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Culture and the Impact on Customer Service: Considerations for Offshoring to India

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Abstract **-** This paper contributes to the discussion about offshoring of customer service functions in international business research. Offshoring and offshore outsourcing have gained popularity mainly because of economics. Many organizations including the McKinsey Global Institute and the Gartner Group have developed checklists for companies to use in deciding if and where to offshore. These lists include the need to consider cost, availability of skills, environment, market potential, risk profile, and quality of infrastructure (Farrell, 2006). The discussion of culture is not prominent in any of the lists. This may not be an issue with functions that do not require customer interaction, but culture has been shown to have an impact on success in doing business globally. A question that companies need to consider is what is the impact of culture on customer service? An examination of the possible impact for offshoring to India is explored and indicates the cultural distance between the United States and India can have an impact on customer service.

Keywords **–** Offshoring, Customer Service, Culture

Relevance to Marketing Educators, Researchers and/or Practitioners – This paper provides implications of failing to fully understand cultural differences and distance between countries when making decisions to offshore marketing activities to foreign locations. Cultural compatibility is an essential factor to ensure successful offshore of customer service function.

Introduction

Doing business in an era of increasing globalization and cost considerations has lead many companies to consider offshoring and offshore outsourcing. Offshoring can be defined as "the transnational relocation or dispersion of service related activities that had previously been performed in the home country" (Doh et al.,

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2009, p. 926). Lohr (2004) defined offshoring and offshore outsourcing as “the migration of jobs, ranging from call center operators to computer programmers, to lower-cost countries like China and India” (p. 25). Although offshoring has gained popularity, its advantages and disadvantages have been the subject of many studies. “A McKinsey Global Institute study stated that, ‘every dollar of corporate spending shifted offshore by an American firm – mostly, now to India – generates $1.13 in new wealth for America’s economy” (Weiss, 2006: 50). However another report by Forrester Research, “stated that US workers may lose $120 billion in wages by 2015…” (Weiss, 2006, p. 50). Mandel (2007) reports, “whenever critics of globalization complain about the loss of American jobs to low-cost countries such as China and India, supporters point to the powerful performance of the U.S. economy” (p. 29). Mandel, however, finds that the numbers may need to be reevaluated. These differences in research findings indicate that an offshore outsourcing decision is not a slam-dunk in economic returns and companies need to make an informed choice.

An informed choice requires companies that are considering moving operations offshore to evaluate many factors in addition to costs. These factors include; availability of skills, environment, market potential, risk profile, and quality of infrastructure (Farrell, 2006). However, when most of the research in the area of doing business globally focuses on the need to consider culture, one factor that appears to be missing in making the offshore outsourcing decision is cultural compatibility. The issue of cultural compatibility begets the question; what is the impact of culture on customer service?

In order to provide a framework for answering this question, the common factors that are considered in making the decision to offshore customer service are explored. The issue of culture, customer service and the issues associated with offshoring customer service are discussed with an emphasis on India. Implications and recommendations are then made to guide the decision of offshoring customer service.

Offshore Outsourcing Decision

Offshore outsourcing means having another company in an offshore location perform a specific function, while offshoring means the company itself continues to do the function but does it offshore. The basic drivers and desired outcomes of offshoring and offshore outsourcing are the same. These drivers are: “government policy and political stimulation, globalisation and the knowledge economy, technology, and corporate strategy” (Kobayashi-Hillary, 2004, p.67). The desired outcomes are decreased costs, improved performance, increased competitiveness, and access to global markets.

However, when making offshore outsourcing decisions companies need to consider a number of factors. The McKinsey Global Institute recommends looking at “two broad variables when comparing offshore outsourcing destinations; location attractiveness and people attractiveness [size and quality of labor pool]" (Kobayashi-Hillary, 2004, p. 136). The Gartner Group includes nine criteria, one of which is cultural compatibility (Saran, 2003). In addition, a report presented to Engineering Management (2005)

> includes a new ranking of global offshoring environments…which was compiled by measuring the attractiveness of countries as destinations for offshoring, scoring each country on criteria including labour costs, skills, regulation, proximity to major sources of investment, political and security risk, macroeconomic stability tax and infrastructure.

When the function being offshored is customer service, there are two sides to measuring improved performance. One side is the impact on the company's cost structure. The other is the impact on customers, including service quality, customer satisfaction, and customer loyalty (Thelen et al., 2011). Mixed results have been reported on the benefits to the firm's cost structure and performance (ICMI Report, 2006; Hutzschenreuter et al., 2011). Hutzschenreuter et al. (2011) state, "the larger the cultural difference between the home and host country the longer it takes to achieve expected cost savings and the targeted service levels" (p. 72). Customers may be more demanding in some countries than in others. Two measures that reflect this cultural difference are the degree of customer orientation and buyer sophistication. In the most current Global Competiveness Report (2012), India has a value of 4.7 with a rank of 60 out of 144 in the degree of customer orientation and a value of 3.7 and a rank of 53 out of 144 in buyer sophistication. In contrast the US has value of 5.4 with a rank of 18 out of 144 in the degree of customer orientation and a value of 4.6 and a rank of 10 out of 144 in buyer sophistication. This cultural difference also impacts customer satisfaction.

Kalaignanam and Varadarajan (2012) indicate the growing trend of customer relationship management (CRM) demonstrates a need for examining the impact on the customer. The impact on the customer is linked to stakeholder theory (Tate et al., 2009). Tate et al. (2009) state, "the premise of stakeholder theory is that to remain competitive, the organization must attend to the relevant stakeholders' legitimate interests in each business transaction" (p. 58). The consequences of outsourcing customer service include negative perceived service quality, customer satisfaction and loyalty (Thelen et al., 2011). "The likelihood of offshore outsourcing of CRM having an adverse effect on various customer-centric issues…and the severity of any such potential adverse effect merit careful consideration in the CRM offshore outsourcing decisions of organizations" (Kalaignanam and Varadarajan, 2012, p. 359).

A review of the research indicates little discussion of the culture of the country as a consideration in making the offshoring decision. Although the Gartner Group lists cultural compatibility as a consideration, the focus seems to be more on cultural compatibility at the organizational level not the customer level. Culture, however, needs to be considered at both the organizational and individual level.

Culture

The term “culture” lacks a consensual agreement among social scientists (Alas et al., 2008). One common definition comes from Hofstede (1984) who defines culture as “the collective programming of the mind which distinguishes the members of one category of people from those of another” (p. 1). Culture is expressed in a societies’ way of life including expected behaviors, beliefs, values, languages, and practices. Culture determines the values that influence behavior and explains how a group filters information. Within organizations, culture is evident in its strategies and tactics. Organizational culture is the set of values, beliefs, and attitudes that influence how the organization does business.

Hofstede developed what has been seminal work in the area of national cultural differences. Hofstede’s research resulted in four national cultural dimensions. A fifth was added in 1991 based on research by Michael Bond (Geert Hofstede). The five dimensions “relate to very fundamental problems which face any human society, but to which different societies have found different answers” (Hofstede, 1983, p. 46). Hofstede’s cultural dimensions include: power distance (PDI), individualism (IDV), masculine/feminine (MAS), uncertainty avoidance (UAI), and long term orientation (LTO).

People in a country with a low uncertainty avoidance index have less hesitation to change employers and a preference for broad guidelines while those in a country with high uncertainty avoidance index, prefer specific procedures (Hofstede, 1983). Power distance relates to the degree to which people view power as being unequal. In low power distance countries employees show more cooperativeness while in high power distance countries employees are reluctant to trust each other (Hofstede, 1983). Individuals from high masculine societies assert that men should take more dominant roles than women and tend to focus more on performance and competition (Hofstede, 2001). Countries with high individualism scores tend to show less concern for other members in a society and pay more attention to self-interests (Hofstede, 1983). Countries with high long-term orientation scores practice perseverance and thrift while those with lower scores favor steadiness and quicker outcomes (Hofstede, 2001). The implications are that there are differences in work-related values in different countries and an understanding of these differences is needed to develop appropriate strategies.

Cultural Impact on Customer Service Satisfaction

Customer satisfaction “is the difference between customers’ service expectations and perceptions of service actually received” (Anderson and Vincze, 2004, p. 305). Any differences between national culture and country of service origin can influence these expectations and perceptions and ultimately customer satisfaction.

National Culture

National culture matters in decisions that involve offshoring customer service. It defines how consumers behave and the choices they make when interacting with service representatives. These consumer behaviors and decisions can negatively impact effectiveness of offshored customer service operations especially when cultural distance among the interacting cultures is too wide. A disconnect can occur when a consumer perceives that the service agent does not have a sufficient cultural understanding to meet the desired service needs (Thelen et al., 2011).

Offshore customer service centers place much emphasis of reducing the accent of employees and offering them some fundamental training of consumer's national cultures. It goes beyond that because as the role of offshore customer service evolves, it becomes more difficult to change knowledge embedded in the process of providing service especially in features that cannot be transformed into routine. Youngdahl, Ramaswamy and Dash (2010) state that "cross-cultural communications challenges can lead to misunderstandings in the manner in which processes are set up and controlled or present communication difficulties for customers" (p. 803). For example, countries with relatively high power distance scores and high on collectivism are better suited to handle processes that are scripted with rules while countries with long term orientation scores may possess the patience to adapt to such rules.

Country of Service Origin

Consumer perception of customer service originating from other foreign countries is increasingly becoming important in satisfying consumer needs. A study conducted by Shamra, Mathur and Dhawan (2009), revealed that ethnocentric consumers with a less favorable attitude of offshoring services, are more likely to have a negative consumer perception, leading to a higher level of dissatisfaction. While many argue that training individuals from other countries in these customer service centers to mimic the United States culture can help reduce consumer concerns and dissatisfaction, it is much more difficult to achieve (Thelen, Honeycutt and Murphy, 2010). As much as it is difficult to change embedded cultural characteristics even with intense training, it is also challenging to change individuals' negative perception of other countries. Companies considering offshoring customer service should consider the impact of country of service origin in this decision.

The decision to offshore customer service is largely based on cost savings however some of the risks that companies may face include damaging company reputation, rise in customer dissatisfaction and reduced brand loyalty (Sharma et al., 2009). Negative perception of country of service origin also impacts the marketing of the company products. Marketing literature discusses the differences between the marketing of services and the marketing of products. One of the issues associated with the marketing of services is inseparability. Inseparability means that services cannot be separated from their providers, since service employees are a part of the service. The customer sees the person and business providing the service as one and the same. So any issues the customer has with the service employee are issues they have with the company. Employee behavior is strongly influenced by culture, since "behavioral competence stems from our own individual attitudes and experiences" (Kobayashi-Hillary, 2004, p. 219). King and Jogaratnam (2007) indicate a practical implication of their study is "customer satisfaction is strongly influenced by employee behavior" (p. 275). The implication is that cultural differences between the employee and the customer can lead to customer satisfaction issues.

A Case of Offshoring Customer Service to India

A customer calls customer service and is greeted by a myriad of choices from a computer generated voice. After selecting the correct department the customer is routed to the next available agent. The agent robotically asks a series of questions that do not address the customer's problem and the customer becomes frustrated by the lack of understanding and of being understood. This is an everyday common occurrence that has grown due to an increase in offshored customer service. Alster (2005) states,

> globalization and outsourcing are two megatrends whose benefits most businesses can't afford to ignore. But the practice of outsourcing customer service to offshore call centers is beginning to look like a classic example of a good idea carried too far. Critics of the practice point to a growing body of evidence that suggests faulty economics and customer dissatisfaction are forcing a rethink of what once seemed a no-brainer. (p. 42)

Majority of firms in the United States moved offshore customer service locations to India.Using Hofstede's research to compare the US and India reveals a difference between the two countries in the five national cultural dimensions. U.S. scores were 40 (PDI), 91 (IDV), 62 (MAS), 46 (UAI), and 29 (LTO), and India scores were 77 (PDI), 50 (IDV), 56 (MAS), 40 (UAI), and 61 (LTO) (Hofstede, 1984). These scores are dramatically different in several cultural dimensions indicating there is a difference in culture. As an example, the long-term orientation score of 29 in the US is "indicative of the societies' belief in meeting its obligations and tends to reflect an appreciation for cultural traditions" (Geert Hofstede). More simply customers in the US expect quick results while India's score of 61 in long-term orientation indicates perseverance toward slow results.

Cultural differences cannot be ignored. Saran reports, "While India offers high-quality development at a low cost, users may face cultural difficulties" (2003, p. 1). The relative high power distance in India creates a much greater challenge for firms establishing customer service centers in India. According to Youngdahl et al. (2010), employees who exhibit high power distance usually are reluctant to seek expertise or opinions from superiors. They are also less likely to admit any mistakes or problems they encounter while performing their job duties. These challenges pose a major risk for companies that offshore customer service to India. Additionally, the relatively low individualistic score for India contributes to collective thought in decision making creating a possible risk of groupthink.

Alster (2005), states that, “University-trained agents in India, the Philippines, and elsewhere may actually have excellent command of English, but subtle gaps in cultural context can turn routine calls into protracted problems” (p. 43). Accent neutralization is not enough and it is not easy to teach cultural awareness. Some have critiqued that, “all too often, attempts at mimicking a foreign culture fall flat. An appreciation of the style and culture of a foreign land cannot be learned through a process of television osmosis” (Kobayashi-Hillary, 2004, p. 219).

Conclusion

Globalization has fueled the trend of offshoring and offshore outsourcing. Research indicates that companies need to consider cost, availability of skills, environment, market potential, risk profile, and quality of infrastructure (Farrell, 2006). Since culture plays a large role in the behavior of employees the potential for customer dissatisfaction exists due to cultural differences. This emphasizes the need of considering culture in offshoring and offshore outsourcing decisions.

Cultural difference has an impact and the larger the difference the greater the impact on customer satisfaction (Hutzschenreuter et al., 2011). One source of this difference is that the employees have different belief systems, values, and expectations (Fisher and Ranasinghe, 2001; Slangen and van Tulder, 2009).

It is common knowledge that understanding the culture in a country in which you are doing business is a critical skill for success. Without this knowledge, a successful outcome to the business venture can be in jeopardy. This same knowledge is needed when the business has offshored but is doing business with customers in its home country. Hamm (2007) indicates that companies in India may be beginning to understand these potential problems and are now hiring US workers for some jobs. Hamm (2007) reports, “the work we’re doing requires more knowledge of the customer’s business, and you want local people to do that” (p. 47). Alster (2005) indicates that some companies should “… consider ‘nearshoring’ options such as Canada, where the culture is more in sync with the United States”. The lesson to be learned is to spend the time and resources to train your employees to understand the culture of the customers with whom they will be interacting.

The implication for companies is that in addition to focusing on the items commonly included in checklists, cultural compatibility needs to be considered to ensure that customer service can be successfully offshored. Although several studies have indicated that national culture influences customer service, little attention has been paid to how a cultural distance between countries can impact the success of the offshore services. Failing to fully understand the consequences of cultural differences in offshore decisions could result in serious challenges. Companies considering offshoring customer service should contemplate location choices on the basis of national cultural distance to minimize the compatibility conflicts of work related values of employees and the customers they serve.

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