

**Outsourcing Projects between Europe and India –
Bridging the Cultural Divide**

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Outsourcing Projects between Europe and India—Bridging the Cultural Divide

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Europe and India are finding each other! As India cements its reputation as a stable, growth economy with highly capable and well-educated employees, more and more European companies are following the footsteps of North Americans and outsourcing primarily software programming and development, administrative tasks and call centres to India. In addition, the EU and India are establishing cooperative links in many high tech fields, which hopefully will lead to expanded research and commercial cooperation.

Despite its popularity, however, successful outsourcing to India is still difficult. While the market has matured, telecommunications have improved and English fluency in India has flourished, challenges still remain. Cultural issues creep in, service-level expectations are set too high, transitional costs can be foreboding, and ongoing relationship management is expensive and labour-intensive.

Project management of offshoring cooperation¹ requires PM competences to deal with cultural differences on both sides.

The extent and growth of offshoring with India

To give an idea of the extent of such outsourcing cooperation, India ranks nr. 1 of all countries having offshoring projects within call centres, shared service facilities, IT services and regional headquarters². According to the same source, India also ranks nr.1 of 60 of the world's key economies ranked on the basis of their attractiveness as offshoring locations. In the US, one-half to two-thirds of all Fortune 500 companies are already outsourcing to India³, and the amount of work done in India for U.S. companies is expected to more than double in 2005 alone.

The numbers are huge. India exported \$9.5 billion worth of IT services (mostly to the US) in 2002- 2003, a 25% growth over 2001-2002. This was a period when most American companies at home experienced slow or minimal growth.⁴ GE (General Electric) alone has 22,000 workers in India.⁵

¹ For clarity of definitions, in the following “outsourcing” refers to the process of transferring a business task (like IT, a business process or manufacturing) from internal company control to a third party provider. Offshore Outsourcing refers to the transfer of any operation to a provider outside of the country of the customer company, either through a third party provider or through the creation of a company's own subsidiary. “Near-shore” or “close-shore” outsourcing indicates a closer proximity between the customer organisation's primary operations and that of the provider. Canada, for example, may be near-shore for an American company, but India is offshore for both Europeans and North Americans.

² UNCTAD United Nations Conference on Trade and Development, “Trade Investment Report, 2004” quoted in CEO Briefing: Corporate Priorities for 2005: “Special feature: Future leaders in global offshoring”, The Economist Intelligence Unit 2005, p.14

³ Forrester Research

⁴ I-Vantage Global Insource White Paper.pdf, “An Insource alternative to the Offshore Outsourcing Trend”, I-Vantage, Inc., 2003

⁵ <http://www.indianewengland.com/media/paper549/news/2004/09/15/Business/He.Gives.Small.Businesses.The.Over.seas.Advantage-718263.shtml> September 27, 2004

Regarding Europe, a survey of 500 companies conducted in 2004 by UNCTAD and consultants Roland Berger concluded that four out of 10 European firms have begun to relocate service operations offshore, with 40% of all projects going to Asia, especially India.⁶ As the European Union, as well as its member states, focuses on strengthening its relations to India, the role of India as destination for European offshoring is destined to rise, both for IT as well as production.

Europe is as culturally diverse as India!

Seen from Europe, India is a huge and very diverse country. On the other hand, seen from the Indian viewpoint, Europe with its 34 countries is an enigma also – it represents as much cultural diversity as India! Just as working successfully in one area of India does not guarantee for Europeans success in another, for Indian companies, knowing the mentality of one country in Europe from successful cooperation does not preclude many surprises when working with other European countries. Both Europeans and Indians need to understand the cultural influences they bring with them to their joint projects and to increase their skills in managing this diversity.

The examples below arise from the experience of both presenters, both Danish project managers with extensive personal experience in India-Denmark projects, as well as experience from other Indian-European projects. Sectors represented are telecom, public health, environment, manufacturing and research.

There can be many layers of culture of course: national, regional, ethnic, corporate, professional, to name a few. We are referring mostly to the way national or regional affiliations influence the values as well as the daily practices and assumptions about appropriate behaviour in a given population.

To describe it in a schematic way (see figure below), culture impacts 5 key variables: assumptions about power, structure, time, communication and to what extent the individual or the group is accorded highest value. These variables in turn influence perceptions about authority, responsibility and accountability; sense of urgency; and notions of commitment, agreements and contracts, risk-taking and conflict.

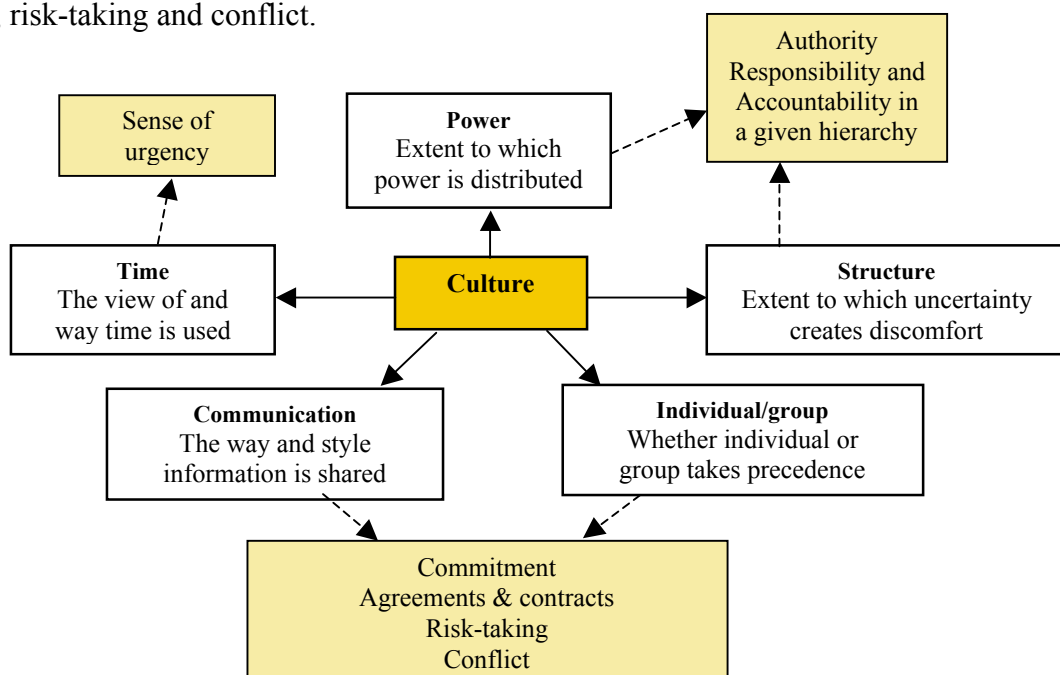


Figure 1: Impact of culture on key organisational variables

Source: Interlink

⁶ Far Eastern Economic Review. Robyn Meredith, “The Next Wave Of Offshoring”, March 2005 <http://www.feer.com/articles1/2005/0503/free/p019.html>

Key contrasts on selected cultural traits between India and European countries

To illustrate the variety within Europe, the following table describes some of the key traits that often play a role in projects involving European and Indian partners.

Perceptions of	Denmark/ Scandinavia	Germany	France	Netherlands	USA	India
Time/plans	Time is money, planning & deadlines important	Thorough plans and agendas important	Take the problems as they come, brilliance of design or main idea crucial	Planning & deadlines important	Need for quick results, therefore quick plans, make adjustments as you go	Flexible, deadlines less important
Organisational hierarchy	Low / flat with broad delegation, person more important than title	Titles important but authority needs to be reassured	Hierarchy is important Leadership is position	Low / flat – broad delegation	Leadership is shown through action, not position	High, titles and respect of position are important
Communication style	Short, clear specific	Short, clear specific, direct, formal, put in writing	Implicit, indirect, oral communication preferred to writing	Short, clear specific; outspoken	Short, clear specific, informal style, use of memos	Heavy, very detailed
Change	Leadership is quick to see change opportunities; general resistance at lower levels	Try to anticipate & prepare for any “unexpected” problem	Everything is negotiable, new ideas easily supplant old ideas	Leadership is quick to see change opportunities	Frequent. Change is main focus in society. Market dictates changes.	Willing to try new approaches, but heavy bureaucracy
Contracts/ Accountability	Normal to have individual accountability. An agreement is an agreement. Supplier informed when changes are necessary	Seek security by putting agreements in writing. Personal accountability blurred in favour of team accountability	Accountable to boss	Normal to have individual accountability	Individual accountability	Necessary and need to be monitored actively by customer; shared responsibility preferred

Figure 2: Selected cultural traits Europe-India

Source: Interlink

Examples are known where some of these variables were precisely the kernel of disagreement that lead to major legal litigation – because neither part was prepared to recognise and deal with cultural difference.

A specific example: outsourcing manufacturing from Denmark to Gujarat, India

The following specific example illustrates the contrast between Indian and northern European values and how these surfaced in an outsourcing project from Denmark to India. First a short chronological history of the activities of the Danish company in India.

History of LK-Denmark:

LK is the abbreviation for Lauritz Knudsen, a 100-year old switch manufacturer in Denmark (now a part of Schneider-Electric =S=).

LK had the monopoly in the Danish market until the mid-1980's. When the borders were opened for competitors, the prices were dumped, and LK had to find new manufacturing possibilities to keep manufacturing costs down and to maintain its market share.

In 1999 LK finalised a new manufacturing unit in Denmark based on 75% automation in all areas, from incoming raw materials to the final products ready for distribution.

This provided the platform for LK-India to grow, since everything that did not justify automation due to low volume, end of life cycle, or a new product starting its life cycle, was outsourced to LK's own facility in India.

LK-India

- 1986 Joint Venture between PACE and LK named LK Pace and based on production of low voltage switchgear (10% LK participation)
Wiring accessory production started (FUGA)
- 1997 LK India Pvt. Ltd. established (77 % LK, 19% IFU and 4% CKT)
New business concept: high labour intensive production for re-export as well as domestic market
Technology transfer project for DIY products (1997-2000)
- 2000 New factory building in Jarod inaugurated in January
EOU certification for the Jarod factory in April
- 2001 Outsourcing of new products from LK Denmark and Alombard, France
Expansion of factory for DTA/EOU production
LK acquired CKT shares (81% LK and 19% IFU)
- 2003 First project from design to production for Schneider Group customers - new range of switches for Alombard, France in September
JoJo cable reel manufacturing facilities transferred to LK India
- 2004 New project, manufacturing new program of outlets and accessories designed for the French market.

Education of people involved in the projects:

When LK-Denmark started its first project in India, it put major efforts into educating all people involved in all aspects of the project, including the people that LK in Denmark worked with in India. Focus was put on the basic tools and obvious stumbling blocks like:

- 1) Language
The people in Denmark received intensive training in English. Indian people were already well educated in the English language.
- 2) Basic rules for project management
Understanding of schedule, budget, responsibilities and deadlines. Basic education of all people involved in project.
- 2) Common templates and methods for reporting
All templates were translated into English and adopted by LK-India.

Based on this, LK started its first project. All plans and activities were made in Denmark and the project manager presented these to the Indian team in the factory in India for them to agree and adopt.

Two months later the project manager returned to India, expecting to find everything according to plan, as she hadn't heard anything to the contrary, only to find that nothing had happened.

Already a gap was apparent, because neither party had considered cultural aspects/ differences like:

- 1) Hierarchy - organisation
- 2) Responsibility / ownership
- 3) Education / manners
- 4) Project organisation
- 5) Communication
- 6) Contract / agreement

Hierarchy - organisation:

As Danes accustomed to flat hierarchy, we need to understand how communication flows in a hierarchical organisation, which means orders and information tend to flow from top to bottom, with very little information flowing upwards from the bottom to the top.

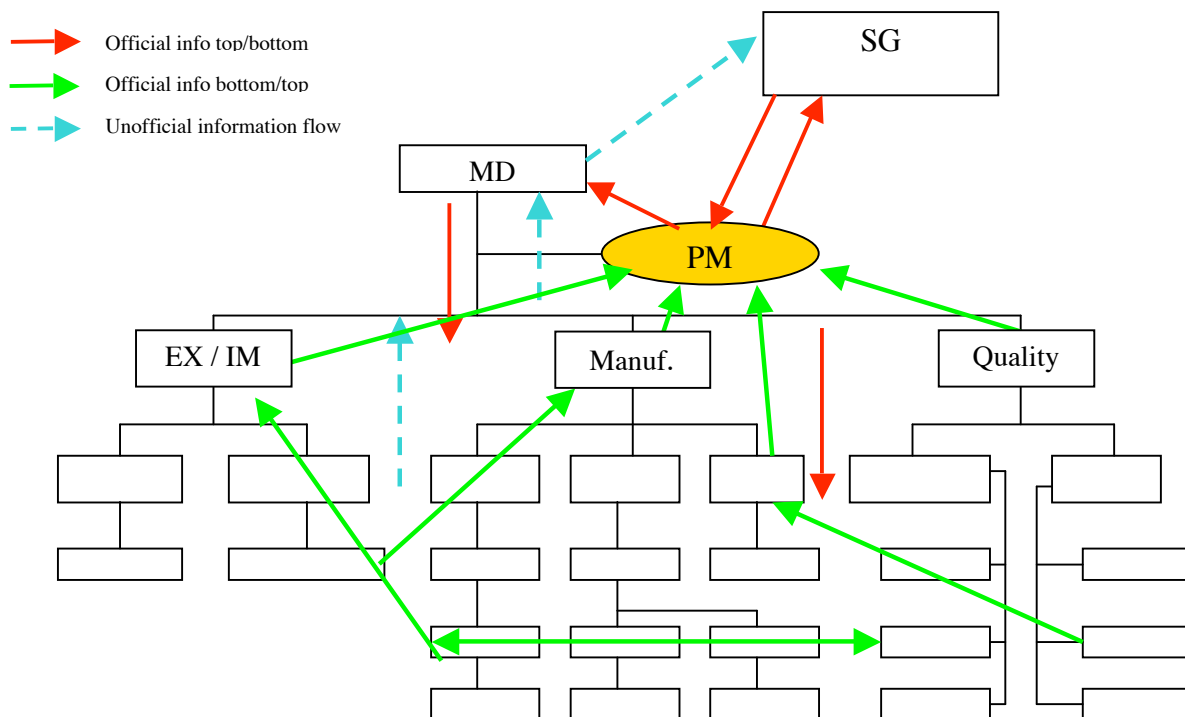


Figure 3: Communication lines in an outsourcing project

Source: Lene Becher Jensen

To solve this it is very helpful to find the unofficial information channels within the organisation: who socialises with whom, and therefore passes on news and information informally (green arrows). These informal channels can be used to ensure that information in fact flows and to ensure that employees have a better understanding of ongoing activities. This will also help

everyone to understand the need for them to do their job within the given timeframe in order for another activity to start somewhere else in the organisation.

Ownership, responsibility:

Personal ownership and responsibility is very difficult to muster in a hierarchical organisation, where everyone is obeying orders from his/her superior.

In a project it is crucial that every key area has its responsible manager, and therefore a project has to have specific and agreed rules regarding responsibility and ownership within the project organisation. These must be clearly differentiated from the line organisation, otherwise some people may feel they are being bypassed.

Education, manners and religion:

It is important to find a common point of reference, but as project partners from different parts of the world with different access to education, different manners and ways of living and sometimes different religions, we have different “world views” as our starting points. Because of these varying starting points, we also think and react differently.

We have to keep this in mind and get familiar with these “world views” in order to be able to understand and help each other. One way is to get together and identify the similarities and differences between all involved parties, to work on the differences, and to seek and share information about them.

It is not always possible to gather the total group of people if the project is across borders or in different areas of the world. But it is a good idea to gather the *key* persons in the different countries involved in the project in order to get familiar with each other’s environment, background, ways of living and manners.

Project organisation:

A project manager can deal with some of the differences in culture in the way he/she organises the project. One solution that worked in the LK example was to have people on the same level with the same work responsibilities in the two countries communicating with each other. Import coordinates with export, logistic with logistic, quality with quality etc..

This ensures at each of these interfaces the same background, education and technical languages. If it is not possible to meet personally due to long distances, it is a good idea to exchange pictures, talk on telephone or videoconference.

Communication:

Communication between the different groups in a project is always difficult. It is crucial to find the appropriate balance in meetings, information flow, telephone calls, net-meetings, etc.. Too much or too little will ruin everything.

But beware of the danger in the written word, which can give rise to countless possibilities for misunderstanding. First of all, we do not write in our mother tongue, and the way we express ourselves in writing is closely related to our education and culture. For example, in Denmark we write short, specific and without detail. In India it is common and expected to write the whole story, background, reason for the email and all detail. It is best to describe the total picture.

Also here we have to become familiar with each other’s style and to find the best balance. In the India-Denmark example, it was helpful for avoiding misunderstanding to follow a telephone conversation with a written note, and an email with a telephone conversation.

Contract and agreement:

Sometimes a time schedule and an activity list is not enough. One may need a written contract and a responsibility agreement as well. As long as one works within one’s own group, like LK-India /

LK-Denmark, it may not be so necessary, because there will be close communication and common understanding anyway. But as soon as sub-contracting is involved, it is absolutely necessary.

When working with Danish sub-contractors, it is common to have a business agreement and a delivery plan, and everyone will stick to that. In India you can have all these things, but if you do not follow-up frequently, it will not be taken as important.

Managing Cultural Diversity in International Projects – training programme

In recognition of the fact that project managers need to be equipped with intercultural competencies, a program “Managing Cultural Diversity in International Projects” was created for IPMA and has run annually for IPMA since 1992. The program helps participants utilise tools for assessing how culture influences project start-up, organisational structures, methods for coordination and communication, leadership and conflict management. The 3-day training program is highly interactive and uses the situations of the participants as the learning “play” ground. Participants, who come from different countries, industries and backgrounds, (1) learn – and experience - how and why multicultural projects *are* different, (2) apply tools for assessing the impact of culture on their projects, (3) develop multicultural project structures and methods that are appropriate in a given project context, (4) polish their personal intercultural communication skills. More and more of the case projects are outsourcing projects.

A number of tools that participants find particularly helpful are a special approach to stakeholder analysis which integrates cultural issues; the “organisational landscape” ® (see annex) and value exploration tools. The facilitated learning approach helps participants better to understand themselves as well as “the other” and the many cross-cultural interfaces within projects.

Seen from a trainer point of view, experience gained through these last 13 years points to two key reflections:

- (1) Whatever countries are involved in international projects, the issues have proven to be the same. Therefore it is important to be attentive to these issues: authority - responsibility – power; time; conflict; risk; communication; organisation; agreements and contracts. Depending on the constellation of countries involved, these issues play out in different ways.
- (2) Comprehending intellectually is not the same as being able to behave appropriately in a given situation – it takes practice!

Conclusion

Experience shows that offshoring projects between Europe and India can entail challenges which are often grounded in cultural differences, and which are not always foreseen ahead of time. The project manager has to be skilled at assessing the project situation and putting measures in place that adequately bridge the cultural gaps between European and Indian organisations and individuals. One way to prepare project managers is through an action learning based training programme. Rather than being thwarted by problems and frustration, the end goal is to tap into cultural differences as sources of strength and opportunity for the transnational outsourcing project.

Additional Reading

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Annex: Example of an “Organisational Landscape” ® from a specific project

