The Impact of Cultural Differences on IT Nearshoring Risks from a German Perspective

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Abstract

Which nearshoring risks arise from cultural differences between German outsourcers and IT providers located in the nearshore environment? This paper focuses on the domain of IT nearshoring which is quite sparsely researched. Based on exploratory expert interviews from the IT service industry in six typical nearshoring countries from a German perspective (Bulgaria, Russia, Serbia, Lebanon, Tunisia, Turkey), we analyze which and how cultural differences influence typical outsourcing risks. We develop a causal model which derives outsourcing risk factors (such as insufficient formal communication, insufficient interaction, emotionally laden communication, and insufficiently open communication) from different cultural dimensions and links them to traditional outsourcing risk dimensions.

1. Introduction

Purchasing IT services from foreign countries plays an important role for European and American companies. While most research in IS focuses on offshoring to Asia, there exist substantial relocations to nearby countries (“nearshoring”) in the operational reality as well. The aim of this work is to highlight the topic of cultural differences in nearshoring relationships and to identify the resulting risks. Therefore it is important to clarify how far the well researched dimensions of risk of domestic IT outsourcing are transferable to IT nearshoring and how they are affected by differences in national culture between client and vendor. Hence, we formulate the following research question: What is the impact of cultural differences on IT outsourcing risks when transferring activities to the German nearshore environment?

For providing first answers, we conducted a series of expert interviews. Five interviewees were consultants from a German firm that is specialized in advising and managing IT nearshoring projects for German client companies. Furthermore, we interviewed six managers from different vendor companies in six typical nearshore countries (from a German perspective) that are involved in IT nearshore projects.

The remainder of this paper is structured as follows: Section 2 forms the conceptual basis while section 3 introduces the applied research approach and the context of the analysis before chapter 4 presents and analyzes the results. Finally, section 5 draws a conclusion.

2. Basics and model development

2.1. Nearshore IT outsourcing

“IT outsourcing” means the organizational relocation of particular IT functions as well as the responsibility for their execution to an external vendor [7]. In this context, “IT functions” summarizes all activities for providing IT services. “IT offshoring” or, more precisely, offshore IT outsourcing is defined by [7] as a special form of IT outsourcing “[...] where a company outsources its IT to one or more vendors located outside the first world, typically India or China“.. While outsourcing in general is done for many different reasons like achieving cost transparency, focusing on core competencies, achieving cost and quality advantages, getting access to superior resources etc., offshoring primarily targets on achieving cost advantages [7].
A systematic analysis of the history and meaning of the term “IT nearshoring” has been carried out by [4]. While the authors found this term to be used heterogeneously in literature, they could also identify several common criteria. The term nearshoring is basically used to denote an ‘anomaly’ of offshoring which means to underline the similarities and the differences to offshoring. This similarities and differences are summarized in the following table.

### Table 1. Similarities and differences between offshoring und nearshoring (based on [4] [12])

<table>
<thead>
<tr>
<th></th>
<th>Offshoring</th>
<th>Nearshoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relocation of special functions to the foreign country</td>
<td>huge</td>
<td>small</td>
</tr>
<tr>
<td>Target countries: countries with a low wage level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main reason for relocation: cost advantages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographical distance:</td>
<td>huge</td>
<td>small</td>
</tr>
<tr>
<td>Cultural differences:</td>
<td>huge</td>
<td>rather small</td>
</tr>
<tr>
<td>Time zone differences:</td>
<td>huge</td>
<td>marginal or nonexistent</td>
</tr>
<tr>
<td>Language barrier:</td>
<td>high</td>
<td>betimes low</td>
</tr>
<tr>
<td>Costs for traveling/transportation:</td>
<td>high</td>
<td>comparatively low</td>
</tr>
</tbody>
</table>

A special advantage of nearshoring in comparison with offshoring is down to lower coordination efforts for scheduling, pre-arrangement, and management of the projects. This circumstance makes the relocation of IT attractive not only for large but also for smaller companies [12]. For this reason, the group of client firms active in nearshoring tends to be different (especially regarding firm size) to those typically involved in offshoring.

For the rest of this paper, we will use the term IT nearshoring as a special form of IT outsourcing, namely as the relocation of IT to a nearby foreign country in order to realize labor cost advantages.

In the following sections, we develop the research model which guides our exploratory research. Basically, it argues that outsourcing risk (conceptualized by different dimensions; see section 2.2) is affected by (national) cultural differences (conceptualized by different dimensions; see section 2.3) between vendor and client firm in nearshoring relationships.

### 2.2. Dimensions of IT outsourcing risks

Outsourcing risks have been of major research interest for many years. The literature has primarily investigated the risk from the client firm’s perspective [7]. In the following, we apply client-side conceptualizations of outsourcing risk provided by [2, 13, 21, 25, 30]. Since we treat nearshoring as a particular type of outsourcing, all risks defined in the following are relevant in nearshoring, as well.

When entering an outsourcing relationship and receiving services from a provider, the service delivered can be poor in terms of time for delivery and level of quality, leading to time risk and quality risk [2, 23].

Further, a common problem is cost escalation [9, 13, 25]. Usually, this results from poor contracts and may be caused both by higher costs for delivery (e.g. the provider charges for additional services, which have not been anticipated) and by higher client-side costs for managing the outsourcing relationship. Thus, we differentiate between production cost risk and transaction cost risk.

Another risk facet, which can cause the previous performance risks (time and quality) and cost risks, is the risk of control loss (control risk) [21]. The client firm often is not able to sufficiently monitor project progress and activities on the provider side in order to control the process and result of the service delivered [6]. As a consequence, moral hazard can occur and lacking competencies and resources are not uncovered before service debasement occurs [30].

Many risks, found to be particularly relevant in software development outsourcing and offshoring, are related to the provider firm’s staff. This personnel risk embraces poor competencies and high turn-over of employees as well as inter-personal conflicts [21, 25].

The literature debates further important and rather strategic risks coming along with outsourcing, but, since these are resulting from the strategic decision to outsource and not from the concrete relationship and the provider’s behavior, they are not covered by our model. Among those are the strategic risks of “loss of organizational competency” [2], “loss of strategic flexibility” [14] “lock-in” [2], and the “eternal triangle” [9].

### 2.3. Cultural differences on a national level

When conceptualizing (national) culture, the most popular conceptualizations share one commonality: they apply human values for analyzing cultural differences between nations. In this context, a human value is “an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence” [34]. Popular examples for concepts of national culture that rely on human values include [37] and [40]. However, the most popular concept has been given by Hofstede [16] who defined culture as “collective programming of the mind” which separates the members of a group from those of another group. Based on theoretical and empirical analyses of value systems of 50 countries,
the author specified four value dimensions (uncertainty avoidance, collectivism/individualism, power distance, and masculinity/femininity) [16] and a fifth one (long/short term orientation) some years later [17]. Those dimensions also served as a basis for the more recent work of House [18] who criticized Hofstede for not differentiating cultural practices (“what is”) from cultural values (“what should be”). For this reason and also because the authors found that the dimensions of [16] may not be up to date anymore in current times of rising globalization, they refined the original dimensions. Their work [18] resulted in eight measurable and sufficiently disjoint dimensions (see Table 2 for their definitions) which will also be applied in our work. Out of these dimensions, Uncertainty Avoidance (UA), Institutional and In-group Collectivism (I/C), Power Distance (PD), Gender Egalitarianism (GE), and Assertiveness (AS) have been derived from [16]. Future Orientation (FO) and Human Orientation (HO) have their origins in [22] and Performance Orientation (PO) refers to [24].

Table 2. Definitions of the cultural dimensions of [18]

<table>
<thead>
<tr>
<th>Cultural Dimension</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Uncertainty Avoidance (UA)</td>
<td>Degree to which the individual feels “comfortable” in unstructured, new, unknown situations; degree to which a community tries to control such situations</td>
</tr>
<tr>
<td>Institutional Collectivism and In-group Collectivism (I/C)</td>
<td>Degree to which a community expects the self-focusing of its individuals instead of their active integration into a group or into an institutional framework</td>
</tr>
<tr>
<td>Assertiveness (AS)</td>
<td>Degree to which the individuals are hard and dominant in social interactions</td>
</tr>
<tr>
<td>Future Orientation (FO)</td>
<td>Degree aspect of the individualization of needs as well as aspects of priority, feeling, polychronic (“many things at once”) vs. monochromic time perception and task handling</td>
</tr>
<tr>
<td>Human Orientation (HO)</td>
<td>Degree to which it is expected that individuals must be fair, friendly and tolerant to each other and support each other</td>
</tr>
<tr>
<td>Performance Orientation (PO)</td>
<td>‘Need for achievement’</td>
</tr>
<tr>
<td>Power Distance (PD)</td>
<td>Degree to which less powerful individuals in a community or organization accept this asymmetric allocation of power relative to more powerful individuals</td>
</tr>
<tr>
<td>Gender Egalitarianism (GE)</td>
<td>Degree of gender equality</td>
</tr>
</tbody>
</table>

High Uncertainty Avoidance (UA) is characterized by frequent documentation, resistance to change, a low tolerance for breaking rules, and low risk taking [18]. Moreover, high UA leads to people being less open-minded in searching for information and in introducing innovations [41]. Furthermore, [11] link high UA with precise and detailed feedback, and [5] declare that high UA is associated with people seeking to reduce personal risk.

High Collectivism refers to less independent employees and to societies that focus rather on relational interaction than on tasks and that emphasize group maintenance activities [18]. [29] bring up the importance of collaboration success and [32] a spirit of camaraderie and the supremacy of collective interests.

High Assertiveness (AS) is reflected by a low value of modesty and tenderness, by direct speech, and by emphasizing seniority and experience over results [18]. Moreover, it is assumed that high AS results in self-criticism [1] [39], perfectionism [39], and open debates [27].

In future-oriented societies, employees are more intrinsically motivated, long-term success is important, and traditionalism is low [18]. “Here and now” is unimportant in comparison with the future when FO is high [27].

If there is a high Human Orientation (HO), needs for belonging and affiliation motivate people, and values like altruism, benevolence, and kindness are important. In contrast to that, power and material possession have low priority [18]. Further on, [27] state that people in human-oriented societies prefer to do business with those they know.

With regard to Performance Orientation (PO), performance appraisal systems emphasize integrity and cooperative spirit, feedback and appraisal assume to be judgmental, and people have a high sense of urgency, if PO is high [18]. If deadlines are taken very seriously, this will also indicate high PO [27]. Unequal information sharing, different involvement and opportunities, restricted upward mobility, and corruption are typical indications of a large Power Distance (PD) [18]. Other researchers refer to limited choices [11] and importance of rank and class [27]. Further, large PD is associated with a low tendency to maintain a philosophy of equal rights for all without acquiescence to those in power [5]. Moreover, in large PD societies, superiors make decisions without consulting with subordinates who in turn are fearful about disagreeing with their superiors [26].

Finally, revealing indicators for low Gender Egalitarianism (GE), [18] point to a lower level of education of females relative to males as well as to the circumstance that fewer women are in position of authority.

Cultural dimensions like the ones listed in Table 2 are very popular in social research but have also been applied frequently in different areas of the IS discipline like IT Adoption and Diffusion (e.g. [15], [28]), IT Usage and Outcomes (e.g. [3], [19]), or IS Development (e.g. [20], [38]). Further on, cultural dimensions have been applied in the context of IT offshoring as well. For instance, [8] found a high level of Collectivism on the vendor side to be critical for the success of offshoring projects as it is difficult
to get a collectivist to “openly communicate and exchange tacit knowledge with [...] client personnel”. Beyond, [8] as well as [31] mention the dimension of Power Distance in the context of IT offshoring. According to [8], high PD on the vendor side goes along with a “tendency to say yes” and an “obedience to and dependence on rules and obligations”, resulting in an increased effort for specification, knowledge transfer, and vendor control on the client side. [31] emphasize the relevance of open discussions in IT offshoring projects for determining requirements, potential problems, and project deadlines. Such open discussions however are problematical in high PD societies as “employees might be reluctant to question or freely discuss opinions with superiors” [31]. Communication with a superior could moreover be difficult because of a slight extent of Gender Egalitarianism (GE) if the superior is of the opposite sex. Finally, [31] bring up that different levels of Future Orientation (FO) between client and vendor could “lead to distinctly different attitudes toward deadlines and pace of work”.

2.4. Baseline model

In our baseline model (see Figure 1), we hypothesize that cultural differences along the eight dimensions [18] (shown by Table 1) act as ‘soft’ risk factors, driving the risks of nearshoring that we derived from the existing literature, i.e., they increase the probability of unwanted events (different risk dimensions such as cost escalation, loss of control etc.) compared to domestic projects. Our exploratory research aims at identifying how cultural differences are linked with the different risk dimensions, i.e. which mediators act as the true risk factors between the cultural dimensions and nearshoring risks. For instance, high uncertainty avoidance (cultural dimension) of the employees at the nearshoring partner firm might lead to less open communication (risk factor) which again might lead to a loss of control and quality problems (risk dimensions).

By uncovering these risk factors, we intend to structure the relationships and causalities in order to develop a compound model of nearshoring risks which might serve as a basis for developing and structuring management actions in nearshoring relationships.

3. Research approach

In order to explore our baseline model and to derive arguments for causal linkages between the cultural dimensions and the risk dimensions which in turn lead to an explicat model, we conducted interviews with experts involved in the nearshoring business (from a German perspective).

The selection of the information sources followed the ‘information-oriented selection, maximum variation’ principle [10]. This principle recommends choosing experts who on the one hand are knowledgeable about and experienced in the research context (in this case: nearshoring) and who on the other hand provide different and multiple perspectives (in this case: countries/cultures). This increases the potential for a large number of exploratory findings, strengthens the relative objectiveness, and enables a wider collection of differences in the nearshoring context [10].

To extract the implicit knowledge about the cultural differences and their impacts on nearshoring risks from the experts, we applied the laddering

Figure 1. Baseline model
approach. Reynolds and Gutman [33] define laddering as in-depth expert interviews which try to uncover the interviewee’s mental structure of association chains (“ladders”). In accordance with [35], we specified a small set of opening standard questions to be applied in all interviews. As the causal relationships between the cultural dimensions and the outsourcing risks were unknown before but should be identified within the interviews (exploratory character), the standard questions cannot and do not pursue the goal to completely comprehend the research problem. These questions simply allow the interviewer to move into various directions and thus to start a discussion which is a necessary precondition for the actual laddering. Therefore, the standard questions serve as a basis for the subsequent laddering [35].

The laddering by itself, in our case, aims at identifying risk factors for IT nearshoring, i.e. uncovering the complete network of all causal relationships between the cultural dimensions and the outsourcing risks. Following [35], we employed three kinds of questions for this purpose:

- **Downwards laddering**: Questions that helped us to better understand a cultural dimension/aspect that was mentioned by an interviewee (e.g. How do you recognize that you are future oriented? Can you tell me examples?)
- **Sideways laddering**: Questions that helped us to identify differences between the client and the vendor countries (e.g. Is this aspect you mentioned more pronounced in your country in comparison to Germany?)
- **Upwards laddering**: Questions that helped us to reveal the relation between a (cultural) aspect mentioned by the interviewee and outsourcing risks (e.g. Which problems can rise as a consequence of the aspect you mentioned? What are the consequences of the aspect you mentioned with regard to the outsourcing project?)

With the help of these questions, causal chains from the culture level to the (nearshoring) risk level were drawn step by step.

Our interviews were structured based on the concepts of our baseline model (see Figure 1). In a first step, the eight cultural dimensions of [14] were separately presented and explained to the interviewees in detail. Then, the previously set up standard questions concerning each cultural dimension were proposed to start a discussion respectively the laddering. The laddering was further supported by the presentation of our baseline model to make it easier for the interviewees to establish a connection between the cultural dimensions/differences and their effect on the outsourcing risks.

Based on the received interview transcripts, the third author introduced a qualitative content analysis (using ATLAS.ti²). She first of all determined all the latent variables of our resulting refined model (see Figure 2) on the different abstraction levels (level 1 = attributes = cultural dimensions/differences; level 2 = consequences = risk factors; level 3 = values = nearshoring risks) and assigned key elements (quotations) to them [33]. Afterwards, she extracted causal relationships by coding every association identified within the interview transcripts. Concatenating them leads to reverse engineering of the ladders the interviewees have (sometimes unknowingly) in mind [35]. Within both steps, the determination of the latent variables and the extraction of causal relationships, the relevance of the employed quotations was validated by the first and the second author.

Our analysis focuses on IT nearshoring of German companies. The data were gathered by 11 expert interviews ranging from 60 to 90 minutes. The transcripts were in average 15 pages long (ranging from 10 pages to 22 pages). Five of these interviews were face-to-face interviews conducted with consultants of a German consulting company which is specialized in mentoring and managing nearshoring projects (software development) for German client firms. The other six interviews were Skype-based interviews with managers of IT nearshoring projects of different IT service firms in six – from a German perspective – nearshore countries. The German consulting company mentioned above acts as an intermediary between these vendor companies and German client firms.

All the interviews were completely recorded and transcribed. Table 3 gives an overview about the interview partners and their experiences with nearshoring and other countries respectively cultures. For the remainder of this paper, the statements of the interview partners are referenced by the accordant ID.

By the explained interview approach, we were able to analyze the cultural differences between client and vendor firms and their subsequent effect on IT nearshoring risks based on the opinions of both German consultants and foreign managers on vendor side.

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¹ For example, [35] assess laddering to be particularly suitable for analyzing and comparing organizations’ culture.


³ The geographical boundary of the IT nearshore region from a German perspective was drawn based on [36] and [4].
Table 3. Interview partners

<table>
<thead>
<tr>
<th>ID</th>
<th>Native country</th>
<th>Experiences with nearshoring</th>
<th>Interview in</th>
<th>Experiences with the following countries/cultures</th>
</tr>
</thead>
<tbody>
<tr>
<td>GER1</td>
<td>Germany</td>
<td>9 years</td>
<td>German</td>
<td>Bulgaria, Croatia, Serbia, Ukraine, Poland, Czech Rep., Hungary, Turkey, Lebanon, Egypt, Tunisia, Morocco</td>
</tr>
<tr>
<td>GER2</td>
<td>Germany</td>
<td>5 years</td>
<td>German</td>
<td>Bulgaria, Serbia, Croatia, Bosnia, Rumania, Lebanon</td>
</tr>
<tr>
<td>GER3</td>
<td>Germany</td>
<td>3 years</td>
<td>German</td>
<td>Eastern Europe</td>
</tr>
<tr>
<td>GER4</td>
<td>Germany</td>
<td>N/A</td>
<td>German</td>
<td>Croatia, Serbia, Poland</td>
</tr>
<tr>
<td>GER5</td>
<td>Germany</td>
<td>2 months</td>
<td>German</td>
<td>Russia, Middle Europe</td>
</tr>
<tr>
<td>BUL</td>
<td>Bulgaria</td>
<td>4 years</td>
<td>German</td>
<td>Bulgaria, Middle Europe</td>
</tr>
<tr>
<td>RUS</td>
<td>Russia</td>
<td>2.5 months</td>
<td>German</td>
<td>Russia, Middle Europe</td>
</tr>
<tr>
<td>SER</td>
<td>Serbia</td>
<td>6 years</td>
<td>English</td>
<td>Serbia, Middle Europe</td>
</tr>
<tr>
<td>LEB</td>
<td>Lebanon</td>
<td>15 years</td>
<td>English</td>
<td>Lebanon, Arabian countries, Middle Europe</td>
</tr>
<tr>
<td>TUN</td>
<td>Tunisia</td>
<td>10 years</td>
<td>German</td>
<td>Tunisia, Germany</td>
</tr>
<tr>
<td>TUR</td>
<td>Turkey</td>
<td>N/A</td>
<td>German</td>
<td>Romania, Croatia, Turkey, Germany, Central Asia</td>
</tr>
</tbody>
</table>

4. Results: Impact of cultural differences on nearshoring risks

Based on the interviews conducted, the following three major mediators, driven by cultural differences and driving IT nearshoring risks, can be identified:

- Communication: The task to be accomplished will not be understood either on the side of the client or on the side of the provider if there is bad communication (misunderstandings [GER1, GER2, BUL, SER, LEB, TUN], too low precision/degree of detail [GER1, GER2, BUL, LEB, TUN], incompleteness [GER5]) and thus will not be executed appropriately. The opinion about what should be communicated and how frequently and in which extent differs strongly between the cultures observed. Moreover, the client must be very responsive regarding inquiries from the provider firm during the project [GER3, SER, LEB].

- Coordination: The task to be accomplished is understood but will not be executed adequately if there is a lack of management competencies on the provider side. Culturally affected management styles that are not compatible with international projects lead to inefficient delegation of tasks [GER2, GER3, RUS], deficient control [GER2, GER3, GER5], bad team motivation [RUS], and process report faults [GER1, GER2, GER5].

- Cooperation/Alignment: The task to be accomplished is understood but will not be executed adequately if coordination between client and provider is missing. Alignment of aims and project plans [GER1] as well as mutual willingness for cooperating with people belonging to the other culture are absent [GER1, BUL, SER].

In the following, we extract the causal mechanisms of how these problems result from cultural differences and how they affect the nearshoring project from the “ladders” of the interviews. This procedure results in the definition of the middle connection layer of our research model proposed above. Due to space restrictions we will focus only on the first aspect (communication) during the subsequent analysis.

Communication between the project partners can be separated into formal and informal communication. Formal communication comprises primarily the contract as well as job definitions, project reports, and documentations. The quality of formal communication is affected by the parameters of completeness, structuredness, degree of detail, and understandability of the documents as well as the frequency of transmission.

The perception about how far something must be formalized and documented differs between various cultures so that the communicating person is not necessarily aware that the structure and the content of communication items may not fit with the expectations of the communication partner [GER5].

Informal communication comprises situational interactions within the project and takes mostly place in a dialog (face-to-face or IT-supported). The aim is answering questions, exchange of different meanings and views, reaching consensus and coordination, and amendments of task fulfillment. The quality of informal communication decreases due to missing interaction, missing directness, and exceeding emotionality. In a nearshoring project, not only the interface between the client and the provider is important, but also interaction within both companies.

Usually, informal communication dominates in the examined nearshoring countries [GER1, GER3, GER5]. Formal communication often is unknowingly avoided [GER1, GER2, GER5] and the effectiveness of formal communication is appreciated to a lesser degree [GER1, GER3, GER5] as individuals from the cultural regions analyzed perceive informal communication to be more effective and efficient [GER3, GER5, TUN]:

GER5: “It’s about the documents. Most things are not as precise as we want it, and we do not get complete information. These guys [in Russia] are just not aware of that it is not complete because they just think ‘I’ve accomplished my task, I’m ready now’. We noticed that they rely more on informal than on formal communication. But collaborating remotely requires much more formal than informal communication. In Russia, we only get complete
information when we ask for it explicitly and multiple times.”

TUN: “Yes, we are less formalized at the communication interface towards the client. [...] We are less concerned with orderliness and maintenance of records. This is too expensive for us. Thus, we have less documentation. [...] All of us know that Germans specify everything very precisely. There is a rule or guideline for everything. This is different from us. Moreover, we are more tolerant towards breaking rules.”

This phenomenon comes along with a lower attitude against possible risks that arise from lacking documentation [GER5, RUS, SER]:

GER: “My partner [in Russia] has a much higher risk appetite and he documents and communicates much less – in a formal way. He shows deficiencies in planning and control because he is a child of the 90s: making business in what makes money – selling fridges today, selling corn flakes tomorrow. By contrast, I try to work in a very structured way, plan in long-term, and ask questions about the firm’s assumed situation in about five years. These are issues my partner is not really used to think about.”

SER: “Examples are visible in everyday work, for instance when a company does not have the written documentation for a very important part of the project. [...] Generally, Serbian companies are much looser than their German counterparts are. Of course, there are cultural and historical differences that influence this difference in behavior. [...] The Serbian companies had to adjust to the rules of the western markets meaning that no approximate timing, documentation, and anything else approximate is allowed. By contrast, our company did not have that problem. We are not relying on words, ‘verba volant, scripta manent’ as the Latins would say.”

Thus, this lax and informal nature which can be attributed to lower Uncertainty Avoidance increases the risk of losing control and requires the external management to very strictly monitor the communication with the provider (resulting in increasing transaction costs) [GER2, GER3, GER5]:

GER: “From Russia I have never received a document that met my expectations. Documents are incomplete, insufficiently structured, and sometimes do not even tackle the question posed by us. So, I need to revise the file before forwarding it to the client firm. [...] We even thought about placing a German colleague into the Russian service firm in order to ensure the quality of the delivered documents and reports. In addition, since he or she would be onsite, controlling the results and work procedures could be greatly controlled and corrected.”

GER: “They [Eastern Europeans] do not work as structured as we do. Thus, their work is not traceable by us. However, we have not experienced a disaster yet. Somehow the results appear as requested. Nevertheless, for us Germans it is very uncomfortable because we have to chatter to the very end.”

In the following, the dimensions of informal communication are described as well as their cultural drivers:

- Interactivity: Missing interactivity is problematic within the hierarchy of the provider in particular. Missing feedback and lacking communication of problems from the team to the manager causes huge damage [GER1, GER4, GER5, SER, LEB, TUR]. Problems can also arise between the partner companies. Both companies must react shortly on requests of the other side in order to guarantee smooth project handling [LEB, GER2, GER3, SER]. Cultural differences lead to delay [GER1, GER2, GER4] or even failure [GER1]. Knowledge asymmetries between team members must be removed by communication. Interruptions resulting from cultural differences include missing willingness to share knowledge and to accept another ones knowledge [GER3, SER, TUN] as well as the exclusion of specific groups (women, foreign persons) [GER1, GER3, TUR].

- Cultural drivers of interactivity: Effective interaction depends on how far colleagues feel to belong together and to be equivalent to others. The feeling that oneself is superior compared to others arises from the hierarchical way of thinking and fearing situations through authorities [GER1, RUS, SER, LEB, TUR] as well as from low acceptance of and respect to others (conservatism, prejudice, proudfness, arrogance etc.) [GER1, GER2, BUL]. Missing Collectivism – focusing on own aims instead of team spirit – as well as low Human Orientation reduce interactive information exchange [RUS, SER]. This in turn leads to delays, poor quality, and higher production costs [BUL, RUS, SER, LEB]. The specifications and requirements will not be understood and clarified through demands so that unnecessary mistakes will arise what again results in rectification efforts [LEB]. Further, little interaction between the IT specialists can lead to

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4 Due to space restrictions, we did not provide more direct citations of the interviewees.
idle capacities and a problematic lack of knowledge [GER3, GER4, BUL].

- Directness: Direct communication of problems/mistakes is the precondition for achieving a uniform understanding of the quality of the project results [SER]. In the other case, more control is needed (resulting in increasing transaction costs). Communication quality will be low if indirect questions or nonspecific general statements are used, if major issues are kept secret, or if wrong information is knowingly communicated [GER3, GER4, RUS, TUR]. Unclear articulation (‘to beat around the bush’), more acceptance of formal requirements, civility, and appropriate choice of words, as well as an accurate description of own opinions/questions/criticisms are often determined by culture and represent high potential for misunderstanding [GER2, GER3, GER5, BUL, RUS, SER, TUN]. Persons who prefer these indirect kinds of communication are also resistant against direct contacting by others [GER2, BUL, RUS]. Finally, hiding major project-relevant information [GER3, GER4, RUS, TUR] to save face or to avoid a conflict [GER3, SER] is a severe problem.

- Cultural drivers of directness: The directness of the communication is essentially affected by Assertiveness. Both a very low (self-underestimation, sensitiveness against criticism) and a very high (self-overestimation) occurrence of Assertiveness have negative effects on directness. In the first case, individuals try to hide own mistakes or to deprive the differing opinion of the opposite to avoid direct conflicts [GER3, RUS, TUR]. In the other case, directness is endangered because of the intensive self-overestimation and because of the disability to admit own weaknesses [LEB]. Moreover, lacking sense of responsibility and lacking autonomy (high Collectivism) are important because they avoid that the parties get involved – for example suggesting a better way of solving a problem or demonstrating disagreement – and take responsibility for arising problems [GER2, GER4].

- Emotionality: The degree of expressing dissatisfaction (anger) during meetings and negotiations varies between different cultural areas [GER2, GER5]. Destructive emotions are seen as very problematic as they can create conflicts and result in coordination problems instead of objective discussions [GER1, GER2, GER5] and, even worse, they can sustainably disrupt communication in the long term [GER1, GER5, BUL, TUN].

- Cultural drivers of emotionality: Negative emotional statements (anger, to be in a snit, ignorance, arrogance) [GER1, GER2] are mainly related with low tolerance towards foreign cultures (aspect of Human Orientation) [GER1, RUS]. Emotions will particularly arise if one partner is more direct as the other (Assertiveness) [GER2, GER5].

Figure 2 visualizes and summarizes the causalities between cultural dimensions, risk factors (only communication), and risk dimensions that have been extracted by consolidating the causality ladders of the interviews.

5. Conclusion

This paper makes a first attempt to explore and systematize the impact of cultural differences on IT
nearsourcing risks. Based on interviews with individuals involved in different nearshoring relationships, causalities between cultural facets, risk factors, and risk dimensions were identified. We enrich the understanding of culture-based nearshoring risks by extracting causal chains from the basic culture dimension to the type of outsourcing risk (such as: The particular aspect of intolerance towards foreigners (as an aspect of Human Orientation) leads to both insufficient and emotionally laden informal communication which in turn, among others, affects the risk of the nearshored task not being accomplished in time, cf. Figure 2). Thus, the overall causal model, shown in Figure 2, could be distilled from consolidating all ladders gathered.

Obviously, our approach shows limitations that are highlighted in the following:

- Up to now, we did not conduct interviews on the client side but did only interview the consultants in Germany who act as intermediaries between the nearshore IT service firm and the German client firm. This weakens the meaningfulness of our results since the consulting firm represents multiple clients.
- The IT service industry primarily consists of young and small firms (on average 20-40 employees) [GER1, GER2, BUL, RUS] which have low budgets and low revenues (leading to higher Uncertainty Avoidance) but employ young and dynamic staff with international experiences and cultural tolerance. These industry-specific demographics might also explain some of the relationships above although they are not culture-based.
- Cultural characteristics of the various nearshore countries are not always true for the IT services industry of the same country. Independent from the culture of each country, an IT culture has evolved which is often quite comparable between countries that are in general culturally very different. Such an IT culture is shaped by high degrees of collaboration in the transboundary IT nearshoring business. Thus, the nearshoring business itself leads to an assimilation of cultural characteristics within its industry.
- IT people share commonalities: Software development projects are structurally quite similar in all countries mentioned. Therefore, the individuals executing the tasks (e.g. programmers) will be employed based on similar criteria such as high level education [TUN], ambition, competences [LEB], mathematical, structured intellectual power [RUS], objectiveness [TUN, BUL], or professional behavior [LEB]. These specifications reduce cultural disparities between different countries.

The latter two issues show that the concept of “cultural difference” in IT nearshoring represents a highly dynamic phenomenon which makes it difficult but exciting to be further researched in the future.

In a next step, we will enlarge the number of interviews to (a) confirm the founded causalities and to (b) trickle them down to the particular cultural differences of the “IT culture”. We will control for different firm characteristics such as size and age which might have an impact on culture respectively lead to the organizational culture or (IT) industry culture superseding the relevance of national culture.

Nevertheless, even the current model enables a quantitative validation of the different causal relationships by conducting a multi-country survey in the IT nearshoring business. As a final result, we intend to provide an integrated and consistent model of culture-driven nearshoring risks which also can support nearshoring managers to evaluate potential risks of planned outsourcing projects to different countries/cultures in a better and more accurate way as well as to make recommendations for the control and design of nearshoring governance.

### 6. References