eight, weeks; and in five, months. The data indicate that the longer this time period, the more irrevocable were decisions and resource commitments, the more difficult to correct mistakes and repair relations (see Table 4c). Yet, 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. In reality, relational and personal dynamics were more central. To summarize more formally and tie to the next step,

*Proposition 3a: The longer the lag time from an entrant's contested act, to their perception of a host's cues, the greater the costs for the entrant.*

*Proposition 3b: The more sensitive is an entrant, the faster they perceive a host's cues.*

*Proposition 3c: The more overt are a host's cues, the faster an entrant perceives them.*

*Proposition 3d: When an entrant perceives a host's cues, then they become aware of an exception and enter a mode of sensemaking.*

## **Phase 2. Making Sense of a Host's Institutions**

What happens after an entrant perceives hints and signals of disapproval from the local host? Table 4 depicts a three-part process of sensemaking that applies to all 23 cases: (1) with a mindset of sensemaking, (2) an entrant begins to search for local knowledge, (3) which results in a new clarity of understanding about local institutions, but at the cost of further resource investments in sensemaking activities.

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***Sensemaking.*** Sensemaking takes many forms along a continuum with two polar extremes: either open-minded inquiry, or close-minded justification of pre-existing mental models. For example, upon realizing that local natives worshipped a spirit in a waterfall downstream of a proposed dam site, a US bank was very open-minded and spent several months attempting to understand the native religious beliefs and way of life (2). In contrast, the US Navy was close-minded on a project in Spain—even after a one-year delay they were still confused as to why a Spanish contractor causing this delay was unable to complete the required shop-drawings (14).<sup>12</sup>

In cases of open-minded sensemaking, the entrant was consciously inquisitive (3) or outwardly curious (16). In cases of close-minded sensemaking, the entrant stubbornly denied that a mistake was their own fault (10,11,22), wrongly blamed the host (4) or was irritated that a host would not favorably respond to their repeated attempts to “rectify” the situation (10,11,14). In other cases, the entrant’s mindset was in-between these extreme modes of thought (6,15,20).

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<sup>12</sup> This 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, being close-minded, could not figure out the root-cause of this exception, even after a full year’s delay.

The cases indicate that sensemaking processes happen both at conscious and unconscious levels of awareness. Entrants question, ponder and discuss in groups the sequence of events, conversations and decisions leading up to an exception. They introspectively examine the origin and applicability of their own expectations and mental models. They intentionally seek to observe, evaluate and adapt their behaviors to fit within the constraints of the local institutional code, much like a chameleon changes colors to blend into a new environment. On the contrary, close-minded entrants outwardly oppose unfamiliar institutions—justifying their actions against their internal reference-frames and rationalizing their pre-existing mental models and presumptions (10,22). Not one informant 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 obstructed open-minded reflection and adaptation.

In general, the cases suggest that as entrants accumulate global experience, they become more open-minded in their sensemaking—both more investigative and more tolerant of new institutions. In contrast, several entrants working abroad for the first time were obstinately closed-minded (4,12). To summarize more formally, and link to the next step,

*Proposition 4a: The greater an entrant's global experience, the more their open-mindedness.*

*Proposition 4b: The more an entrant's open-mindedness, the more extensive is their search for local institutional knowledge.*

**Local knowledge search behavior.** Local knowledge search includes any effort to understand local institutions. For example, when a US bank became aware that the locals were concerned that a project was going to destroy an important religious site, they sent a cultural anthropologist to learn local values and beliefs, held “town-hall” meetings to hear local concerns,

and met internally to discuss facts, opinions and possible courses of action in a collective process of mutual consensus-building (2).

In other cases, local knowledge search involved seeking advice from consultants (15), holding formal and informal meetings with colleagues (12) and local stakeholders (14), talking with friends (19) and members of the local population (16) and reading about local customs (13).

Entrants used many different strategies to learn about unfamiliar institutions. Informants relied on friends, university alumni, and other local acquaintances as trusted sources of local advice (3). In addition, they relied on joint venture partners and other kinds of local guide organizations (7) and on local consultants, hired to provide professional advice in cases of more costly, complicated, or confidential exceptions (3,15,18). Finally, they relied on translators, hired to play the role of intermediary and to assist in clarifying communications. Several informants noted that due to conflict, they were compelled to hire their own translator because they could not fully trust the translation provided by the host (7). Finally, the case evidence indicates that more open-minded entrant's triangulated among many sources of local advice and opinion to increase the breadth and validity of their understandings (3,16,19). To summarize more formally,

*Proposition 5a: The more extensive is an entrant's local knowledge search, the greater the clarity of their newly formulated mental models concerning local institutions.*

**Outcome of sensemaking.** The result of an entrant's sensemaking is two-fold: after some period of time, a new clarity of knowledge about local institutions; and a variety of unexpected costs in this process. 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 called "The Arab Mind" and 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 a new appreciation of how bribes are used to secure work in Russia (9). But, not all sensemaking efforts brought clear understandings. In other cases the entrant remained confused, even after perceiving cues, recognizing an exception and attempting to understand. For example, a Japanese contractor never did decipher the use of sarcasm in US conversation (4), the US Navy did not seem to understand the division of labor in Spain (14), and a US manager could not interpret protocols of personal exchange in Albania (5).

The primary outcome of the sensemaking process is a new clarity of understanding about unfamiliar institutions. Across the cases, we judged an entrant's clarity of knowledge—on a low, medium, high scale—based on how clearly they were able to answer our “how” and “why” questions about the inner-workings of the local logics and rule systems. 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 systems. 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 minute explanation of 100 years of Malaysian history, 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 faced on his specific project (17). In contrast, the entrant's who were closed-minded were unable to give clear, descriptive, logical accounts (14). Therefore, the cases indicate that an

entrant's open-mindedness is linked to the amount of energy they expend to acquire local knowledge, and often to the depth and detail of the opinions that they form.

For each case, we estimated the length of time spent in sensemaking. This period varied tremendously across the cases: in two cases, it was hours; in five, days; in eight, weeks; and in eight, months. The cases where an entrant was close-minded (8, 11, 14, 22), or the stakes were very high (2, 6, 15) tended to result in longer periods of sensemaking.

Costs of sensemaking include delay, time spent in meetings, communications, travel, rework and consultant fees. Significant opportunity costs result when exceptions tie-up senior executives and managers (1, 2, 8, 15, 20). In general, the longer the period of time spent diagnosing local institutions, the greater the cost of this activity. (Note, the usefulness of this metric is debatable as there is a relative trade-off between overall costs of local knowledge search and benefits of improving end outcomes.) To summarize more formally,

*Proposition 6a: The longer the local knowledge search period, the greater the costs of the sensemaking process.*

*Proposition 6b: The more an entrant's clarity of local institutional knowledge, the more they rely on this knowledge when they formulate a response.*

### **Phase 3. Responding to a Host's Institutions**

After sensemaking, an entrant moves into a mindset of response. On the next pages, we explain the data in Table 5 to illustrate how the third phase of all 23 institutional exceptions is described by a three-step process: (1) an entrant formulates and compares response alternatives, (2) enacts a response, (3) and achieves some outcome, which typically leads to additional costs.

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 Insert Table 5 about here

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**Response.** An entrant enters a mindset of response after becoming convinced, either rightly or wrongly, that they understand local logics, rules and feasible response possibilities. In this mode, an entrant evaluates and selects a course of action perceived to best minimize costs of their contested act. For example, a US manager on a soccer stadium project in China had been angered when a Chinese contractor erected a truss that failed to meet quality standards. But, after threatening to have the contractor removed from the project, he learned from a translator 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). With this new knowledge, the US manager was able to consider several alternative responses.

In other cases, the entrant’s mindset of logical 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 suggest a link between an entrant’s clarity of local knowledge at the end of sensemaking, their reliance on local knowledge during response formulation, and the number of alternative responses considered. Indeed, in the ten cases where an entrant’s clarity of knowledge at the end of sensemaking was classified as high (Table 4c), for 8, the entrant relied heavily on this new local knowledge in response formulation (Table 5a), and in all ten, the entrant consciously weighed the costs and benefits of multiple response alternatives (Table 5a). On the other hand, in the six cases where the entrant’s clarity of knowledge at the end of sensemaking was low (Table 4c), for all 6, the entrant relied almost solely on pre-existing mental models (Table 5a) and no more than one response alternative was evaluated (Table 5a).

As with sensemaking, a mindset of response can take two extreme forms: conscious and unconscious. There is an age-old distinction between decisions made by intuition—fast,

effortless, automatic and associative—and those made by reasoning—slow, controlled, effortful and rule-governed (Kahneman, 2003; Smith, 2003). The cases indicate that when sensemaking is closed-minded—justifying pre-existing mental models—then the end response is typically unconscious, or intuitive, without explicit consideration of alternative courses of action.

Likewise, when sensemaking is open-minded—usually yielding greater clarity of local institutional knowledge—then the decision process is one of reasoning, with conscious consideration of alternative paths of action. For both response processes, the aim is to minimize impacts and maximize benefits. The difference is that in an intuitive process, an entrant is not able to calibrate mental models to sync up with local practices, protocols or regulations.

Summarizing and linking to the next section,

*Proposition 7a: The more an entrant's local institutional understanding, the more their ability to create and assess alternative responses to fit local institutional constraints.*

*Proposition 7b: The more an entrant's local institutional understanding, the more likely they are to select a compromise or acquiesce response strategy.*

*Proposition 7c: The less an entrant's local institutional understanding, the more likely they are to select an avoid or defy response strategy.*

**Response behavior.** A typology proposed by Oliver (1991) consists of five strategic responses to institutional pressure: acquiesce, defy, compromise, avoid and manipulate. This typology was used 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 their partners' practices to ensure that future pro-format 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 re-designing a pay system to make Chinese workers feel comfortable (3); to avoid a project altogether, because paying bribes was deemed intolerable (9); or to continue to defy, and thus terminate a soured relationship with a joint venture partner (6).

The case evidence (Table 5) suggests that acquiesce or compromise strategies improve host relations; and avoid or defy strategies worsen host relations. For example, in the six cases with an acquiesce strategy, relations improved in four; and in the 11 with a compromise strategy, relations improved in seven. Similarly, in the five cases with a defy strategy, relations worsened in four, and relations worsened in all four cases with an avoid strategy. Finally, in three cases with a manipulate 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. Acquiesce and defy strategies always come in pairs: if an entrant acquiesces, essentially, the host is able to defy; if an entrant defies, the host must acquiesce, or relations will undoubtedly worsen. A compromise strategy only works if both sides agree on a mutually beneficial alternative. A manipulate strategy only works if an entrant provides incentives, or sanctions, to motivate a host to alter beliefs, norms or rules—or at least behaviors. An avoid strategy severs interaction, often terminating relations. To summarize more formally, and link to the next section,

*Proposition 8a: With an acquiesce or compromise strategy, host relations likely improve.*

*Proposition 8b: With an avoid or defy strategy, host relations likely worsen.*

*Proposition 8c: The greater the lag time between initial deviation and final response, the less likely are costs reversible, or the relationship repairable.*

***Outcome of response.*** What are the outcomes of response? Improved—or worsened—host relations, more costs and experiential knowledge. For example, on a dam construction project in Turkey, after US managers grasped and acquiesced to local norms of negotiation, their relations with a project sponsor grew to be much healthier. For future negotiations, the informant recalled, “we did it the local way—you know, sat and had tea, and there were no more problems.” (13) However, the “local way” turned out to be far more time-consuming than had been budgeted, and this cost several weeks of unplanned delay.

In other cases, relations with a village chieftain improved, but at the costs of many gifts and meetings (16); relations with a US client were critically damaged, and a \$5M overrun absorbed (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, resulting in one of the “largest losses in recent history” (6).

An important aspect of the final outcome of each case-study was whether or not relations with the host were improved or repaired. Table 5c shows that in 11 cases relations were improved; in eight they were worsened; and in four they did not noticeably change. A key finding of the study is that end relational outcomes were closely associated with the mindset – either open-minded, or closed-minded – that the entrant takes into the sensemaking process. The evidence from the case studies suggests that there is a causal chain linking an entrant’s sensemaking mindset, breadth of local knowledge search, clarity of new understanding about local institutions, reliance on local institutional knowledge in response selection, response enactment, and end relational outcome. When sense-making was open-minded, this causal chain led to a positive relational outcome; and vice-versa when sensemaking was closed-minded.

Costs of the response phase were sorted into three types: absorbing initial costs of ignorance when an act of deviance was deemed irreversible (2,23); committing resources to educate a host (6); and expending other various response-execution resources (20).

In the cases where a deviant action was irreversible, the mindset of response was more about impact minimization than about damage reversal. For example, the logical response for 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, who had missed the legal window of opportunity to submit change orders, the logical response was to admit a misjudgment and to beg and plea to recover a US \$20M cost overrun (15).

Finally, the cases show that the longer the elapsed time between an entrant's deviation and selection of an end response, the more locked-in were costs and undoable were damages. For example, had six months not elapsed before the Japanese contractor realized to submit change orders, the loss of US \$10M and the loss of their professional fee may have been avoided (15).

### **Toward a Generic Narrative Model**

This research explored how differences in institutions lead to unforeseen costs for foreign firms. The findings are a set of propositions, and a generic narrative model, depicted in Figure 1.

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***How do institutional exceptions arise?*** The findings suggest that ignorance—a knowledge deficit about local institutions, with overconfidence in prior mental models—is the condition that triggers an entrant to unintentionally take deviant actions—acts of commission and omission—which provoke negative feelings—confusion, violation, deception, fright and

exploitation—and associated responses 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 ranges from open-minded to closed-minded, compels an entrant to examine a host's institutions. Internal meetings, external parleys and talks with locals and consultants all bring an entrant to a new clarity of understanding about logics and rules. From this new understanding, an entrant shifts into a mindset of response and conducts a cost-benefit analysis to select the best response alternative—acquiesce, defy, compromise, manipulate or avoid. The end result is to improve or worsen relations with locals, and to learn to better cope with unfamiliar institutions.

***How are costs manifested in this process?*** Costs are incurred in each phase. After a deviant action, costs include sanctions, damage to relations and reputation, extortion and opportunity forgone; during sensemaking, costs include delay, meetings, communications, travel, and consultant fees; in response, costs include resources to enact a response, as well as the final admission that sunk costs will not be recovered. And of course, because the analysis is one-sided, it does not capture any of the costs to the host. Clearly, is not always up to the entrant to learn, compromise and adjust. Indeed, especially when power is asymmetric, it is more likely the host who bends, and absorbs many unforeseen costs in this process.

***What conditions lead to the greatest costs?*** The evidence from the case-studies indicates that there are five conditions associated with institutional exceptions that have the most costly consequences for an entrant. First, costly exceptions are more likely when entrant and host have high levels of task and outcome interdependence. For example, an entrant who depends on a host for the delivery of resources, but misunderstands the delivery schedule, will be delayed. Second, costly exceptions are more likely when an entrant is extremely closed-minded, arrogant, or

fundamentalist and continues to defy the host's institutions without backing down. For example, an entrant who refuses to respect religious traditions may provoke host entities to engage in mass-marches, sit-ins or other more violent forms of attack. Next, costly exceptions are more likely when an entrant is open-minded but continues to misinterpret the host's behaviors and underlying institutions in their sensemaking processes, such that a long period of time elapses before coming to a correct understanding. For example, an entrant who misinterprets a host partners repeated cues of dissatisfaction as being more minor than they really are may destroy the relationship. Fourth, costly exceptions are more likely when an entrant faces time pressure and must commit a response without having time to fully investigate the cause of the exception. For example, upon realizing that a misjudgment has been made in interpreting the station code on a train ticket, an entrant may not have time to review the station coding scheme before committing to take one train or another to reach a crucial business meeting. Finally, costly exceptions are more likely when a simple misjudgement or misunderstanding has irreversible consequences. For example, when a culturally-rooted miscommunication between two Naval officers leads to a shipwreck.

*How salient are these costs?* The costs across the 23 cases vary enormously—from less than 1% to more than 100% of a firm's expected project profits. Moreover, these kinds of costs quickly erode profit margins because of their unexpected nature and they seldom are easy to quantify because there is such tremendous variation in the types of costs across the three phases of an institutional exception. While increased transaction costs, such as airfare, consultant fees and liquidated damages can be captured in existing cost accounting systems, it is next to impossible to calculate opportunity costs. How does one begin to estimate the net present cost of a tarnished image or soured relationship, in terms of future projects and profits forgone? Or, the

value lost when a key executive is distracted from strategic and operational roles by an exception that causes unexpected meetings, last-minute travel and other organizational disruptions?

*Can these costs be avoided?* Unforeseen institutional costs are largely unpredictable. Institutional systems are products of human imagination—stunningly diverse and wonderfully complex in each and every societal system. Moreover, institutional systems are constantly changing, and often this change is non-ergodic (North, 2005). Thus, when working in a country the first time, it is extremely difficult to anticipate the full set of institutional differences that may cause problems – there may always be another “spirit in the waterfall” (2).

How far should firms go in trying to reduce these kinds of unforeseen institutional costs? Firms can engage in preventative activities, like collecting local knowledge, attending classes on local customs, studying the foreign language, hiring local staff, entering into partnerships with local firms, etc. However, it is important to note that none of these kinds of preventative activities come for free. Thus, firms should not engage in these kinds of activities beyond the point that their costs exceed their benefits (North, 1990), and thus some basic level of unforeseen institutional costs may actually exist as an efficient outcome.

## 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. Departing from earlier cultural distance approaches, and responding to calls to adopt a broader institutional framework in empirical studies, the perspective advanced in the present study describes how latent differences in cultural-cognitive, normative and regulative

institutions are translated into the kinds of intercultural frictions and costs that beset cross-cultural collaborative ventures. The present study describes this process of translation by identifying the specific dynamics and conditions that exist when institutional exceptions develop and escalate.

The “institutional exception” concept presented here offers a way to strengthen the conceptual linkage between institutional theory and the international business literature. Institutional theory, and particularly the game-theoretic view, suggests that an individual who deviates unilaterally away 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, 2005). 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, 1985). The “institutional exception” perspective bridges these two views, and recognizes that an entrant’s liability of foreignness is at least partially a result of costly deviations away from the stable set of institutions in a foreign societal system. Thus, the “institutional exception” concept makes it possible to explain how 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 kind or another. Internationalization 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 as they do arise.

Finally, scholars of institutional theory who are interested in the determinants and processes of institutional conflict may find that the generic narrative model presented here is suitable to describe other kinds of institutional conflicts beyond just those in the international business domain.

### **Agenda for Future Research**

Institutional theory holds an unexplored potential to shed light on the performance of cross-cultural collaborative ventures and projects that involve participants from multiple societal contexts. With our colleagues in the Collaboratory for Research on Global Projects, we are conducting fieldwork in the following areas: to examine how institutional exceptions vary across settings, phases and sub-systems 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.

### **Contributions to Practice**

Our advice to managers is three-fold. First, it is important to anticipate infinite and unpredictable differences in cultural-cognitive, normative, and regulative institutions; and assess these gaps with an open-mind towards “localization” of strategy. Undeniably, starting in sensemaking is far superior to ignorance. But unlocking yourself from your own cultural prison

is not easy. The cases reveal that even when entrants have convinced themselves that they are adhering to a rational course of action, in many instances, intuition is rooted in non-locally applicable experiences and mental models. Indeed, when navigating unfamiliar institutions, past experiences may be invalid, assumptions may break down, rules-of-thumb may require recalibration, knowledge may not bring advantage, local beliefs, norms and customs may seem unusual, and the political, financial and legal systems may consist of a fully different set of rules, logics and enforcers. As one divisional president at Bechtel exclaimed in an interview, “the toughest thing [on global projects] is to train expats to see things differently.” This statement has two profound implications: it is important—from the perspective of an executive with 45 years of global experience and wisdom—that expatriate managers anticipate, assess and adapt to institutions in a foreign location; but that inspiring such a transformation of mental programming is not easy.

Second, to improve exception-handling capabilities. Exceptions are not always preventable, so skills and processes to quickly troubleshoot, mediate and reconcile are vital.

Third, working globally is about change. Either locals, or entrants, have to change their mindsets, practices, or both. Without a meeting of minds, or at least a meeting of practices, there can be no meaningful cooperation.

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**TABLE 1**  
**Summary of Informants, Organizations and Projects Sampled**

ID No.	Number of Interviews	Informant's Position in the Entrant Organization	Entrant Organization Type	Entrant <sup>a</sup> Nationality	Local Host Nationality	Project Type	Project Value <sup>b</sup>	Project Phase <sup>c</sup> when Incident Occurred
1	3	Vice President	AEC <sup>d</sup> Prime Consultant	US	Korea	Transportation	<1B	Design & Eng.
2	2	Anthropologist	Environmental Consultant	US	Uganda	Hydroelectric	<1B	Feasibility
3	2	Engineer	Design Consultant	US	China	Manufacturing	<100M	Commissioning
4	2	Project Manager	Steel Manufacturer	Japan	US	Bridge	<100M	Implementation
5	2	Assistant Ops Officer	US Navy	US	Albania	Road Building	<10M	Procurement
6	4	Vice President	Developer	US	Europe <sup>e</sup>	Real Estate	<100M	Feasibility
7	2	Senior Project Manager	Developer	US	China	Soccer Stadium	<100M	Implementation
8	3	Project Director	AE Prime Consultant	US	Israel	Transportation	<1B	Implementation
9	2	Vice President	Contractor	Canada	Russia	Fiber Optic	<100M	Feasibility
10	3	Vice President	AEC Prime Consultant	US	Korea	Transportation	<1B	Design & Eng.
11	1	Project Manager	Steel Manufacturer	Japan	US	Bridge	<100M	Implementation
12	4	Vice President	Developer	US	France	Real estate	<100M	Design & Eng.
13	2	Project Engineer	AEC Prime Consultant	US	Tajikistan	Dam Construction	<100M	Implementation
14	2	Director of Operations	US Navy	US	Spain	Building	<100M	Implementation
15	3	Project Manager	General Contractor	Japan	US	Manufacturing	<100M	Implementation
16	4	Project Engineer	Non-Profit	Canada	Cameroon	Development	<100K	Implementation
17	2	General Superintendent	Sub Contractor	Canada	Malaysia	Transportation	<100M	Implementation
18	2	President	Consultant	US	Phillipines	Water Diversion	<1B	Implementation
19	3	Project Manager	US Navy	US	Japan	Building	<1M	Design & Eng.
20	4	Vice President	Developer	US	Spain	Real Estate	<10M	Design & Eng.
21	3	Project Manager	US Navy	US	Japan	Base Construction	<1M	Implementation
22	3	Vice President	AE Prime Consultant	US	Vietnam	Infrastructure	<100M	Design & Eng.
23	1	Project Executive	Chemical Plant Developer	US	Canada	Chemical Plant	<100K	Feasibility

<sup>a</sup> In each of the cases, the informant and the entrant organization share the same nationality.

<sup>b</sup> Approximate 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.

<sup>c</sup> Projects phases occur in the following sequence: feasibility, design & engineering, procurement, implementation, and commissioning.

<sup>d</sup> AEC stands for architecture, engineering and construction. This acronym is standard jargon in the construction industry.

<sup>e</sup> This case represents business partners in France, Germany, Russia, Poland and Czekoslovakia.

**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 interpret 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 committed resources to a losing course of action
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 proforma 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 sub-contractor'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 such that contractors do not normally prepare shop drawings; a one year delay was incurred
15	A Japanese firm failed to understand the US process of submitting formal change orders when they over ran 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 to approve 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 Phillipine 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 blue print; this cost several months of negotiation
20	A US team had a Spanish sub-contractor 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 longstanding Japanese workpractice; 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

**TABLE 3**  
**Ignorance, Deviant Action and Outcomes**

ID No.	3a		3b		3c			Legend
	Ignorance		Deviant Action		Results of Ignorance			
	ID	RN	IA	FT	I	ET	MC	
1	c	X	c,am		s	m	rl	<b>Ignorance</b> ID = institutional differences c = cultural-cognitive    n = normative r = regulative RN = reliance on pre-scripted mental models <sup>a</sup>  <b>Deviant Action</b> IA = take inappropriate action FT = fail to take required action c = confuses LH;    a = angers LH v = violates LH;    s = scares LH am = accidentally misleads LH po = creates predatory opportunity for LH  <b>Results of Ignorance</b> I = intensity of cues from LH s = subtle; o = overt; so = subtle building to overt ET = elapsed time to receive cues from LH h = hours; d = days; w = weeks; m = months MC = major associated costs rl = relationship damage; s = sanctions of = opportunity forgone; e = extortion rp = reputation damage
2	c	X	v,a		so	w	rl, of, s, rp	
3	c	X	v,s		s	d	rl, of	
4	c	X	c		o	h	rl, of	
5	c,n	X	c		so	w	e	
6	c,n	X	c		s	w	rl, of	
7	c,n	X	a		s	h	rl	
8	c,n	X	v		so	d	rl, of	
9	c,n	X	am,a		s	w	rl, of	
10	n	X	c		s	d	rl, of	
11	n	X		po	s	w	of	
12	n	X	c		s	h	rl, rp	
13	n	X	c,v		so	d	rl, of	
14	n	X	c,am		s	m	rl, of	
15	n	X		po	s	m	rl, of	
16	n	X	a	v	o	d	rl, of, s	
17	n	X	v,a		o	w	rl, s, rp	
18	n	X		a	so	m	rl, s, of, e	
19	n	X	c		s	w	rl	
20	r	X	po		so	m	rl	
21	r	X	v		o	d	rl, s	
22	r	X	c,s		so	m	rl, of	
23	r	X	c		o	w	of	

<sup>a</sup> Such as institutional presumptions, experiences, expectations, judgements and rules of thumb.

**TABLE 4**  
**Sensemaking, Local Knowledge Search and Outcomes**

ID No.	4a			4b		4c			Legend
	Sense-making			Local Knowledge Search		Results of Sensemaking			
	CM	IB	OM	HM	SA	ET	NC	AC	
1		X		i,e		w	2	m,ct	<b>Sensemaking</b> CM = close-minded & rigid adherence to pre-existing knowledge OM = open-minded inquiry & adaptation of pre-existing knowledge IB = inbetween  <b>Local Knowledge Search</b> HM = hold meetings i = internal; e = external SA = seek answers from third-party locals g = general public; p = paid consultants  <b>Results of Sensemaking</b> ET = elapsed time in mindset of sensemaking h = hours; d = days; w = weeks; m = months NC = new clarity of knowledge of local institutional code 1 = high; 2 = med; 3 = low AC <sup>a</sup> = associated costs m = managerial effort; c = consultant fees ct = communication & travel
2			X	i,e	g,p	m	1	m,c,ct	
3			X	i,e	g,p	w	1	m,c,ct	
4	X			i,e		h	3	m,ct	
5	X			i,e		w	3	m,ct	
6		X		i,e	g	m	2	m,ct	
7		X		i		h	1	m,c,ct	
8	X			i,e		m	3	m,ct	
9		X		i,e	g	d	2	m,ct	
10	X			i,e		w	2	m,ct	
11	X			i,e		m	3	m,ct	
12		X		i,e	g	m	1	m,ct	
13		X		i,e	g	d	2	m,ct	
14	X			i,e		m	3	m,ct	
15		X		i,e	p	m	1	m,c,ct	
16			X	i,e	g	w	1	m,ct	
17			X	i,e	g	w	1	m,ct	
18		X		i,e	p	w	2	m,c,ct	
19			X	i,e	g,p	w	1	m,c,ct	
20		X		i,e	g,p	d	2	m,c,ct	
21		X		i,e	g,p	d	1	m,c,ct	
22	X			i,e	p	m	3	m,c,ct	
23			X	i,e	p	d	1	m,ct	

<sup>a</sup> A fourth cost is project delay. It is not shown explicitly, as the durations listed under the "ET" category are indicative.

**TABLE 5**  
**Response, Response Action and Outcomes**

ID No.	5a		5b					5c		Legend
	Response		Response Action					Results of Response		
	FL	W	Ac	C	D	M	Av	IR	C	
1	on	1		X				i	n	<p><b>Response</b> FL = formulate logical response relying on: o = mostly old non-local institutional knowledge n = mostly new local institutional knowledge on = mix of both W = weigh costs &amp; benefits 1 = one alternative considered 2 = two ore more alternatives considered</p> <p><b>Response Action</b> Ac = acquiesce      D = defy M = manipulate      Av = avoid C = compromise</p> <p><b>Results of Response<sup>b</sup></b> IR = impact on relationship with LH w = worsens; i = improves C = associated cost w = write-down costs of ignorance r = further resource commitment e = programs to educate local host n = no additional cost</p>
2	n	3				X	X	i	r,e	
3	n	3		X				i	n	
4	o	1	X					w	n	
5	o	1		X				w	n	
6	on	2				X		w <sup>a</sup>	r,e	
7	n	2	X					i	r	
8	o	1			X		X	w	w	
9	o	1			X		X	w	w	
10	o	1		X				w	w	
11	o	1	X					w	w,r	
12	n	3		X				i	n	
13	n	2	X					i	w	
14	o	1			X		X	w	w,r	
15	on	2		X				w	w	
16	n	2	X					i	r	
17	on	3			X		X	w <sup>a</sup>	n	
18	o	1	X					i	r	
19	n	2	X					i	r	
20	n	2	X					i	r	
21	n	2				X		i	r,e	
22	o	1					X	w	w	
23	n	3	X					i	w,r	

<sup>a</sup> Note, negative relational impact was carefully selected by the entrant as the best possible response given the unique circumstances of the situation.

<sup>b</sup> Although not shown explicitly, all informants indicated some amount of experiential learning.

**FIGURE 1**  
**A Generic Narrative Model**

