Cultural Challenges

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FOR SUCCESSFUL OUTSOURCING both parties need to understand the different challenges. These can be cultural, social, global and cognitive in nature. Most research we have looked into focuses on reasons and effects of the challenges, rather than how to mitigate them. In this report we intend to describe some methods and techniques we have more than 17 years' experience of management of outsourcing Software Development projects to India from the United Kingdom and Scandinavia.

INTRODUCTION

The reasons why companies decide to outsource are many. It may be to reduce the development costs, create new or more opportunities due to need of certain competence, or to focus on core business, by outsourcing all or parts of the IT development on subcontractors.

To outsource to a third party requires thorough planning and coordination between customer and vendor, in order to reach the expected result. If this is not done, it is likely that the subcontractor cannot contribute with any significant value to the customers' business. This may lead to failed projects, legal costs and not least unnecessary costs for both parties. In the planning phase it is important to consider a number of factors such as cultural differences, the social scenario, and global and economic factors. In this report we discuss the challenges related to these factors. We also give examples from our and others experience on how these challenges can be avoided or resolved.

Experiences discussed in this report are mostly grounded on the author's personal experience of outsourcing projects conducted in India for Swedish, Norwegian and British customers and to lesser extent North American customers. To stress the message we occasionally exaggerate the cultural differences. The reader should understand that our descriptions are included to illustrate the challenges or methods to mitigate rather than to generalise the behaviour of Indians, Swedes or any other nationalities. To be successful it is important to recognise that individuals are unique, but also that certain traits and behaviours may be the norm in a certain culture. The reader must also understand that no method can resolve all challenges, and every project and customer relationship is unique.

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It is important to select what kind of work can be outsourced [4]. It is of course ideal to outsource work which require less interaction during the project cycles. When outsourcing tasks which require more interaction cross cultural communication becomes more of a challenge.

CULTURAL CHALLENGES

Leaders in global organisations must consider cultural differences [14]. Culture is hard to understand since it includes differences such as language, traditions, values, humour and much more [1]. Geert Hofstede, who is one of the main authorities when it comes to culture especially within IT, defines five cultural dimensions: Power Distance, Individualism, Masculinity, Uncertainty Avoidance and Long Term Orientation [7, 8, 9]. To avoid misunderstandings it is important to understand differences between cultures in these dimensions.

Hofstede based his findings on some of the largest studies ever done. The dimensions mentioned above were aggregated as 5 indices for 60 countries [6]. However, these indices, as well as the underlying methodology, has been questioned by some researchers [2, 11][1].

However most of our own research and analysis is not based on Hofstede, even though his work is foundational for our understanding of certain phenomena. Instead our focus is on practical aspects of cultural differences, which we have identified in our professional work during more than 17 years working with outsourced projects mainly from Scandinavia and the British isles. Even though this limits the cultural challenges to differences between a few cultures, we still believe that our experiences and solutions can be applied in other cross-cultural situations.

Narayanaswamy, R., Henry, R.M. [12] claims that there is a link between three of Hofstede's cultural dimensions Power Distance, Individualism and Uncertainty Avoidance and how managers need to use formal and informal control mechanisms to either focus on result or behaviour. We found that their analysis supported our own.

Even though there are differences between cultures, we have also found commonality, e.g. Sweden and Indian culture are possibly more similar when it comes to Uncertainty Avoidance and Individualism/Collectivism than for example India and the US [6][2].

Cultural differences can be a reason why outsourcing projects can fail, however similarities can be used to strengthen the bonds and create a common platform for successful result. Differences and similarities must be analysed and understood in order to find suitable methods which can be applied to avoid failure. The differences are not always obvious, as there can be subtle factors which are not noticeable at the first glance.

Below is a list of differences we have identified that can be obstacles in outsourced IT projects:

- 'Yes Sir': Indians tend to say 'Yes' when Westerners[3] would have said 'I am not sure' or even 'No'. An Indian developer would often answer 'Yes' on the question if delivery can be made on a certain date even if he or she does not know if it is even possible to deliver on this date. Asians in general avoids to give negative answers, due to cultural reasons. This is also the reason why an Indian can avoid asking or indicating that he or she has not understood. These behaviours can be explained based on Power Distance and Uncertainty Avoidance [7, 8, 9].

> *Asians avoid giving negative answers. If ask open ended questions, you help Indians to stop and think through the situation*

- Leadership style: Western managers would in general not approach employees day after day asking how the employee is doing on a task, since it could be perceived that the manager does not trust the employee. However, if a manager does not frequently ask how an employee progresses on a task, an Indian employee may understand that as if the task is unimportant. This may be linked to that western managers are more focused on result, than how the task is done; "I don't care how you get there as long as the result is good". In general Indian managers are focusing on behavioural management i.e. that a task is done in the right way.

- Risk taking: Westerners would often take larger risks when it comes to making relevant assumptions in what can go wrong, before starting a task. The perception is that it is more important to deliver on time even with a misunderstanding than to miss the delivery date [10], while Indians would prefer to wait to deliver until they have got all answers. The common perception is that the customer will have to take responsibility for a delayed delivery in case some questions have not been answered.

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1) We agree with some aspects of this criticism. For example we question the assumed homogenous culture in multi-cultural countries such as India, UK and USA. Not even in a fairly homogenous country such as Sweden (excluding immigrants) are regional differences negligible. If taking Hofstede's conclusions too literal it is easy to create stereotypes, which can complicate the handling of specific situations. Quantitative analysis often lacks depth and this is also the case with Hofstede's. Having said this, we do believe that the said cultural dimensions, when used carefully can help in understanding other cultures.

2) As per our experience South Indian and Western European culture are more similar than Hofstede suggests. But since Hofstede has only one index for the whole of India and since we believe that the regional differences are significant then such differences are to be expected [6].

- Conflicts: Swedes are generally scared of conflicts [10] and are frequently found not to communicate that they are disappointed with a task done by their outsourcing partner. Indian companies and employees may perceive this lack of negative feedback as a sign that the customer is satisfied. Whereas Indian companies who have experience of working with North American customers, generally are much faster and direct in their communication when things are not up to their expectation.

- Appreciation: Based on our experience of working with customers in different countries, we would generalise and say that Americans and Indians in general say 'great' even for mediocre performance, while Swedes in general don't give much positive feedback unless the performance is way above their expectation. This makes the Indian believe that Swedes are never satisfied.

- Private Life: Some cultures keep private and work life apart, while in other cultures work and work mates are part of their private life. In the former case work time is normally spent entirely for work, while in the latter activities not related to work may be done during the work day. This does not necessary mean lower productivity or efficiency, since the employees would often work more hours to compensate for this, or have better simultaneous capacity.

Solutions

It is our strong belief that these cultural hurdles can be managed, when they are met without a judging attitude and an open mind, where all parties are aware of the challenges. We recommend going the extra mile to create this awareness with all parties, who are involved in the outsourcing process. Whenever possible it is important to meet half way, there are things to learn for both parties, and when strengths in each culture are used and weaknesses avoided there is a lot of benefits for everyone.

The price for training in cultural awareness for both the parties is definitely lower than solving problems which have already reduced the trust level. Staff can be trained through courses in cultural understanding and by reading books and articles covering these subjects. In the cross cultural interaction it is important to go slowly to not assume and over time coach and train all participants to be observant.

To meet and get to know each other creates a good foundation to avoid cultural misunderstandings. Our experience shows that this also improves the professional relationship. We have also found it very helpful to openly discuss the cultural differences and in that way start to understand how the person from the other culture thinks.

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Whenever customers are working directly with developers we recommend them to avoid questions which can be answered with a simple 'Yes' or 'No'. Such 'open ended' questions help the Indian staff to give a better description of the situation. In addition to this we train our staff to avoid answering 'Yes'. Even when an Indian answers 'Yes' it may be helpful to follow up and ask, what are the risks which could make you deliver later? This helps the Indian developer to give a more balanced answer.

Regular follow up through telephone conferences weekly, or every second week and report from project leader also helps the customer to better follow up on the project and avoid unexpected disappointments. It is very important that the customer reads these reports to avoid hidden misunderstandings

TIME ORIENTATION

In a case study [13] it was found that time orientation differed. Indian employees had to learn that 8 hours meant 8 hours and that the committed delivery time meant exactly what was agreed. This is based on that time is perceived as more fluid in the Indian society. This effects the professional environment too. This is affects deliveries, status reports and even when meetings start. The problem is particularly accentuated when it comes to oral commitments.

Solutions

This problem can be resolved using clear communication and by writing minutes of what is orally agreed. We demand punctuality in our day-to-day work, even for internal meetings and internal communication, to ensure that this is considered part of corporate culture. It is important as a vendor to communicate how important this is, since the Indian market has a far higher tolerance for delays. However when Indians are delayed one should avoid overreacting. In particular, to understand that it is not a matter of carelessness or dishonesty when an Indian is not ready or there at a committed time.

Training of staff in time management can also give result. At some occasions anyone can forget a commitment given during a telephone conference or in a meeting. It may not even be a matter of time; it may be an instance of the Indian tendency to say 'Yes' (cp. last passage). We insist on staff documenting minutes on what is agreed during a meeting and to send this document back to the customer for review. It is important to go beyond what is normal professionalism, since this process also reduces the risk of misunderstandings due to cultural differences.

TACIT KNOWLEDGE

Even though cultural difference is one of the main reasons for problems within IT outsourcing, some of the challenges are related to 'Tacit Knowledge'. Tacit Knowledge means silent knowledge, which cannot be explicitly communicated. The tacitness of knowledge is a challenge, even when we communicate between people from the same country and culture. Tacit knowledge itself cannot be made explicit, but knowledge about the existence of tacit knowledge can help us to communicate better. Tacit knowledge can be defined as the knowledge we have in our head, but which is not and cannot be documented.

One aspect of tacit knowledge in the IT scenario can be explained by the fact that the sender and the receiver mean different things with words, or assume different unspoken aspects of the communication. They take certain things for granted (Figure 1). This means that the person who framed the requirements interpret them in one way, while the reader would interpret them in another way. When writing and reading we interpret based on our assumptions, experiences, perspectives, cultural background, understanding of the language, especially when English is second language for one or both of the parties.

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Most people are not even aware of the existence of their tacit knowledge and how valuable it is. Tacit knowledge is precious! If tacit knowledge can be transferred or be made more explicit it can help us to work together and understand one another better. Effective transfer of tacit knowledge mostly demands long term personal relationship, it also demands trust and it is often linked to context [15]. In principle Tacit know-ledge is not transferred via words but via experience and observation and is often practical in nature [5].

Tacit Knowledge is a general challenge and in no way specific to outsourcing or cross cultural communication. In the case of IT outsourcing, the problem of tacitness of knowledge becomes more accentuated, since people are working at geographically dispersed locations and that communication is done mainly via electronic media which is much poorer to communicate rich context or understanding. It is essential that all participants in the outsourcing process avoid making assumptions about the other participants' situation, limitation or understanding of the senders' context. Instead by asking the other party to give immediate feedback misunderstandings can be avoided [3].

Solutions

To map the extent to which it is possible try to understand tacit knowledge is essential for successful IT outsourcing. There are no standard methods to communicate or ensure understanding or even existence of tacit knowledge, therefore creative situational methods must be invented.

Let's build a house!
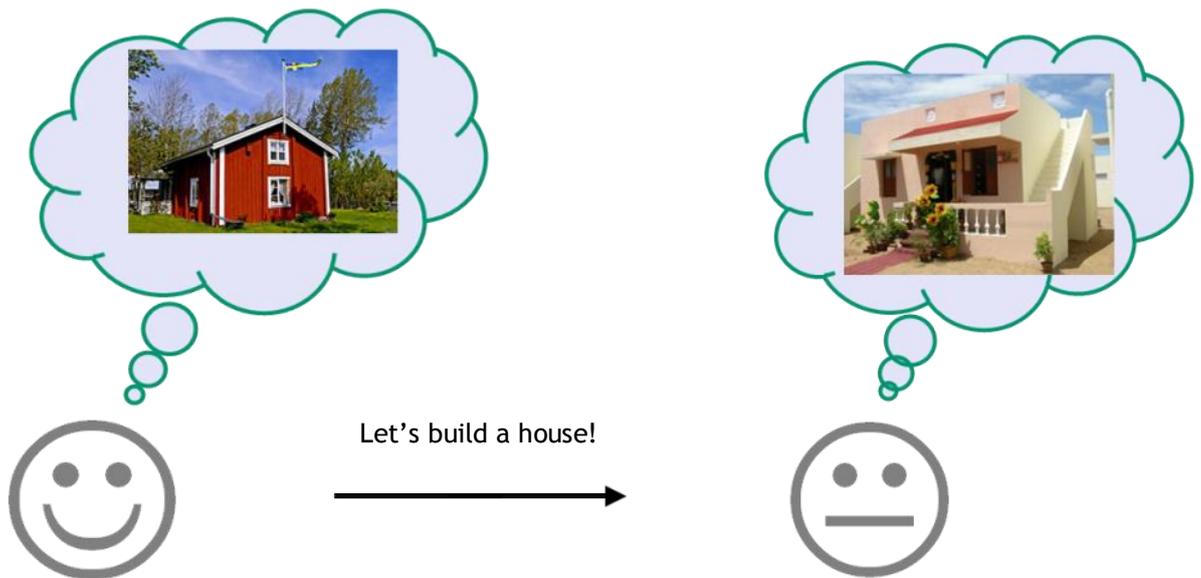
In one case we helped a Scandinavian customer build a large IT system for public transportation. The requirements were well defined and documented. However we understood that our designers and developers in India would lack the contextual understanding of the environment the system would be used. This included understanding of wireless smart cards, GPS, mobile communication since these technologies were very new or was not used in India at that time. In addition, in the Indian context all city bus tickets are [still at this time] sold cash by a conductor, busses and staff were owned and employed by the municipality and only staff that had travelled to London would have even seen anything like the technology we were building.

We realised that it was an unacceptable risk if this context information was not available for all developers, since they would otherwise make their own assessment and in some cases these would be wrong. So we initially spent a lot of time preparing a background information document, which included description of how the passenger would pay for a ticket, how the smart card was used, how price models worked, how the bus services were [invisible to the passenger] outsourced to private bus companies that charged the passenger for the tickets. We took digital photos of all hardware; smart cards, busses, bus stops, bus stations, ticket machines, GPS etc. so that all developers could easily visualise the environment the formal requirements related to.

We also used early screen layout and prototypes to as early as possible visualise critical functions. We used these to ensure that we had understood critical complex scenarios correctly. This sometimes created unexpected value additions – in one case we produced a touch screen prototype, when a colour blind employee of the customer reviewed it, it was found that we had used unsuitable colours near each other's. There was no formal requirement about avoiding certain colours or how colours should be used, but thanks to the prototype we early caught this challenge. Since colour blindness is relatively unusual in India but much more common in Scandinavia this was actually a case of tacit knowledge. We also asked our staff to describe their understanding of requirements with their own words to ensure that they had understood the requirements.

Requirement Analysis

There is a strong trend towards using more agile processes. We are very positive to this trend and use SCRUM ourselves. However we believe it is still important to ensure that all projects have well defined and clear requirements. Many Indian Software companies have unfortunately limited experience of requirement collection or use dedicated teams for requirement collection. But even when this is done there is a risk that tacit information is lost on the way when there are many steps from customer to developer. Misunderstandings easily lead to delays and extra work. We recommend collaboration in the requirement process in order to improve the qualitative understanding of the requirements. It is essential that the outsourcing partner collaborate, brainstorm, discuss and assist in the production of the requirement and/or design documentation. We have had very good result using this method with many of our customers. When requirements are clear, complete and understood it is rare that changes or clarifications are needed later in the process, which can lead to reduction of development time. Using visual means to communicate such as prototype, power point, diagrams also helps. Even when the client has prepared requirements we want to go through the requirements together with the customer to

reduce risks of misunderstanding and also to increase the feeling of 'ownership' for the developers.

When we ask western companies about their experience of outsourcing, we have got comments that the outsourcing company even implemented obvious errors or things they understood as requirements while it was suggestions. The cultural dimension of Power Distance, together with the concept of Tacit Knowledge, explains why the outsourcing company acts in this way and also the need to create a strong relationship, where the outsourcing company dares to question information which does not make sense.

STRUCTURAL DIFFERENCES

There are significant structural differences between countries. These differences may include, economical, political, organisational as well as difference in infrastructure and service institutions. This effects work moral, ethics, values and expectations both from management and employees. If everyone is aware of these differences it helps to avoid unrealistic expectations from the other party. The following section is a list of some of these differences:

When requirements are clear, complete and understood the need for clarifications and changes later in the process is reduced.

- *Organisational*: Western IT companies have in general a low hierarchy. This means that staff can easily interact with top managers in their organisation and they are often authorized to make important decisions without asking superiors [13]. This is rarely the case in India, especially not in larger companies. Therefore it is much more difficult for staff to suggest improvements in a product or process, unless this is directly asked for. Since it is expected that management would come up with such suggestions and that staff should not criticise their manager, it can lead to both frustrations and misunderstandings when western clients expect Indian staff to come up with suggestions or raise their concerns or take a critical view.

- *Educational*: The Indian education system is to a large extent built on receiving knowledge, while the western system is more focused on application of knowledge, creativity and questioning. This is one reason why Indian developers are not questioning obviously incomplete requirements.

- *Infrastructure*: Limitations in infrastructure must be analysed and discussed, before starting outsourcing projects. Such limitations may include bandwidth, power cuts, long commuting time, transport arrangements, work outside normal work hours (due to time difference), flooding due to monsoon rains which may affect work a few days yearly. In this context it can be mentioned that an Indian company with its lower hourly rate may have limited resources for capital investments in hardware and software, since the number of hours which needs to be invoiced to earn enough capital to enhance infrastructure may be significantly higher than in the Western context

Solutions

To handle organisational differences it is important to keep on encouraging Indian staff and give suggestions and show enough of appreciation for their work.

To handle educational differences, we recruit people who are creative and good to understand things on a conceptual level, rather than just quoting from the text-book. With further training in core competences, including understanding requirements and creative design how to write test cases etc. The objective is that staff, as early as possible should understand that there may be misunderstandings and take corrective action, ideally even before the customer notice.

Indian infrastructure is improving all the time, but problems with electricity supply and communication are still part of reality. Uninterrupted power and generators can be used, and we are ourselves using multiple parallel internet suppliers to ensure we always have access to Internet. It's also essential to have an emergency plan for challenges such as flooding during the monsoon. Bandwidth is less of a problem today, but since smaller companies may not be able to afford enough of bandwidth (since the cost is higher than in the west), to guarantee that there are no delays, it may be important to add a few days buffer for any critical delivery. In the context of hardware/software it can be mentioned that since unqualified staff is relatively inexpensive in India, work can sometimes be done at lower costs as long as it does not require expensive investments in hardware/software while senior people may be as costly as in the West. This perspective may change as salaries increase for unqualified staff.

Communication channels

We use instant messaging, telephone- and video conferences, in particular when it is not possible to meet face-to-face. In general we follow up discussions over these media via minutes to ensure the understanding is correct. This can to some extent replace the need for face-to-face meetings, and ensure better control of projects than just relying on emails. Video conferences have so far not delivered enough value, partially due to technical issues, scheduling of resources but also be due to difficulties to acquire professional equipment[4]. Skype is often a better solution. It is also good to use software solutions such as Webex or Skype to share screens. This gives opportunities to show the client how the software works or that the understanding is correct.

We assume that use of video conferences will increase[5] since bandwidth and internet quality has improved, but we have still found that instant messaging is better for quick questions and answers, both since it is less intrusive and since there is then at least some documentation of what has been said[6]. Finally it is important to decide on expectations, when it comes to how often and when the meetings should be conducted.

CONCLUSIONS

In this report we have discussed some of the challenges which need to be addressed in order to succeed with outsourcing. The challenges are huge, but so are the potential results. Organisations who want to be competitive must develop intercultural understanding, communication skills and management skill in a global perspective. Companies that can use outsourcing as a way to learn to manage these challenges, will have significant advantage compared to others [1]. Since IT outsourcing has now become a normal business activity and everything points to increasing strategic importance of delivering business value via outsourcing arrangements, we recommend a thorough analysis to frame 'best practices' to address the cultural challenges.

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4) Even if access to Internet has improved in India, there may still be problems with latency which may impact video and Skype conferences. In addition video conferences require more preparation, booking of equipment and multiple teams may want to use the equipment at the same time.

5) As the price of petrol and travel may increase in the future, communication via electronic media may become more and more important. However we question that face-to-face meeting can be entirely replaced by videoconferencing.

6) We do record video- and telephone conferences, but since it takes time to watch through or listen to the recordings, we still consider text media being superior for documentation.

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