



Offshoring satisfaction: The role of partnership credibility and cultural complementarity



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ABSTRACT

Suboptimal satisfaction levels often exist among offshoring partners. Studies suggest that cultural differences may play a role. Many, however, continue to offer surface-level culture-based associations, with little attention paid to underlying processes. Offshoring's recent focus on higher-order goals – such as innovation, flexibility, and strategic concerns – suggests the need for a comprehensive framework with a stronger understanding of relationships, how they are assessed, and how culture influences this process. Thus, we hope to inform the offshoring literature by developing an offshoring model that is firmly grounded in theory and rich enough to illustrate how, when, and why culture affects offshoring partnerships.

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“Culture represents the most significant challenge in offshoring deals...”

– *Vantage Offshoring Survey (2009:1)*

The recent focus on offshoring partnerships with higher-order goals – such as innovation (Lewin & Couto, 2007) and strategic flexibility (Farrell, 2005) – suggests that offshoring research needs a more comprehensive framework emphasizing the role of relationships (Vivek, Richey, & Dalela, 2009). The persistent association of cultural differences with relationship challenges recommends a stronger focus on the processes by which culture impacts offshoring.

Bunyaratavej, Doh, Hahn, Lewin, and Massini (2011) note that the management of external factors like culture is currently underexplored in offshoring research. As culture probably affects offshoring differently depending upon whether partnerships focus on higher- or lower-order goals, they suggest scholars adopt a finer-grained approach with respect to culture. We offer a

dynamic, process-based offshoring model that moves beyond merely suggesting “culture matters” by asking, “How, when and why does culture affect satisfaction in offshore partnerships?”

Research on offshoring – when firms disaggregate business functions across national borders (Lewin, Massini, & Peeters, 2009) – has motivated increasingly sophisticated views of the determinants and processes driving location decisions and performance. From an early emphasis on the roles of production costs, to transaction-costs, to country-level institutional traits, research currently emphasizes more tacit factors, such as governance capabilities and knowledge transfers. This evolution reflects similar changes in offshoring goals – from transactional stages emphasizing lowered costs, to stages stressing strategic advantages, and, recently to stages where offshoring creates transformative change.

By definition, the critical feature differentiating offshoring from outsourcing or subsidiary management is the act of crossing borders; this implies that cultural issues should be foundational to offshoring theory. Recent surveys suggest that culture may indeed relate to satisfaction, e.g. nearly 70% of clients rated cultural differences as a “moderate” to “very important” factor that might harm performance (Lewin, Perm-Ajchariyawong, Sappenfield, & Aird, 2009). Bunyaratavej et al. (2011) note that clients listed cultural fit as one of the two highest threats to offshoring success. Culture's ability to impact offshoring is also reflected in a large

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Table 1
Possible combinations of cultural distance, host-task fit, and cultural complementarity.

	Low CC	Neutral CC	High CC
Definition	When either (a) differences between two cultures, or (b) the absolute value of a host country cultural dimension, negatively affects task and/or relationship evaluation, causing friction and lowering offshoring satisfaction	When neither (a) differences between two cultures, or (b) the absolute value of a host country cultural dimension, significantly affects offshoring satisfaction	When either (a) differences between two cultures, or (b) the absolute value of a host country cultural dimension, positively affects task and/or relationship evaluation, with high levels of complementarity adding to offshoring satisfaction
Combinations			
Low CD between home and host countries	For example, Shenkar and Zeira (1992) found that similar cultural attributes had the potential to increase role ambiguity in international joint ventures; offshoring with frequent partner interaction and/or inter-firm teams may imply that low CD increases role ambiguity, and thus reduces CC	For a very codified, low-contact, low-technology offshoring contract (e.g., an order for hammers) Germany (66) and Venezuela (73.) and Sweden (5) and Norway (8) are not affected in satisfaction by their similarity in masculinity rankings (e.g., low CD on this dimension neither helps nor hurts)	Low cultural differences make it easier to work together; high compatibility, e.g., Kedia and Lahiri's (2007) example of improved services offshoring outcomes when CD is low Consistent with the brunt of the CD literature
High CD between home and host countries	High cultural differences cause cultural friction, e.g., Aron and Singh (2005) document high CD reducing a call center vendor's understanding of both client instructions and customer responses Consistent with the brunt of the CD literature	For a very codified, low-contact, low-technology offshoring contract (e.g., an order for hammers) Germany (66) and Sweden (5), and Venezuela (73) and Norway (8) are not affected in satisfaction by their differences in masculinity (e.g., high CD on this dimension neither helps nor hurts)	For example, Stahl et al.'s (2010) finding that cultural diversity improves outcomes related to creativity may mean that increased levels of CD improve task performance when client/vendor interaction is high and tasks are related to innovation
High fit between host culture and client goals	N/A	N/A	For example, both China (individualism = 20) and Canada (individualism = 80) may wish to out-source creative/innovation needs to the US (individualism = 91) due to links between individualism and creativity (e.g., Rinne et al., 2013)
Low fit between host culture and client goals	For example, neither China (individualism = 20) nor Canada (individualism = 80) wish to outsource creative/innovation tasks to Pakistan (individualism = 14) due to links between individualism and creativity (e.g., Rinne et al., 2013)	N/A	N/A

survey that found satisfaction rates had fallen significantly, with nearly 2/3 of firms not renewing contracts ([DiamondCluster, 2005](#)).

Still, calls for scholarly examinations of culture's consequences for offshoring have not been fully met. Focus is often on other issues (e.g., cost savings or access to personnel), and when culture is explicitly considered, there is often little theoretical grounding, or surface-level applications with little regard to underlying processes. For instance, the most common cultural lens used by offshoring scholars is based on the cultural distance (CD) ([Kogut & Singh, 1988](#)) between home and host countries, operationalized via coarse aggregations of linear differences on culture scales (for an important exception, see [Hahn & Bunyaratavej, 2010](#)). The inbuilt assumption that cultural differences are detrimental can lead to erroneous conclusions. Distance minimization is afforded primacy over fit considerations, and situations where CD may be helpful are ignored. Furthermore, many studies fail to examine how culture affects different types of offshoring projects, at different stages in the offshoring process. In doing so, such studies eschew exactly the kind of nuanced prescription that could account for the reality of heterogeneous, context-specific offshoring projects in favor of the blunt, one-size-fits-all mantra: "CD is bad; minimize it."

In contrast, we propose a Model of Offshore Satisfaction based upon the degree of *cultural complementarity* (CC) in offshoring partnerships. CC is a meaningfully different construct than CD, as it centers on the role of culture in relation to the *client's offshoring goals*. CC may be low or high regardless of whether CD is low or high and, depending on the task and strategic advantage, can hinge solely on the host culture's fit with client offshoring goals

irrespective of CD. To differentiate CC from CD and illustrate its greater comprehensiveness, we provide [Table 1](#).

The CC lens integrates insight from CD theory, with added insight from more expanded culture-based views (e.g., [Shenkar, 2001](#)). Under the CC perspective high levels of CD may indeed have detrimental effects, but it also allows for three key additional premises: (1) cultural issues are not limited to CD's emphasis on home–host distance, i.e., host cultures may complement task requirements irrespective of CD; (2) cultural difference can both detract from, and contribute to, client satisfaction levels; and (3) individual dimensions of culture can be more relevant to offshoring satisfaction than aggregate CD measures.

CC thus differs markedly to a CD lens which can discount those contextual factors that render distance less relevant, or even make distance beneficial. [Shenkar's \(2001\)](#) evolving friction-based lens similarly prompted scholars to narrow their CD focus to those differences that result in conflict. Recent conceptualizations even eschew positivist, quantitative approaches for a more social constructionist epistemology ([Shenkar, 2012](#); [Shenkar, Luo, & Yeheskel, 2008](#)). By developing a comprehensive process model, the CC perspective draws from both traditions to ask, "Does the host country culture, or the interaction of the home and host cultures, complement this particular type of offshoring partnership?"

For example, a recent meta-analysis suggested a trade-off between improved communications resulting from cultural similarity versus creativity gains arising from cultural diversity ([Stahl, Maznevski, Voigt, & Jonsen, 2010](#)). Consequently, advanced goals demanding creativity (e.g., offshoring projects for research and development) may discount prescriptions to minimize CD: greater diversity between home/host cultures may instead

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