Challenges in Offshore Outsourcing Relationship Management – A Peruvian Perspective

Completed Research Paper

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ABSTRACT

In this paper, we examine challenges related with offshore outsourcing to Peru and their effect on relationship quality and outsourcing success. In three case studies, we interviewed clients and providers about their experiences with software development outsourcing from Anglo-American countries (U.S., Canada, Scotland) to Peru. We identified particular challenges which have at least a minor negative impact on relationship quality and outsourcing success, however, are manageable – the related management actions were extracted from the cases, as well. We argue that Peru becomes an interesting player in the global offshoring market and which particularities practitioners should be aware of when considering outsourcing to Peru.

Keywords

Outsourcing, Offshoring, Relationship Management, Peru.

INTRODUCTION

There is plenty of scientific research about offshore outsourcing between Western countries and Asia, especially India (Lacity, Khan, Yan and Willcocks, 2010). By contrast, there is little research with regard to "new" offshore destinations in South America although their attractiveness is strongly increasing. Gartner lists four countries in this region among the Top 30 countries for globally sourced activities in 2010-2011 (Gartner, 2010): Argentina, Brazil, Colombia, and, for the first time, Peru. We want to provide research about this 'new' region, which is also to a certain degree generalizable to other Latin American countries since relevant differences between these countries are small (e.g. same or similar language, same historical background, same religion, and comparable cultures). In contrast, South America and Asia are not only geographically, but also culturally seen far apart (House, Hanges, Javidan, Dorfman and Gupta, 2004).

Goal of this paper is to tap analyze outsourcing relationships between Peruvian providers and their 'Western' clients in order to understand what kind of challenges companies have to deal with when engaging a provider from South America. Therefore, we aim at answering the following research questions: *Which problems and challenges do Peruvian providers and their clients face in their offshore outsourcing relationships? Which management actions help to address these challenges?*

We conduct exploratory case studies with Peruvian software development firms and their clients from the U.S., Canada, and Scotland. Their relationships are examined in detail to learn about the challenges which they are faced with and how they affect relationship quality and collaboration. Finally, we identify viable management actions which help to solve the identified problems.

The next section introduces Peru as an offshore outsourcing destination. Then, we develop a conceptual framework which guides our case studies. Afterwards, we describe the applied research approach and present the results.

PERU AS DESTINATION FOR OFFSHORE OUTSOURCING

Offshore outsourcing can be defined as "*the shifting of tasks to low-cost nations [outside the boundaries of the firm] [...].*" (Carmel and Tjia, 2005, p. XVIII). Peru has increasingly become interesting as such an offshore destination. Although having still an immature IT services industry, Peru has passed a constant and strong economic growth over the past ten years (Dreyfuss and Huntley, 2010); in the Ease of Doing Business Index, Peru ranks 41st out of 183, with Chile being the only country from Latin America being higher ranked (World Bank 2011). Further, Peru currently has a supportive political environment. The country has signed free-trade agreements with the U.S., Canada, China, Japan, EU etc. According to The

Economist, Peru is ranked 56th out of 167 countries in the 2011 Democracy index which is an improvement compared to 2010. Last but not least, Peru developed a national brand which provides an image and statement to attract foreign investment (George, 2011; PROMPERÚ, 2011)[1].

The software export sector with about 300 enterprises is young but prosperous (PROMPERÚ, 2011). In the last six years, the average annual growth of this sector was 15 percent. 9 of 10 enterprises are microenterprises or small businesses, and their main export destinations are the U.S. and the Andean community (cf. Figure 1).
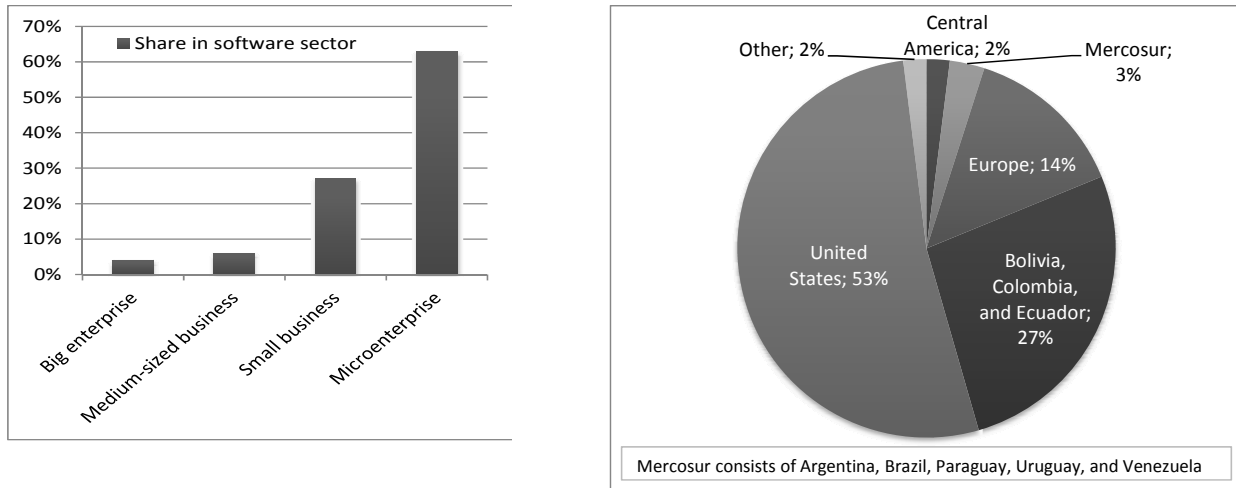

Figure 1: Software Industry in Peru (left) and Major Export Destinations for Software (Right) (PROMPERÚ, 2011, p. 5)

Geographic location and cost competitiveness are listed as the main reasons for Peru's growing offshore attractiveness (PROMPERÚ, 2011). Peru lies in the same time zone as the U.S. East Coast. Consequently, it is especially interesting as an offshoring destination to the U.S. because it meets the criteria of overlapping office hours and thus fosters communication and coordination. In terms of labor cost, the monthly salary for a junior level IT programmer is around USD 600-800 (George, 2010), being only slightly more than in India (USD 500, according to payscale.com).

But, there do also exist many problems like deficiencies in education or lack of entrepreneurial and government action (Dreyfuss and Huntley, 2010). Government and universities just recently recognized the need of being fluent in English. While the neutral Peruvian Spanish is appreciated because it can be well understood everywhere in Hispanic regions, in order to penetrate markets like the U.S. or Western Europe, English is essential (George, 2010). Another problematic issue is data protection in Peru and business software privacy (IIPA, 2010). Reasons for this include an insufficient judicial system and a lack of means to enforce the laws (George, 2010).

CONCEPTUAL FRAMEWORK

This study uses an exploratory approach in order to identify those challenges which are especially relevant for software development projects between Peruvian providers and Anglo-American clients. In the following, we introduce a conceptual research framework which guides our qualitative research (cf. Figure 2).

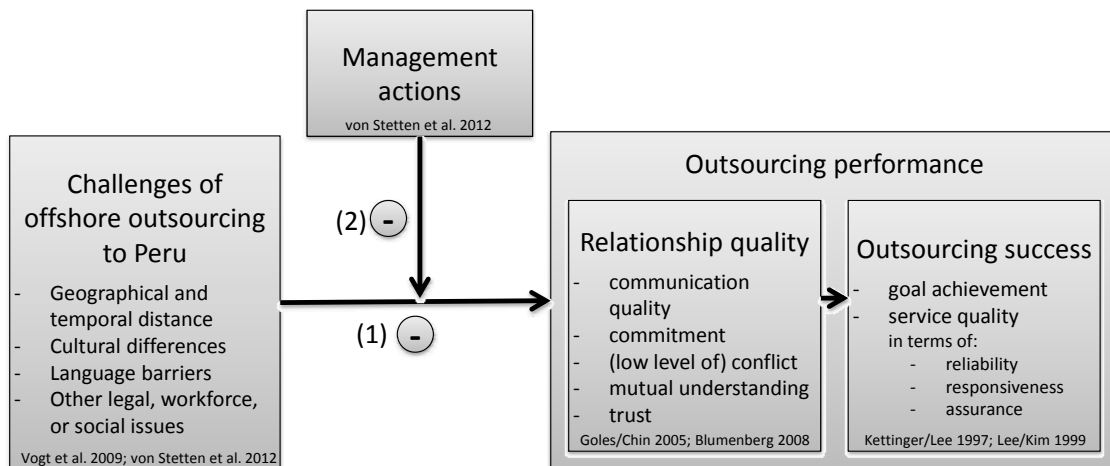[1] PROMPERÚ: Peruvian Commission Promoting Tourism and Export.

Figure 2: Research Framework

As Figure 2 shows, the exploratory approach is targeted at (1) identifying challenges which appear in offshore outsourcing relationships between Peruvian providers and their clients, and determining their influence on relationship quality and outsourcing success, and (2) identifying management actions which address those challenges.

Therefore, we assume that certain aspects like geographical and temporal distance or cultural differences pose challenges on the relationship quality which can be characterized by different dimensions such as communication quality, trust, or level of conflicts (Blumenberg, 2008; Goles and Chin, 2005) and which in turn affect outsourcing success in terms of goal achievement (projects in time and in budget, or level of overall cost reduction) and service quality (Goo, Kishore and Rao, 2009; Lee and Kim, 1999). For example, geographical distance limits the frequency of face-to-face meetings, which can deteriorate communication quality, which in turn leads to bad coordination and misunderstandings that delay the project (Vogt, Gregory and Beck, 2009). As a counter-measure ("management action"), both sides can implement certain colocation strategies, e.g. certain developers travel to the client each month or there is a permanent project member being installed at the client side etc. (von Stetten, Beimborn and Weitzel, 2012) This example shows how this framework guides the analysis of our cases. For a more detailed description of the different dimensions of relationship quality and service quality as part of outsourcing success see Table 1 and Table 2.

Relationship quality	Definition
Communication quality	Efficiency and effectiveness of information exchange between partners
Commitment	Degree of the pledge of relationship continuity between partners
Conflict	Degree of incompatibility of activities, resource share, and goals between partners
Mutual understanding	Degree of understanding of behaviors, goals, and policies between partners
Trust	Degree of confidence and willingness between partners

Service quality	Definition
Reliability	The ability to perform a promised service dependably and accurately
Responsiveness	The willingness to help customers and to provide prompt service
Assurance	The knowledge and courtesy of employees and their ability to convey trust and confidence

Table 1: Dimensions of Relationship Quality (Goles and Chin 2005; Blumenberg 2008)

Table 2: Dimensions of Outsourcing Success in Terms of Service Quality (Kettinger and Lee, 1997; Lee and Kim, 1999)

Challenges in Managing Offshore Outsourcing Relationships

Researchers agree that offshore outsourcing is confronted with more challenges and difficulties than domestic outsourcing (Lacity, Khan and Willcocks, 2009). During the last 10 years, IS scholars have produced a broad variety of literature on

offshore outsourcing, however, most have focused on relationships between Western clients and Indian providers (Lacity et al., 2010). Thereby, they identified the following challenges to be the most relevant:

- *Geographical and temporal distance:* If vendor and client are located in different time zones, this can lead to delayed communication and thus to issues in short-term coordination (Carmel, 2006). Different holidays and weekends further reduce working time window overlaps (Rottman and Lacity, 2004). Geographical distance limits communication to email and phone; face-to-face meetings are the exception, which makes it also harder to control the vendor (Dibbern, Winkler and Heinzl, 2008). This leads to problems in communication and coordination (Carmel and Tjia, 2005).

- *Cultural distance:* Can be characterized by differences in cultural value dimensions, such as power distance and uncertainty avoidance (House, Javidan, Hanges and Dorfman, 2002) and by resulting behaviors (Dibbern et al., 2008), such as the Indian face-saving behavior (von Stetten et al., 2012). The closer the mindsets of two cultures, the better their members work together (Krishna, Sahay and Walsham, 2004)[2].

- *Language barriers:* Another challenge towards effective communication is language itself. Team members who do not speak the common language fluently tend to hold back their opinions in meetings, and their contribution might lack just because they are not able to express themselves with ease (Brett, Behfar and Kern, 2006)[3].

- *Other issues:* Further challenges involved with offshore outsourcing embrace protection of intellectual property (IP) and data, (Carmel and Tjia, 2005), regulations (export restrictions, inflexible labor laws, visa problems etc.), and the vendor-side personnel turnover, which can be a substantial problem in some offshore destinations (Dibbern et al., 2008).

Basically, offshore outsourcing projects face the same problems as domestic outsourcing projects. However, it seems obvious that many of these problems are more serious in offshore outsourcing initiatives due to these challenges.

Management Actions

To confront the various challenges of cross-border relationships, management needs to take actions. Those actions range from implementing more formal procedures for communication and information transfer (Liker and Choi, 2004; Oshri, Kotlarksy and Willcocks, 2009), establishing boundary objects (Levina and Vaast, 2006), and providing training about the other party's business context or culture (Krishna et al., 2004), to developing an onsite vs. remote strategy for managers and staff in order to temporarily collocate people (Heeks, Krishna, Nicholson and Sahay, 2001). Further, the usage of collaboration technologies has become an important technological solution to overcome distance.

RESEARCH APPROACH

In order to explore the challenges which appear in relationships with Peruvian IT vendors and to identify effective management actions, a qualitative, exploratory multiple case study design was chosen (Eisenhardt and Graebner, 2007). This seems to be most appropriate since we look for particularities in relationships with Peruvian vendors, which could hardly be derived from theory only. During case sampling, we searched for Peruvian IT firms that provide IT services for foreign clients. The main source was a list of software companies, published by PROMPERÚ. Out of an initial list of 26 firms located in Lima, 3 had offshoring relationships during the phase of our data collection (summer 2012) and were willing to join our project. Each of the firms allowed us to investigate one of their projects, serving clients in the Anglo-American region (U.S., Canada, and UK). In two cases, we were able to conduct interviews at the client side, too. Table 3 summarizes the key facts about the cases. For a more profound description see Appendix A.

The company representatives were each interviewed for the duration of 45 – 90 minutes. The interviews with the provider companies were face-to-face in Spanish language while the client interviews took place via phone in English. The interviews were based on a semi-structured interview[4]. After transcribing the recorded interviews, the data were coded using MAXQDA. The coding procedure was done according to (Strauss and Corbin, 1998): First, applying open coding, codes were created to identify the challenges explained during the interviews as well as the variables of relationship quality and outsourcing success. Here the authors were guided by the dimensions presented in the conceptual framework. Second, axial coding was

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[2] However, it should be considered that some cultural attributes that distinguish one culture from another can also positively influence the outsourcing relationship. For instance, Indians are said to be friendly, flexible in working hours, and willing to share knowledge (Kotlarsky and Oshri, 2008).

[3] Even two persons sharing the same native language, but stemming from different countries may not always really understand each other because of unique vocabulary and accents (e.g. Americans and Indians or Spanish and South American people)

[4] A high-level version of the semi-structured interview guideline is provided in Appendix B.

used to link these identified challenges to relationship quality and success variables. Finally, management actions were extracted with open coding again.

|	Case:	Provider 1 (P1) / Client 1 (C1)	P2 / C2	P3 / C3
Project	Project description:	Development of a Balanced Scorecard cockpit for governing business processes	Development of a project portfolio management software	Development of logistics software (tracking of containers, billing, administrative tasks, etc.)
	Project duration:	2008 – 2009	2011 – 2012	2009 – 2012
	Project success:	Yes, completed in 6 months	Yes, first phase finished in time, now implementation of adjustments	Yes, finished in time, now P1 is in charge of business operation
Provider	Firm size:	<50 employees	<20 employees	100 employees
	# of employees involved in project:	7, including 1 project manager, 4 software developers, 1 UI designer, 1 person responsible for implementation	3, including 1 project manager, 2 software developers	40 provider employees, including 24 software developers and 7 business analysts
	Interviewees:	Project manager (is also general mgr.)	Project manager, software developer	Project manager, business analyst
Client	Industry & geography, size:	Consulting company, Scotland	Consulting company, Canada, <10 employees	Logistic company, U.S., 1000 employees
	# of employees involved in project:	n/a	3 client employees	n/a
	Interviewees:	none	Project manager (also General manager)	Business analyst

Table 3: Context Information about Case Studies

RESULTS

In this chapter, the results of the case studies are presented and grouped into challenges and management actions.

Challenges in Relationship Management

Figure 3 gives a short overview about the Peru-specific challenges identified. They are arranged according to the strength of their impact on relationship quality in the analyzed cases and if they turned out to be an advantage or disadvantage. Challenges in the upper right quadrant had a huge impact and caused problems. challenges in the upper quadrants should be assessed with management actions.
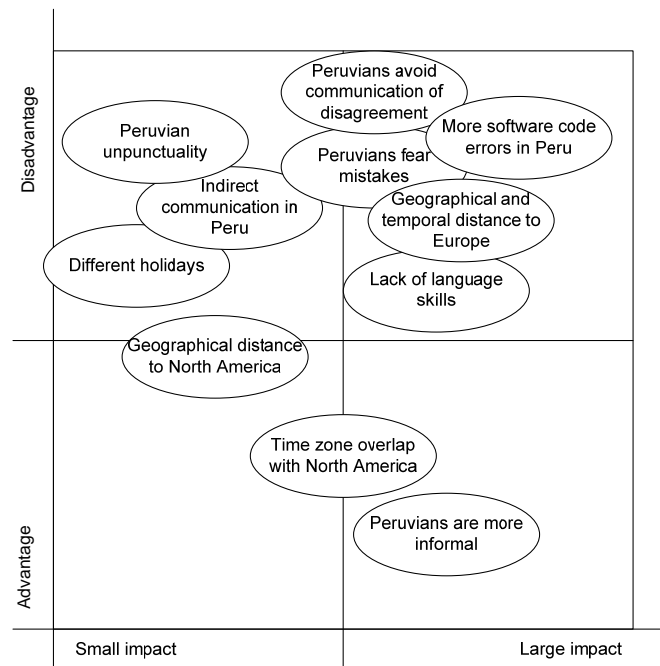
Figure 3. Challenges Extracted from the Case Studies

Geographical and Temporal Distance

In the case of Peru, temporal distance is only an issue in relationships with European clients, while American clients see Peru's time zone as an advantage (Rao, 2004). Accordingly, such issues where only mentioned in the relationship between P1 and its Scottish client. Here, the difference of seven hours interfered with smooth communication which was only possible via email instead of more personal means like phone calls.

> *"Because they were seven hours ahead, coordination was sometimes difficult. This was indeed a problem. We had to try to resolve all these things by email and being in the office at 8am to grab the customer when he was already going home." (Project Manager P1)*

By contrast, for the North American clients, Peru's location is an obvious advantage compared to Asian offshore destinations. Sharing the same or close time zones facilitates communication which is especially necessary in collaborative development approaches like Scrum[5], as used in Project 2.

> *"The main advantage was first of all ... it was offshore for us, but it's in the same time zone. This was very important because we were using a collaborative development approach, not a traditional offshore approach [e.g., waterfall]. So all the time we had to and we did communicate via phone together.* (Project Manager C2)

Beside the aspect of time zones, the number of Peruvian holidays caused some irritations in at least one project; however, it could be resolved in the beginning of the project phase:
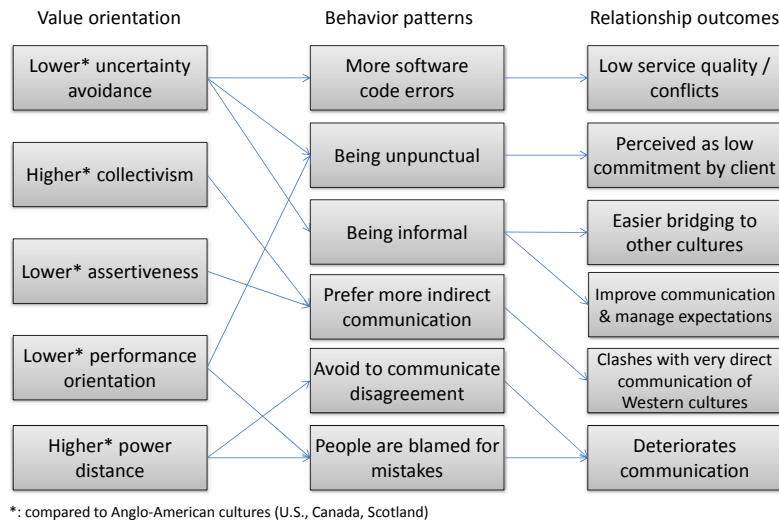
> *"One thing that bothered [the client] a bit – but they got used to it – is that there are obviously many holidays in Peru compared to their country. They asked: 'What? Another holiday? Why that?' However, now it's just a matter of jokes, nothing more. At the beginning of the year, I sent them a list of all holidays."* (Project Manager P2)

Regarding the pure geographical distance, we found no additional problems. All clients had experience in virtual team work before and did not express a need for more face-to-face meetings.

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[5] Scrum is an agile software development framework which can be used to execute software projects in an iterative and incremental way.

Cultural Distance

For analyzing the impact of cultural distance, we applied von Stetten et al.'s (2012) framework which argues that culturally driven behavior patterns are often rooted in multiple cultural value dimensions. The following figure shows the different behavioral patterns and their underlying "causes" as extracted from our cases.

Value orientation	Behavior patterns	Relationship outcomes
Lower* uncertainty avoidance	More software code errors	Low service quality / conflicts
Higher* collectivism	Being unpunctual	Perceived as low commitment by client
Lower* assertiveness	Being informal	Easier bridging to other cultures
Lower* performance orientation	Prefer more indirect communication	Improve communication & manage expectations
Higher* power distance	Avoid to communicate disagreement	Clashes with very direct communication of Western cultures
	People are blamed for mistakes	Deteriorates communication

*: compared to Anglo-American cultures (U.S., Canada, Scotland)

Figure 4: Relationships Between Cultural Values, Culturally Driven Behavior Patterns, and Outcomes (Extracted from the Cases).

When talking about culture, the project manager on the provider side in Peru realized that his employees were more inclined to make mistakes during their software coding work and to not follow the rules too exactly. This can be rooted to the lower uncertainty avoidance in Peru (House et al., 2004) and obviously produces conflicts.

> *"There were too many mistakes. That also happened in other projects. It seems that developers here [in Peru] do not achieve a very thorough testing of what they are developing. Here we are more prone to errors."* (Project Mgr. P2)

He describes then how shocked they were that so many mistakes had been discovered. They received a much more accurate feedback when a Chinese employee joined the team of C2 and begun a very strict and thorough testing process. Before, a Venezuelan employee had been responsible for testing, and there had not been too many problems, but once the tester was replaced many more errors were found.

> *"And when this [Chinese] lady came in, she overthrew our system; she brought up everything! At first, I think this situation bothered them (the client) because the system had many problems. If there was something that surprised me, it was the difference in testing of these two people ... The lady did an amazing testing.* (Project Manager P2)

Another challenge for Westerners is that Peruvians are used to being late or unpunctual. Foreigners may misinterpret this behavior as a lack of commitment. Being unpunctual is both caused by low uncertainty avoidance (not liking to establish rules that dictate behavior and showing more tolerance for breaking rules (House et al., 2004)) and low performance orientation (lower sense of urgency (House et al., 2004, p. 536)).

> *"Needless to discuss, [punctuality is absolutely more important] outside [Peru]. They tell you 'I connect at 12,' and at 12 o'clock dead on time they are connected. Here in Peru, if you agree with someone at 12, he will arrive at 12:30 or 12:40."* (Project Manager P1)

However, although the clients do not like this behavior they have got used to it while the Peruvian developers also were able to adapt to the client requirements in terms of schedules.

> *"It is true (that Peruvians are unpunctual). But from a work perspective, they have always been available when we expected them to be available. Now, if you are going to meet somewhere to go out for dinner, then yes, they are likely to be late (laughter). But in a business setting, we really have not had an issue with that."* (Business analyst C3)

A more severe issue lies in Peruvians' preference to communicate in an indirect way. While conducting Project 1 with the Scottish client, the project manager of P1 realized that the client personnel tend to say things in a more direct and even aggressive way. The employees of C1 were more assertive in their way of communicating (House et al., 2004, p. 405).

> *"The people in Scotland were sometimes quite straightforward on some things and for me it was like 'wow, bumm'. [...] Sometimes we raise things, but we talk in a far more adorned way. [...]Misunderstandings or relationship problems occur because we and our client belong to different cultures. [...] Sometimes, we are not that used to the [direct] language. [...] And that obviously affects communication with the client."* (Project Manager P1)

In Peru, indirect communication comes along with being more informal. Driven by low uncertainty avoidance, Peruvians appreciate a more personal treatment which is also seen to ease communication with other cultures. (House et al., 2004, p. 454+618).

> *"We have more affinity with people because we also develop that level of friendship or empathy between people of our culture. That is probably more an issue within Latin America than outside."* (Project Manager P1)

The project manager of P1 sees the Peruvian informality and openness as a strength and tries to develop personal relationships with each of his clients. Learning from his experiences, he is convinced that an informal relationship makes it easier to communicate problems at an early stage and helps to manage the client's expectations.

> *"And precisely because of the relationship I had with this customer it was much easier to carry out the project and handle many things that we sometimes were asked; for me it was easier to change them into a way that is easier to implement ...]."* (Project Manager P1)

Finally, the Peruvian culture shows a relatively high level of power distance. Accordingly, Peruvian team members can be reluctant in bringing up problems and communicating disagreement with their superiors (House et al., 2004, p. 536). Instead, people are chastised for their mistakes instead of given the opportunity to learn from them. As a consequence, Peruvians tend to fear punishment and remain even more silent about problems. This can be additionally linked to low performance orientation, where feedback is seen as judgmental and discomforting (House et al., 2004, p. 245).

> *"So that probably comes from fear and timidity to disagree, and especially from the issue of punishment for errors instead of rewarding such mistakes as it should be done because eventually the error is the best way to learn. And the sooner you're wrong, the sooner you make mistakes, the better it is because you learn and it does not cost much, that mistake. I think this is a culture-bound and quite big problem here in Peru."* (Project Manager P1)

Another project manager sees progress in terms of feedback. He thinks Peru approaches other cultures in this matter.

> *"I think the Peruvian business culture works more with values, now, to give feedback, to use feedback. [...] That's definitely not very Peruvian. We are surely copying this from outside."* (Project Manager P3)

Language Barriers

All client firms of our sample belong to English speaking countries, while most Peruvians lack profound English skills. This sometimes impacts communication.

> *"... the other team members [...] don't have the same level of English that the project manager has. [...] That's why the communication was mostly with [him] ... because of the English skills. So that was a little bit of a limitation."* (Project manager C2)

Communication fails especially when either side has employees whose mother tongue is not English. This happened in Project 2, when the Spanish speaking provider personnel had to communicate with a Chinese business analyst.

> *"It is complicated in terms of language, because English is the native language for neither of us. So sometimes there are problems understanding each other. [...]it has happened in the past that we have done something that was wrong because we misunderstood but assumed that what we had discussed was correct." (Project Manager P2)*

Summarizing, language barriers have two effects: (1) they create a longer chain of communication, which creates inefficiency, and (2) they cause misunderstandings leading to wrong implementations.

Other Issues

Other issues did not play a major role in the investigated cases. IP and data privacy aspects are not perceived to be an issue when offshoring to Peru and were handled by standard measures such as NDAs and non-competition agreements.

Last, fluctuation was reported to exist to some degree and to affect the service quality in terms of response times but all vendors were able to replace leavers quickly.

Management Actions

The following management actions were mentioned as measures taken in order to improve relationship quality in a positive and direct way.

One of the most important and critical issues for a successful project is to have smooth communication between the client and provider. Geographical and temporal distance complicate contact between the involved parties. To have a successful project it is important that the team members involved can easily identify the task and commit to getting it done. Therefore, communicating the project goals clearly can make a positive difference.

> *"Not only because it is required to develop the software according to these goals, but somehow that way they also make us commit ourselves to meet the objectives. They have to communicate what is it that we will be able to get done with the software in order to be able to feel part of the project"* (Project Manager P2)

Management has to take actions to improve the quality of communication, eliminating any barriers, creating a basis for a successful project. Therefore, the interviewees revealed various measures which facilitate communication. First, informality and technology foster communication.

> *"It has never been that formal 'I have to go to the project manager before I can go to an analyst, before I can go to a developer.' We never really had that relationship. We've been able to talk directly to the people we need to talk to."* (Business Analyst C3)

> *"We have phone, email ... in the afternoon we have meetings ... with videoconferencing and it is like being live together, practically."* (Business Analyst P3)

Second, documentation helps to communicate and prevent misunderstandings. This action also helps through language problems.

> *"The most important action we take is to try to document as much as possible. The agreements - have them written -, the change -receive it written down-, obtain approvals. I think that is what is done to avoid conflicts. "* (Project Manager P3)

Third, Scrum promotes communication, and therefore significantly influences behavior towards connecting with the other side. Constant communication also helps to control the project.

> *"That [Scrum] has influenced, but positively. Scrum itself required us to communicate quite a lot. Having almost daily meetings, small, no more, but quite effective in what we were doing. And it helps to detect faster if what you are doing is right or not."* (Project Manager P2)

As mentioned before, Peruvians are used to more informal, amicable treatment. This includes communication with colleagues in a business context. If the client side agrees, this more personal treatment can help to develop trust and hence decrease communication barriers.

> *"The [video conferencing] meetings were not just about work anymore. There was a part where we spoke exclusively of the project, but usually at the beginning there is a greeting, some questions about how they are, an initial conversation. [...] That was a more personal treatment; they (the client and provider personnel) got to know each other. [...] Yes, a little bit more trust. There less fear to communicate, to report any problem what exists, any questions, that kind of things. It also gave them (the client) a little bit more confidence in respect to how we work."* (Project Manager P2)

Face-to-face meetings and knowledge exchange were another very useful tool for handling long distances between teams. Both provider and client agreed that having met each other in person had a direct impact on relationship quality and outsourcing success. In Project 2, the client project manager visited the provider site various times. One of these meetings took place before even getting the project started. The purposes of these meetings were to provide training to the provider's personnel and to get to know each other. This helped to develop a relationship and make the provider understand the requirements.

> *"I think that the visits were fundamental. In fact, the first visit was used for not only kicking off the product, but also the project and we spent two days training them in Scrum. So I trained them and we developed a relationship. That was fundamental. I would recommend that for any offshore development."* (Project Manager C2)

The project manager of P2 saw the training in a very positive light. He reported how the personal contact with the project manager of C2 fostered trust.

> *"And it also gave us a chance to interact with him, [to develop] a little bit more trust and another advantage was that he knew what kind of people were working with him. [...] Yes, I think it was very important for them (the client) to know who the people are who were working with them and what kind of persons they were."* (Project Manager P2)

In Project 3, the provider's personnel worked at the client's site various times. Not only had the IT department gotten to know their team members, but the end users became also familiar with the provider's staff.

> *"And I think the fact that our business users know who these people are, they've met them, they've worked face-to-face ... I think that's a huge benefit. I believe that's true no matter where your partner is or who they are. If your business people are comfortable, it makes it a lot easier."* (Business Analyst C3)

In order to avoid further misunderstandings because of different languages or cultures, actions like language courses and bridging staff were applied. In Project 1, this was a much-traveled contact person at the client side who understood different cultures and made smooth communication possible. In Project 2, the project manager on the client side had both nationalities, Canadian and Peruvian, so he could understand cultural aspects which were different from Canada. All in all, the actions taken supported in reaching the projects' goals. The following table summarizes them.

Challenge:	**Management action …**	**… reduces negative impact of challenge on relationship quality**
Geographical/Temporal Distance	Knowledge exchange/trainings	Mutual understanding
	Smooth communication	Commitment
	Documentation	Avoid conflicts
	Technology	Communication quality, trust
	Methodology (Scrum)	Mutual understanding, trust
	Informality	Communication quality, trust
Culture	Personal contact/Face-to-face meetings	Mutual understanding, trust
	Awareness of cultural behavior	Commitment
	Bridging staff	Mutual understanding
Language	Language courses	Mutual understanding

Table 4: Management Actions and their Effect

CONCLUSION

This work extends the offshore outsourcing literature adding a view on Peru as offshore destination. South American countries become more and more interesting for companies seeking for an outsourcing destination (Gartner, 2010). Peru can serve as representative. We explored the challenges related with software development outsourcing. What can be a disadvantage of outsourcing to India may be an advantage for Peru: its location allows easier travel and a closer working relationship. In contrast, other problems may be more relevant for Peru than for India, for instance language barriers. The findings regarding cultural dimensions match with the findings of House et al. (2004), indicating a clear cultural distance to Anglo-American countries, but also to Asia.

Most challenges primarily impacted communication quality, which is critical to project success. For instance, language barriers and cultural distances affect communication negatively; a more personal treatment and the geographic location had a positive effect.

Limitations: First, the findings cannot be seen as complete since we investigated only a small sample of rather small – nevertheless representative – projects with Peruvian providers. Other projects and firms will raise other issues, depending on the type of project and outsourcing, the size, the client organization, the client country etc. This calls for quantitative research that can deliver a broad picture and takes contingencies into account. Second, all examined projects were successful. We need to look at less successful projects or those that failed to gain a broader understanding of problems that can occur with Peruvian IT vendors. Last, case study results are always affected by forms of interviewer bias and interviewee bias. The

findings might be affected by the fact that the interviewer was German, and they might also suffer from the low number of interviewees on the client sides and at P1.

The findings bear several implications for practitioners:

- Clients should communicate their expectations clearly.
- Provider personnel should *early* talk about emerging problems and should show results of the work as soon as possible.
- Communication should be facilitated by more personal treatment between team members, encouraging behavior from superiors, and face-to-face meetings.
- Agile software approaches demand but simultaneously support vivid communication. Obviously, both sides need to speak the same language. This is an issue today in Peru and needs to be considered before outsourcing and also should be addressed by governmental actions in Peru.
- Furthermore, language is a two-sided issue. Client employees stated to find it easier to understand a Spanish-accented Peruvian than an Indian accent.
- Cultural differences are rather small; collaboration with Peruvians might even benefit from their cultural behavior because they tend to be very open and friendly as well as helpful.

We hope that our work stimulates research of offshoring activities to 'new' destinations and gives practitioners a nudge to take Peru into account in their outsourcing considerations.

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APPENDIX

A. Context Information about the Cases

Project 1 was conducted by a medium-sized company which does not only offer offshore outsourcing, but also develops software for Peruvian clients. Their clients belong to different sectors, from banking to health. Currently they try to become CMMI (Capability Maturity Model Integration) level 2 certified. Aside from technological support, they provide IT consulting. This company will be referred to as P1. They developed software for a Scottish consulting firm, C1. The software is a tool to use Balanced Scorecards which C1 then implements with their own clients, helping them to define strategies and monitor business progress. After finishing this project, P1 had the opportunity to work again with C1. The interviewee is the project manager on the provider side who is also the general manager of P1. He had worked before in offshore outsourcing projects.

In Project 2, a portfolio management software was developed by provider P2. The client C2, a consulting company, developed the idea of a tool which helps companies to organize and prioritize their project portfolio. C2 resides in Canada and is a small start-up company with a general manager who possesses the Peruvian nationality but has lived in Canada for decades. He has already gained some experience in outsourcing, and the software mentioned was his idea. One of his employees has the Chinese nationality, a fact which is important to know in order to understand some of the statements made in the interviews. P2, the vendor, provides its outsourcing services for Peruvian clients as well. Most of its employees work onsite at different client companies. The interviewed project manager had worked in different companies before joining P2 where he has always worked with (mostly Spanish speaking) foreign clients. He improved his English through the course of the project. The software engineer who was interviewed does not usually talk to the client, but has become familiar with several new ideas and tools during the project. The software development approach in the project was Scrum, brought in by C2. This project was the first collaboration between P2 and C2. However, the client firm is so convinced by the work of the provider that it promotes P2's services in Canada to attract new clients.

The third case study includes a big U.S. transportation company which needed a logistic system designed, developed, and implemented (Project 3). C3 is one of the premier intermodal transportation providers in North America, combining services by trains, trucks, and ships. They had been using a big IT system to manage their operations which became obsolete and lacked integration of the different business divisions. P3 was already providing some services onsite for C3 when they were asked to develop a new system to replace the old one. P3 is a medium-sized Peruvian company and has a CMMI level 3

certification. One of the biggest challenges was the time limitations encountered in trying to build such a complex system in a year's time period. Besides, possible failures of the system at the moment of migration would stop the business, producing additional costs. Although the client's initial time expectations were too ambitious, the project was accomplished in the shortest time possible and to the client's satisfaction. Both interviewees from the provider side have more than ten years of experience in the offshore business. P3 mostly works with clients from the U.S., so their employees are used to work in such an environment. The business analyst interviewee from the client side had also worked in another offshore outsourcing project before when her company collaborated with an Indian provider.

B. Interview Guideline

Personal background:
1) Please explain your personal background in this company and your experiences with offshore outsourcing.

Project background in general:
2) What is this project about and how many employees are involved?
3) How do you monitor the progress of the project?
4) If compared to classical offshore destinations (e.g., India), what do you think are the advantages of Peru with regard to outsourcing services for Western European/US clients (e.g., education/skills/Know-how etc.)?

Outsourcing success:
5) How satisfied are you with the project/the client/the outcome of the project?
6) How does the service quality manifest in the outsourcing relationship?

Quality of the relationship:
7) How would you describe the quality of the relationship with the client personnel (interpersonal level)?
8) Which of mentioned aspects affected the outsourcing success?
9) How does the relationship quality affect project/outsourcing success? What are reasons for problems/difficulties in the relationship/cooperation?
10) How do the problems identified affect the relationship quality?

Culture:
11) In what way/in which situations is the client personnel behaving different from you?
12) How do (national) cultural differences (negatively) affect relationship quality and outsourcing success?

Barriers/Distances in general:
13) Are there any other barriers/distances which (negatively) affect relationship quality project or outsourcing success?

Management actions
14) Which actions have been taken/should be taken during the project to address the above mentioned emergent difficulties/problems?
15) Did the relationship quality and the outsourcing success actually improve as a result of those actions that were taken?