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Cross-Cultural Risk Factors in Offshore Outsourcing

by Karine Schomer

When companies decide on an offshore outsourcing strategy, select service providers and plan their onshore-offshore integration, due diligence and risk assessment are a normal part of the process. Until recently however, systematic attention to the cross-cultural dimensions of risk assessment has been rare.

With mergers and acquisitions, corporate culture compatibility and potential issues arising from differences in national cultures are more widely acknowledged as predictors of success than they are with outsourcing arrangements. In both kinds of business relationships, however, identifying and addressing the "soft" risk factors has been neglected in favor of the more easily identified financial and legal factors. Yet repeated research shows that cultural mismatch and failure of cultural integration lead to poor strategic alignment, communications and execution, and are key reasons why business relationships fail.

Three distinct cross-cultural risk factors can have a critical impact on the success of an offshore outsourcing relationship. The first is commonly recognized, the second tends to receive lip service and the third tends to be unseen or avoided.

—> Risk Factor #1: Corporate Culture Differences

What is the degree of "fit" between the client's corporate culture and the vendor's? How close are their vision and values? Is one bureaucratic, the other entrepreneurial? What is their respective risk tolerance? Are decisions top-down or based on consensus? How different are their operational processes? Their control systems? Their reward structures? Their corporate policies? How do they hire, develop and evaluate employees? What are their behavioral norms and expectations?

Lack of alignment in key dimensions of corporate culture can present serious obstacles to smooth interactions, with bottom-line impacts for both organizations.

—> Risk Factor #2: Differences in National Cultures

The globalization revolution is in its infancy, while national cultures are longstanding. Cultural conditioning is deep. Despite surface similarities in the globally interconnected world, the underlying attitudes, thought patterns, assumptions and expectations of different cultures vary widely. Do people tend to be individually autonomous or group-oriented? Egalitarian or hierarchical? Situational or absolutist in their ethics and conduct? What is their perspective on time? On relationships? Do they tend towards candor or diplomacy and face-saving? Do they focus on results or process?

In overt and subtle ways, the deep elements of national culture influence every area of business relationships, systems, processes and work interactions across cultural boundaries. If you don't understand these differences, your risk mitigation approach won't develop strategies to avoid potential pitfalls and harness opportunities for synergy.

—> Risk Factor #3: Cross-Cultural Competencies of Key Players

In any offshore outsourcing relationship, a wide range of players is involved at both ends: executives, corporate managers, project leaders, members of multinational (often virtual) teams.

Some work from their domestic base of operations, others travel or go on expatriate assignments to their partner's location. All are involved in the challenge of achieving business objectives and performing seamlessly in a culturally diverse global environment.

In addition to the technical, managerial, leadership and interpersonal skills required for their jobs, the people occupying these roles need to have cross-cultural competence if they are to be successful and not put their company at risk. This includes both knowledge about other cultures and the ability to adapt to cultural differences. A due diligence process that doesn't address the cross-cultural competencies of the people who will implement the outsourcing relationship misses a crucial risk factor.

Cross-Cultural Due Diligence Rather Than "Retrofitting"

As offshore outsourcing matures, the neglect of "soft" risk factors is receding, especially with leading-edge global organizations setting the next generation of best practices.

"More attention is being paid to the cultural alignment between client and offshore vendor as part of the due diligence process in the offshore space," says Srinivas Tatavarthy, Vice President for Offshoring Implementation Risk at Wachovia. "This is a result of the growth of business process outsourcing, which requires a more cohesive and hands-on approach, and with the rise of end-to-end global delivery services encompassing both ITO and BPO. The need has become greater for up-front cross-cultural due diligence rather than 'retrofitting' the relationship after having experienced the effect of the cultural differences."

But how do you carry out cross-cultural due diligence? How do you predict the potential impact of cross-cultural factors and make plans for mitigation? A robust cross-cultural due diligence process should do the following:

- Build the cross-cultural dimension into the due diligence model as an integral part of the process, using professional cross-cultural expertise as needed rather than relying on impressions and anecdotal knowledge.
- For all three factors (corporate culture, national culture impacts and key player cross-cultural competencies), use both quantitative methods (surveys, audits and psychometric assessments) and qualitative methods (in-person interviews and on-site observations).
- Develop risk assessment and risk mitigation strategies to address all three cross-cultural risk factors, recognizing that while they may intersect, they are independent variables, each requiring its own analysis and solution.

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About the Author

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