

Research Report

The Interplay of Cultural Intelligence and IT Project Management in IT Offshore Outsourcing

HOW A 'NEGOTIATED CULTURE' EMERGED IN THE CASE OF A CORE BANKING SYSTEM REENGINEERING PROJECT WITH INDIA

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Is the World Really Flat?

In a recently published international bestseller, Thomas Friedman suggested the world is 'flat' in the sense that globalization has leveled the competitive playing fields between industrial and emerging countries (Friedman 2005). One of the mentioned 'flatteners' is IT offshoring outsourcing, the sourcing of IT-related products and services from low cost countries such as India. At first sight it seems as if the world became really 'flat' and distance (e.g., geographic, temporal, historical, political, cultural, language) does no longer matter. However, in reality firms are having a hard time when it comes to IT offshoring due to various obstacles. Empirical research in this area has emphasized on the critical success factors such as coping with differences in culture or social behavior (Dibbern et al. 2008). The question is, how managers can reduce these "extra costs" and manage the risks of client-vendor distance,

in this case differences in cultural and social behavior? Our following case study reveals some insights to this question with implications for research and practice alike. This article extends the existing body of knowledge by focusing on the emergence of 'negotiated culture' and the interplay between cultural intelligence and IT project management.

Since 2007 we have been analyzing a large-scale IT project where a core banking system of a European bank had to be reengineered together with a contracted IT vendor from India. For a first version of the case study, please refer to (Beck, Gregory & Prifling 2008). Meanwhile we have conducted 30 additional interviews both in Germany and in India. In total, we have conducted 46 qualitative expert interviews including additional field observations in India at the end of November 2008.

The Emergence of 'Negotiated Culture'

For IT offshore project members with diverse socio-cultural backgrounds to interact effectively with each other, a cognitive understanding of the other person's behavior is needed. Apart from understanding the social and cultural background of the interaction partner (also called 'subjective' culture), the individual must also be able to carefully and delicately elicit the objective cultural elements of behavior. Culture is thereby defined as having subjective (rules, norms, roles, and values) and objective components (legal, economic, political, religious, and educational systems) (Ang and Inkpen 2008). For example, in our case study client project members needed to learn about the economic environment in India, mainly characterized by higher staff turnover rates than in Germany, a different approach to career development, and knowledge management, expressing itself in more frequent job rotations within the company,

and a less developed physical work environment. On the other hand, it was critical for the vendor staff to understand the client's business and functional environment. What at first hand does not seem to be important for cultural adaptation, proved to be critically for the success in our case analysis in a way that project members learned to tease out their interaction partner's culture-specific and non-cultural aspects of behavior. Besides cognitive understanding, the motivation for cross-cultural interaction was crucial. For example, in our case study the perceived non-fulfillment of expectations hampered the motivation of both client and vendor personnel to collaborate effectively. Client staff expected a higher level of service quality in the beginning while vendor staff expected a more open attitude of their German colleagues towards the sharing of critical functional and business knowledge. Over time, client and vendor staff learned about each other and developed a

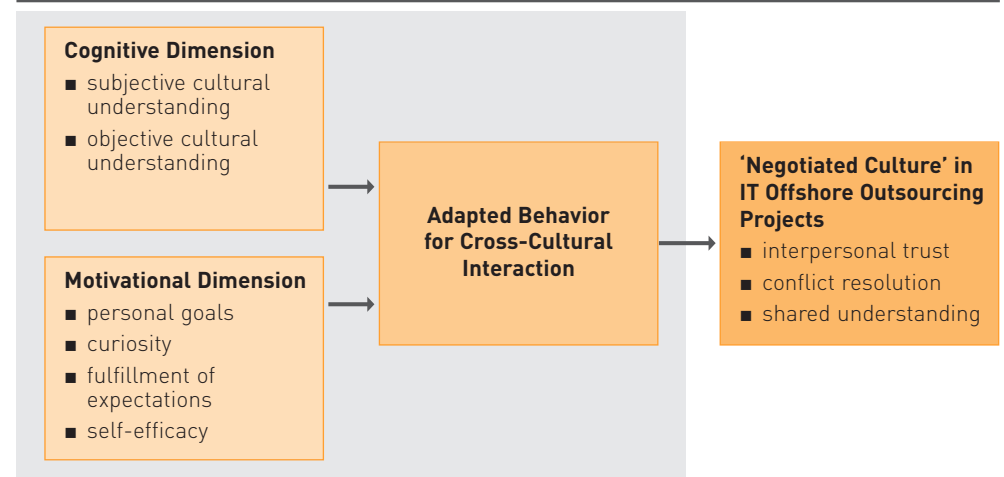


Figure 1: Cultural Intelligence and Negotiated Culture

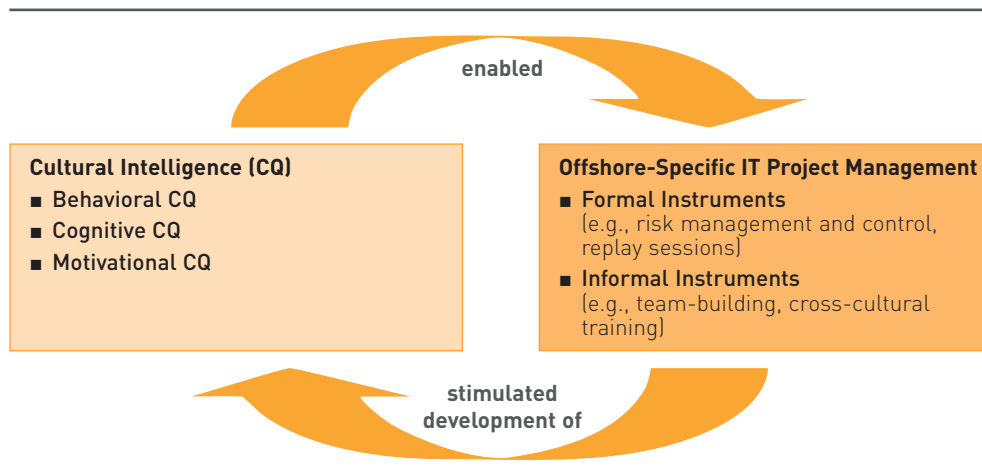


Figure 2: Interplay of Cultural Intelligence and IT Project Management

deeper cognitive understanding of each other's culture. Concerning the mutual expectations, some expectations were adjusted over time while others were increasingly fulfilled, giving way for the development of mutual trust and the effective resolution of conflicts.

Furthermore, our case analysis shows that the development of motivation and cognitive understanding were critical antecedents for cross-cultural adaptation. To give an example how adapted behavior for cross-cultural interaction manifested itself in the project, client project members learned to interpret hidden messages in indirect interpersonal communication, phrased questions adequately (i.e. avoid yes / no questions), and recognized the importance of respect in the Indian culture. On the other hand, vendor project members developed a deeper understanding of the risks in the project and adapted the intensity and frequency of tests before going

live with new software modules, learned to say "no" and valued open / frank communication where appropriate. Essentially, adaptation and learning from both client and vendor project members led to the emergence of a 'negotiated culture'. Negotiated culture can be defined as the sum of compromises and innovations that are negotiated around those differences in behaviors and expectations that are problematic in a given cross-cultural setting. Our case study shows that cultural intelligence from client and vendor project members enabled the emergence of negotiated culture, characterized by trust-based interpersonal relationships, shared understanding, and the effective resolution of conflicts. The summarizing model is depicted in figure 1.

The Interplay of Cultural Intelligence and IT Project Management

Finally, our case analysis provides evidence for the interplay between cultural intelligence and

IT project management, indicating that IT project managers can positively influence the emergence of negotiated culture and a shared understanding. In particular, the adapted use of formal project management techniques was driven by the cultural intelligence of the responsible project managers by stimulating the development of new ideas for offshore-specific techniques and methods. One example are the so-called 'replay sessions' where vendor project members were asked to present what they had understood on a given subject after a knowledge transfer session had been carried out previously by client members. On the other hand, informal project management and team building techniques, i.e. cross-cultural training, project manager coaching, and client-vendor project manager interaction, stimulated the accumulation of cultural intelligence by individual project members. Hence, cultural intelligence and project management reinforced each other. In this way a cycle of continuous improvement and learning was created to overcome the problems of cultural distance between client and vendor. More than just a single-loop learning process, the analysis also shows that joint reflection was important, both in interpersonal meetings as well as during cross-cultural workshops and site visits in the home country of the foreign partner. Hence, joint reflection helped to stimulate cultural understanding and cross-cultural adaptation. A summary of our findings is depicted in figure 2.

Summary

In summary, our case analysis delivers some answers to the posed research question of how

managers can reduce the above mentioned client extra costs in an IT offshore outsourcing project and manage the risks of client-vendor distance, in this case differences in socio-cultural behavior. Client and vendor firms alike need to foster and enable the development of cultural intelligence to stimulate a double-loop learning process where problems due to socio-cultural differences are continuously tackled and overcome, both by the means of individual adaptation as well as offshore-adapted use of IT project management techniques. In doing so, "hidden costs" in offshored IT projects can be reduced or avoided to fully benefit from a "flattened", global market.

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