



White Paper

Overcome cultural differences in the outsourcing process

INTRODUCTION

Outsourcing is quickly making the transition from new business strategy, to business as usual. Most major companies have already tried outsourcing, and mid-sized companies are beginning to see the value of **selective outsourcing** as well.

While this strategy is being adopted by the mainstream, many companies are acknowledging the fact that the **success of the outsourcing project** depends on a **quality management of the outsourcing relationship**.

According to recent studies from major Big 4 auditor, **69% of all outsourcing deals fail**, completely or partially. The main reason for this is lack of cultural compatibility between the vendor and the client and poor relationship management.

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Corporate culture

Recent studies have shown that the most important barrier to success is the **effective management of the outsourcing relationship**. A survey among half the members of the U.K. National Outsourcing Association (NOA) has concluded that cultural differences are still a major problem in today's outsourcing deals.

What many fail to understand is that culture, in general, is very different from the culture we are referring to when dealing with outsourcing providers. What the outsourcing company should concentrate on is **their corporate culture**: the way business gets done in the company, the values they share and the way people interact.

This is also what Gartner analyst, Partha Iyengar recommends. Furthermore he suggests the IT manager in charge of the outsource project spends a month in the outsourcing location. Only so, he believes, the manager can get a clear impression of the culture, experiencing it first hand: *"IT managers off shoring project work need to spend a month in their offshore location to understand working practices and to improve their cultural awareness of how foreign teams work"*, Partha Iyengar said.

In practice though, taking a month long trip may not always be possible. This is why it is recommended that you at least spend a week in the outsourcing location, preferably in a team building exercise, in order to make the most of your time there. The truth is corporate culture, the company's true values and "personality", can't always be formally expressed in documents, or processes.

Understanding the cultural differences

Whilst negotiating an outsourcing contract, you should also take into consideration and be prepared for the **cultural factor**. For instance, when dealing with **high context cultures** (highly interdependent, relational), the proceedings are likely to take longer, in comparison to dealing with **low context cultures** (factual oriented).

- The **high context cultures**, like Indian, Arabic or Asian, put great price on honor, reputation and tradition and will try to avoid surprises and minimize confrontation, in order not to "lose face". Politeness being valued more than clarity, the initial proposal may be considered more as the initial steps to building a lasting relationship, rather than the final plan.

- **Low-context**, individualistic cultures, such as the American, or most European cultures, tend to focus more on figures and closing the deal, and can be perceived as aggressive.

What you should do to understand your partner's culture:

- Culture needs to be one of the topics addressed in the [RFP document](#) (the Request For Proposal document is an invitation for suppliers to submit a [proposal](#) on a specific [commodity](#) or [service](#)). For example, in the corporate background section, information about the company's culture should also be added. Also, a description of the process used to blend corporate policies, procedures and personnel should be added as part of the methodology section;
- It is also recommended that the CIO or/and other company representatives **make a site visit**. More than often, cultural differences can be overseen in a simple telephone discussion, while an on-site visit may shed light on cultural issues. This way you get the chance to observe the real corporate culture, from staff meetings to the way employees interact and also get employees opinion about the client – provider relationship.

Tips for managing the cultural gaps

Partha Iyegnar, Gartner analyst, believes managers need to develop a **set of rules** that foreign IT workers must follow, when working on an offshore project. For example, a frequent problem is that foreign workers tend to **lightly disclose confidential information**, as in some countries this is considered acceptable behavior.

What you should do:

- Ask for the **RFP process to include interviews** with the team members. This is an opportunity to also check if they are compatible with your own personnel and with your customers. Also, make sure that the team you are presented with is actually the team doing the work, as sometimes there is one team developing the proposals and making the presentation and another one performing the work.
- Clarify the fact that any **personnel changes must be approved by your company**. Also, set a time limit for how long a key position on your team can stay vacant.

No matter how proficient or open minded your outsourced team is, the cultural gap still exists. But there is a piece of practical advice you can follow:

- Ask the vendor to perform **periodical staff training** or **team building** activities: including English classes (in order to overcome the language barrier) and different programs aimed at providing a better understanding of the your company's culture, "meet and greet" type of activities

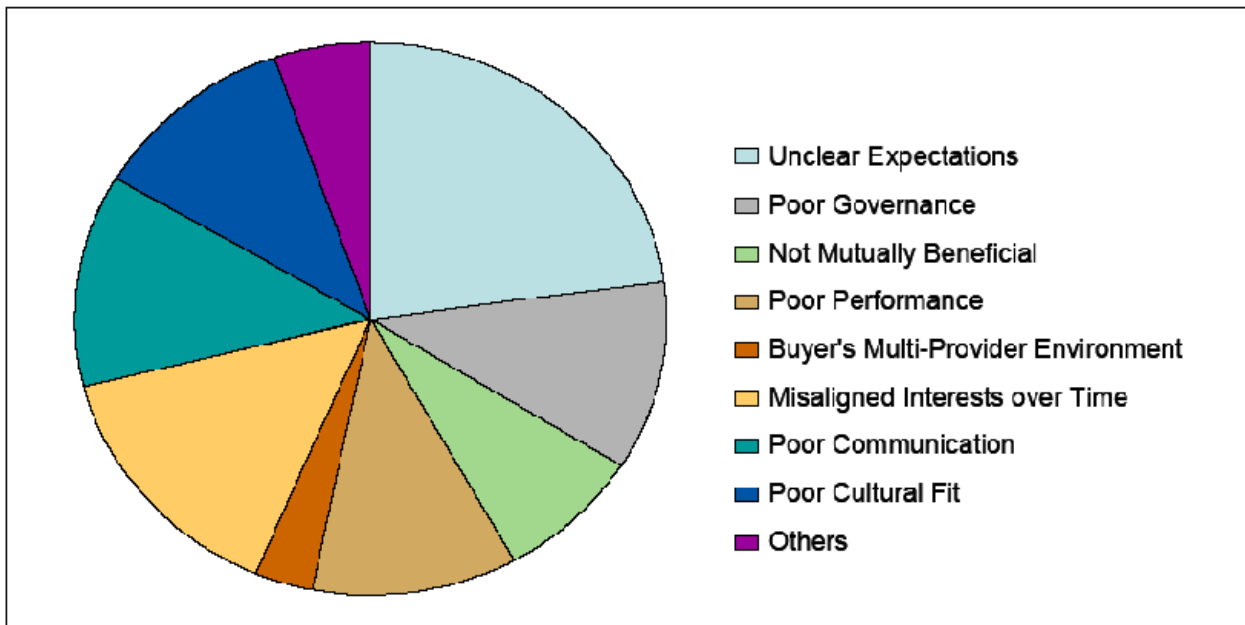
The idea of outsourcing sometimes strikes the wrong cord in the final consumers mind. Them being accustomed to the work being done in-house, the idea of outsourcing leads to the thought that different problems might occur, like lower quality products or services or unmet deadlines. To avoid all these possible issues, you could follow the tips bellow

What (else) you should do:

- First of all, **make sure your service provider company is highly organized** and mature enough to support this kind of service. If the company is not [ready for outsourcing](#), there is no point in going through the others steps. In order to do so, you must get a good idea of the company's organizational structure: who reports to whom, what roles the member of your team have, who they report to, personally, what is the company's employee retention rate, and so on. If your outsourcing business is to succeed you have to count on a stabile team and corporate environment.
- **Set realistic expectations:** they stand at the base of every successful outsourcing relationship. They reduce problems, as the external service provider agrees up front to the predetermined customer expectations. After setting them, it's best you include them in a Service Level Agreement (SLA). "This is a part of a service contract where the level of service is formally defined. In practice, the term SLA is sometimes used to refer to the contracted delivery time (of the service) or performance". (www.wikipedia.org)
- **Educate your own customers:** supply them with information about the outsourcing service provider you are working with, either through a newsletter, or personal e-mail. Make sure that the information is also available on the company website.
- **Educate the outsourcing provider:** although your company has taken all the right steps towards finalizing the agreement, for everything to work out as good as possible, the service provider should be trained in the corporate culture of the company. In other words, it's very important he has a crash course in understanding your values, communication channels, both formal and informal and other cultural aspects of your corporation.

In any case, **communication** should be a top priority in this relationship, as according to a Price Waterhouse Coopers 2007 global outsourcing survey, **69% of outsourcing deals fail**, in whole or part. Actually poor

communication and unclear expectations are very frequently the main reason outsourcing deals fail, as a study from a world renowned outsourcing information portal, the Outsourcing Center proves.



Source: <http://www.outsourcing-center.com/>

Keeping in mind that the provider company has a different way of solving problems and doing business, you should set a few rules from the start. For instance:

- In some cases there might be a conflict regarding who's responsible for the final product's quality. You have to **clarify the responsibilities and role of each party** involved, from the very beginning.
- Establish the cross-team, cross-organization and inter-organization reporting roles. Also you have to **determine how often reports are to be made and to whom**.
- Keep in mind that some cultures, might not feel comfortable reporting problems, or giving bad news. This is why you should **realistically define success**, and **give clear measurements** for it. Also, every success you register, as a team, you should make it as public as possible, not only to reassure your customers, but also to breed enthusiasm.

Outsourcing Locations - the cultural point of view

When you take the decision to outsource, cultural differences should not be ignored. But these differences can vary, from minor, if you near shore, for example to Ireland or Eastern Europe, to cultural clash, if you decide to outsource to a further location, like **India** or **China**. Until now, India has been the destination for outsourcing. But lately there has been a slight change in the corporate view on outsourcing. It has evolved from being just a method of reducing costs, to more of a strategic move.

Indian services have matured over the years, and managers are now learning how to deal with the cultural clash, but now customers are complaining that Indian providers show no interest in being evaluated either by service level or output. This isn't the case with all companies, but this is also to be expected, some believe. Since the main focus remains on low labor costs, the services providers won't be able to mature to the kind of services foreigners desire.

On the other hand, with the European Union expanding, more and more **Eastern European** countries are becoming attractive environments for outsourcing. The outsourcing business is on the rise in this region, especially in countries like Belarus, Romania, Ukraine, Russia and Poland. The difference is that the work being done here is not just cheaper than in the UK or US but more intensive, from the scientific point of view, from the one done in India. Eastern European programmers have superior mathematical training, which they successfully apply to computer science. According to US specialists, this training is beyond what is available in the West. (Source: <http://www.itmask.com>)

"Ten years ago India didn't register a blink on the radar of Western companies. Eastern Europe today is where India was a decade ago. Some experts believe Romania is the future European frontrunner for India's outsourcing crown.[...] Quality of service has become an essential parameter in off shoring, and buyers are now looking beyond labor arbitrage. Romania's well-educated and multilingual labor pool, competitive property costs, and time zone and infrastructural advantages easily make it Eastern Europe's top BPO and IT services location" (<http://www.outsourcing-center.com/>)

ATTRIBUTES	MIDDLE EAST	EASTERN EUROPE
Price	Highly competitive, one of the lowest work force prices in the world	Competitive, low property and work force prices
Output	Good quantity, satisfactory quality	Very good quality services, good quantity
Culture	Highly contextual, honor and reputation are the top priority, the long term relationship being more important than immediate result. Very different from western culture	Low context culture, as are the western cultures, consider facts and figures more important, are more open to challenges and confrontation

Source: <http://en.wikipedia.org/> ; <http://considerthesourceblog.typepad.com> ; <http://www.outsourcing-center.com/>

Conclusion

Whilst price is very important, productivity is even more important, which is why you should factor this non tangible aspects, related to outsourcing, into your purchase decisions. Make sure that the company you are dealing with is **mature** enough to overcome the cultural barriers as well as the communication/organizational ones. Then, when the deal is signed don't forget that you have to **manage that relationship as it will not manage itself.**

If the outsourcing company and the provider company don't walk and talk the same cultural language, then it is best you consider taking your business some place else.