

## Intercultural Issues in Outsourcing

Huib Wursten<sup>1</sup>

A globally integrated company is an enterprise that shapes its strategy, management, and operations in a truly global way. It locates operations and functions anywhere in the world based on the right cost, the right skills, and the right business environment, and it integrates those operations horizontally and globally.<sup>2</sup>

For many companies the potential of globalization is difficult to achieve in reality. Issues in the cultural sphere may contribute significantly to, or even lie at the heart of, the difficulty. This article will explore some cultural issues of one aspect of globalization, i.e. outsourcing, and describe some measures which can help to prevent these issues from jeopardizing the undertaking.

Managers are concerned with the coordination of resources (material, financial, and human) for the effective and efficient achievement of business objectives. However, what may be an effective and efficient way of coordination in one country may prove to be ineffective, inefficient, or even counter-productive in another.

This article will first explore the influence of cultural issues on management in general before turning to the principal areas of cultural impact on outsourcing. We will then discuss the most important measures that should be considered in any situation where work is outsourced, and conclude with two analyses of actual cases.

### **Management and Culture**

Management skills are by nature culture-specific; a management technique or philosophy that is appropriate in one national culture is not necessarily appropriate in another. Management within a society is very much constrained by its cultural context because it is impossible to

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<sup>1</sup> Huib Wursten, born in The Hague in The Netherlands, is a senior consultant with itim International.

He is specialized in advising companies and supra-national organizations in how to manage global teams. He is experienced in translating international and global strategies and policies into practical consequences for management. Since 1989, he has been working in this field with a variety of Fortune top 1000 companies. Huib has worked in and with public and private organizations in 85 countries on all continents.

<sup>2</sup> Formulated by Mr. Palmisano, IBM

coordinate the actions of people without a deep understanding of their values, beliefs and ways of expression.

Managers can benefit greatly from having a general conceptual framework which can help them to understand how people from different nations are conditioned to deal with the basic issues relevant in a work environment. Most work problems are common to all nations, but ways of dealing with them differ. If we can identify the main issues which have an influence on the way societies function, and can distinguish the ways in which different cultures deal with these issues, we can begin to provide managers with flexible instruments for diagnosing and resolving a wide variety of inter-cultural problems. Such a map of different national value-systems and their consequences for the conduct of business across cultural frontiers has been created by Professor Geert Hofstede.

The 5-Dimensional Model based on Prof. Hofstede's research on Intercultural Management is briefly outlined below. The 5 dimensions represent elements of common structure in the cultural systems of countries and are centred on five very fundamental issues to which every human society has to find its particular answers. The set of each country's statistically-determined "scores" on the five dimensions forms a model for its culture. The "score" data now exist for 70 countries and three multi-country regions.

### **1 The power-distance (PDI) dimension**

This dimension expresses the degree to which the less powerful members of a society accept and expect that power is distributed unequally. The fundamental issue here is how a society handles inequalities among people. People in societies exhibiting a large degree of power distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low power distance, people strive to equalise the distribution of power and demand justification for inequalities of power.

### **2 Individualism versus collectivism (IDV)**

The high side of this dimension, called Individualism, can be defined as a preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only. Its opposite, Collectivism, represents a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty. A society's position on this dimension is reflected in whether people's self-image is defined in terms of "I" or "we."

### **3 Masculinity versus femininity (MAS)**

The masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material reward for success. Society at large is more competitive. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented.

### **4 Uncertainty avoidance (UAI)**

The uncertainty avoidance dimension expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The fundamental issue here is how a society deals with the fact that the future can never be known: should we try to control the future or just let it happen? Countries exhibiting strong UAI maintain rigid codes of belief and behaviour and are intolerant of unorthodox behaviour and ideas. Weak UAI societies maintain a more relaxed attitude in which practice counts more than principles.

### **5 Long-term versus short-term orientation (LTO)**

The *long-term orientation* dimension (LTO) can be interpreted as dealing with society's search for virtue. Societies with a short-term orientation generally have a strong concern with establishing the absolute Truth. They are normative in their thinking. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results. In societies with a long-term orientation, people believe that truth depends very much on situation, context and time. They show an ability to adapt traditions to changed conditions, a strong propensity to save and invest, thriftiness, and perseverance in achieving results.

Taken together, the 5 dimensions have profound implications for organisational models and what we expect from organisations and their people. There exist groups of countries that show a similar pattern on the 5 dimensions (for one example: low power distance – individualism-masculinity – weak uncertainty avoidance - short-term orientation). Itim has developed a tool that clusters these countries together to help people focus on the similarities and differences between the six clusters that result for the world. Clustering countries in this way reduces complexity and helps to make the influence of culture visible and tangible to managers and others working in a different cultural setting from their own.

An understanding of the 5-D Model, aided by clustering the countries that show similar patterns, enables managers to analyze the likely effects of management techniques and employment policies in different national contexts, and to modify or replace them where they may be dysfunctional or counterproductive.

## The Outsourcing Landscape and Areas of Cultural Impact

Today, most of the flow in outsourcing is from countries such as the US, Britain, and Germany to countries like China and India. In 2006, India had US \$ 16.88 billion and China US \$ 69.46 billion worth of FDI inflows (UNCTAD, 2007).

In cultural terms, these flows are moving from low Power Distance cultures to high Power Distance cultures and from Individualistic cultures to Collectivistic cultures. Because of the size of these flows and their centrality to the issue of outsourcing, we conclude that these two particular cultural dimensions, i.e. 'Power Distance' and 'Individualism versus Collectivism', are especially important to take into consideration when embarking on outsourcing.

Following are some of the principal areas of cultural impact on outsourcing:

### *Equality versus Inequality*

Probably the main source of misunderstandings in the context of outsourcing is differences in attitude toward one value: equality.

In low Power Distance countries, one finds a strong emphasis on equality among people. Hierarchy is not seen as an existential phenomenon of life, but accepted for convenience. In high Power Distance countries, all relationships are unequal: Parent-Child, Teacher-Student, Boss-Subordinate.

Whereas the low Power Distance countries see outsourcing as a collegial process, the high Power Distance countries see it as a process where transfer of knowledge takes place from the client entity (the power holder, the one with the knowledge) to the performing entity (the learner).

### *Communication Styles*

Another point of frequent misunderstanding is the different styles of getting a message across. In Individualistic societies, the communication style is high-content: people are supposed to ask direct, explicit questions and expect direct, explicit answers in return. "Face" consciousness is weak. Consequently, in formal learning situations confrontation of opinions is seen as something good, and indirect communication styles are considered unreliable.

In Collectivistic societies, on the other hand, the communication style is indirect, to avoid disharmony and the loss of face of the people involved. It is high-context: the way things are said and the context itself are more meaningful and important than the content. As a result, in

interaction between boss and subordinate or between colleagues confrontation of opinions is not seen as something good -- harmony should be maintained at all times, and neither party should ever be made to lose face.

### ***The Educational Process***

When Western companies outsource, a big part of their time during the start-up phase is focused on transfer of know-how. In low Power Distance countries, the approach to transfer of knowledge is learner-centered. Teachers and students expect direct communication, initiated from both sides, to take place between them. The teacher is not expected to have all the answers, and the student is supposed to take a lot of initiative. The teacher expects and encourages the student to find his/her own paths, and the amount of two-way communication between them is taken as a measure of the effectiveness of learning. For these reasons younger teachers tend to be preferred to older teachers, and the student is allowed to contradict or even to criticize the teacher.

In high Power Distance Countries, the approach is teacher-centered; the teacher is supposed to have the knowledge and to lead the process of transfer of knowledge. The student expects the teacher to initiate the communication and exactly outline the paths to follow. The student is not expected to contradict or criticize the teacher. The effectiveness of the knowledge transfer is considered directly related to the excellence of the teacher.

This means that at the beginning of the outsourcing process, the outsourcing organization should fully take the initiative for the transfer of knowledge, and should verify that things did get across.

### ***Leadership and Delegation***

Once the new centers in the other countries are up and running, delegation and leadership issues become the main focus. Also here we see clear differences in behavioural patterns between Western cultures and the countries to which work is outsourced. In low Power Distance societies, the boss is supposed to exercise executive powers only as much as is required for functional effectiveness. Subordinates are given broad mandates in their content areas and are supposed to work in an autonomous way and take responsibility for achieving negotiated, operationalized targets, reacting pragmatically to changes in the environment. Subordinates expect to be consulted on management decisions which will affect their work. This relationship/process is encapsulated in the popular term *empowerment*.

In high Power Distance, Collectivistic societies, a power holder functions like the father of a family. In return for the loyalty of the working people, the boss is supposed to take care of them. The boss has the prerogative of decision-making and is supposed to make clear-cut decisions. When the decision has been made, it is the task of the boss to delegate downwards

by giving people clear mandates with respect to what to do, how to do it, and with what level of authority. If something is unclear, or if things happen that were not foreseen in the instructions, the subordinates are not supposed to take action first and explain it afterwards. They are supposed to go back to the boss for further instructions before acting.

### ***Control***

Another key element of the outsourcing process is control. In low Power Distance cultures, the thinking around control is in evidence in the common saying, "No news is good news". Bosses and subordinates view each other as "people like you and me." Because of this emphasis on equality, there is basic trust between the levels. Superiors can expect subordinates to volunteer direct feedback if things are developing in an unexpected direction. Within limits, if there is no such feedback, a supervisor can rely on the expectation that things are developing as foreseen.

In high Power Distance countries, the approach to this issue is completely different. In these countries, people are raised to respect inequality. They do not see their superiors as "people like you and me"; hierarchy is an existential fact of life and superiors are viewed as from a different stratum of society. There is basic mistrust between the levels, and people will not volunteer to give negative feedback to their superiors. Instead, they will try to hide problems, often to the extent of embellishing the facts.

This tendency is even stronger in high Power Distance Countries which are also Collectivistic, like China, India, Mexico, and Brazil, where it is compounded by extreme concern about loss of face. Supervisors in these countries, of course, employ a corresponding management style and inspect every day. The saying in these cultures is, "People only respect what you inspect". Reviews of the work take place on a continuous basis, not at intervals as in low Power Distance, Individualistic countries. In such an environment, the reviews are best done by somebody physically on location.

The consequence for outsourcing is that in setting up the system the control element should be organized locally. The control cannot be effectively done from a distance.

### **Efficiency**

Efficiency is a special issue for consideration in high Power Distance, Collectivistic countries like China and India, as evidenced in the below statements.

*High Power Distance:* "Now I have 15 people under me. My aspiration is to have 35 people under me next year."

*Collectivism:* “Why should I do things on my own? This is so lonely. It is much more fun to do things together with other people.”

*Collectivism:* “Why should I go home after official working hours? It is much more fun to stay together with colleagues, with access to electricity, Internet, and telephone.”

Low labor costs make an easy and tempting rationale for outsourcing. The advantages low wages bring can be exaggerated. In a recent report from the Conference Board, the US business group, it was shown that when wages in China, India, Mexico, and Central and Eastern Europe are adjusted for employees’ lower productivity, the cost advantage of locating there shrinks, sometimes dramatically.<sup>3</sup> And as the examples above indicate, there may be culturally-conditioned hidden costs. It is therefore important not to make foreign subsidiaries cost centers, but profit centers instead. The responsibility for doing things as effectively and efficiently as possible should be established and felt locally.

### **Culture's Deep Influence**

A recurring discussion in our consultancy practice concerns the effects of education and economic development on the culture of a country. It is often thought that development tends to offset the effects of culture, especially in business organizations.

Young and well-educated citizens in rapidly-developing countries like India sometimes claim that the impact of culture, though visible in spheres of activity heavily influenced by tradition such as intrafamilial relations and village politics, is negligible in their behavior in the organization. However, this view is not supported by research in this field.

It is important to acknowledge that comparisons should always be done with ‘matched’ samples. It is inappropriate to compare American farmers with Indian engineers. Even within a culture like the US, differences are found if a comparison is made between engineers and manual laborers.

What is found in Hofstede’s research, however, is that if matched samples are used the consequences of culture are always apparent. Culture is a very fundamental factor in human nature. It operates at deep, even unconscious, levels within societies and their individual members. It influences the latter from the minute they are born, and conditions the very way they perceive reality. Its effects cannot be erased by more superficial factors such as education or economic development. Cultural differences, with potentially negative consequences for cooperation, can be found even between two neighboring countries in Europe like Belgium and the Netherlands.

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<sup>3</sup> Financial Times 10-04-2007

## Recommendations

Based on Itim's experience in helping companies to understand the impact of culture on outsourcing, the following issues should be considered in any situation where work is outsourced from an organization in a low Power Distance, Individualistic country to one in a high Power Distance, Collectivistic country.

- **Create a mutual understanding on the question of who is going to adapt to whom**  
*This is a crucial decision. A process of knowledge transfer will be sustainable only if it is done in a way that fits the leadership styles, delegation styles, control styles, etc., of the receiving entity.*
- **Clarify the organizational hierarchies of the customer and performing entities, and define and agree on the connections between them**  
*Everybody should know who is making which decisions, on what level, and who is communicating with whom.*
- **Make a mutual, reciprocal effort to adapt communication styles both ways**  
*The low Power Distance entity should learn to communicate in ways that do not give offense or escalate conflicts, with awareness of the sensitivity around keeping face and harmony. The high Power Distance entity should explicitly bear in mind that the straight-talk communication style of the low Power Distance entity is not meant to be offensive but as a means to make things work in a collegial way.*
- **Invest in the transfer of knowledge**  
*From the beginning, the outsourcing company should take the initiative to explain the details of the system that is to be operated by the other side. Do not expect too many questions from the other side. The initiative and responsibility are on the outsourcing side.*
- **Improve formulation and operationalization of quality criteria**  
*It should be completely clear what the criteria are for acceptance and rejection of outsourced output by the outsourcing side, and what the sanctions and enforcement process will be if the criteria are not met.*
- **Obtain formal acceptance of criteria by the local management team**  
*Decisions and control are by definition top-down. The management team should be clearly committed.*

- **Establish the work review process with great care**  
*Reviewing should be organized in such a way that it is a continuous, daily process, and the party doing the reviews is onsite locally and can be held accountable. That party's responsibility and level of authority should be clear to all concerned. It should also be clear what sanctions will apply if the quality of the process or timeliness of output is not satisfactory, and the sanctions should be exercised if needed.*
- **Improve reporting systems by formulating measurable control points**  
*There should be no ambiguity.*
- **Ensure frequency of monitoring and control**  
*Frequency should be greater than in a low Power Distance, Individualistic environment.*
- **Be proactive with questions; do not wait for questions to come**  
*Don't assume that if the learner asks no questions, it means he fully understands.*
- **Split deliverables into shorter units**  
*The shorter the feedback loops are, the better.*
- **Give incentives for good performance, and ensure they are appropriate for the local culture.**  
*Do not assume that the same factors motivate people as in the culture of the outsourcing entity.*
- **Do not confuse matrix with hierarchy**  
*There is a necessity to 'translate' matrix to line responsibilities so that it is completely clear who is delegating to whom and who is reporting back to whom.*
- **Create an effective back-channel**  
*Appoint a trusted and locally credible intermediary who can work to solve misunderstandings informally, without an official process, maintaining confidentiality and preserving the face of all parties.*

## Who Should Adapt to Whom? - Two Cases

### *Case 1: Outsourcing a Call Center from the US to India*

Situation: A leading US company is outsourcing a customer center to Bangalore in India and training Indians to react to American customers calling for information and/or making complaints. Training encompasses understanding the concept of customer satisfaction in the US (and thus the expectations of the callers as to how their calls will be handled), and accent training (to give the impression to customers that they are dealing with “local” people).

Problems:

- Since the customers may have the impression that they are talking to locals, it is less comprehensible and more irritating to them than it would be otherwise if the call center agent's conversation and behavior are not consistent with the customers' cultural norms and expectations.
- The Indian tendency to be indirect in communication style is hard to change and can be a source of great annoyance to American customers .
- The Indian tendency to refer back too readily for solutions to someone at a higher level can violate American expectations that the agent assigned to help them is well-empowered to do so.

Analysis: The Indians have to serve American customers. Therefore, it is a necessity that they understand those customers' sensitivities and learn to react in a way that is in line with the American way of doing things. On the other hand, Indians are used to top-down leadership; people are instructed exactly what to do and how to do it. The mandating system is very strict and limited.

Solution: Instruct the Indians to work with broader mandates, but exert a lot of inspection in order to be able to react quickly if things get out of hand. The danger will always be that if mistakes are made the Indians will try to save face and will not report on things that went wrong.

### *Case 2: Outsourcing Software Development from the Netherlands to India*

Situation: The Dutch division of a global IT multinational has decided to outsource some of its activities to India.

Problem: Cooperation between the performing (Indian) and customer (Dutch) entities is far from optimal.

Problems seen from the side of the Dutch:

- The Indians do not show initiative.
- The Indians are not clear about what they want.
- The Indians cannot cope with negative feedback.

Problems seen from the Indian side:

- The Dutch come across as rude and abrupt. They do not seem to ask, but only to tell.
- The Dutch tend to escalate problems prematurely.
- The Indians find it difficult to say “No” directly for fear of ruining the relationship or losing work, but the Dutch do not understand communication that is more subtle.
- The Dutch never provide feedback on good performance by the Indians, but are very happy to point out the mistakes.
- Errors made by the Dutch do not seem to constitute a problem, but when errors are made by the Indians the reaction of the Dutch can be very strong and sometimes leads to escalation.
- The myriad difficulties in communicating with the Dutch are demoralizing.
- The Indians want to do a good job, but feel that the Dutch are not really helping them in the spirit of teamwork.

Analysis: One of the characteristics of Dutch working life is that everybody is supposed to defend the interest of his or her own autonomous “shop.” Decisions are made by developing consensus between all the “shopkeepers.” This does not mean that people are soft-spoken in their communication style. Quite the contrary, the requirement that you defend your own ideas and interest can make the tone in meetings even aggressive, especially in the perception of outsiders. The system is very horizontal. The boss is supposed to be a coordinator. This works well in the Dutch environment and in cultures with a similar culture pattern like Sweden, Norway and Denmark, but does not work in a country like India.

Solution: When Dutch have to work in India with Indian colleagues, it can be expected that they adapt to the Indian management requirements concerning leadership, communication

style, and motivation. In the Indian situation, this means that the Dutch boss should be much more top-down in delegating and be much more visible and available to check reactions and intervene if things threaten to go wrong. This is not a matter of being nice, but rather of knowing how to get things done.

## Summary

Outsourcing is a very important strategic issue for most of the world's leading companies at this moment in time. But outsourcing is much more complex than just taking advantage of low wages in some emerging countries. A warning is certainly in order: companies should not rush blindly into outsourcing, but need to plan it carefully.

By taking into account the way different cultures define and handle issues like leadership, delegation, and control, management can foresee and avoid problems arising from cultural differences which can easily reduce productivity to an uneconomical level or even doom an outsourcing effort to failure.