Building The Business Case for Diversity In Offshoring

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Offshoring inevitably leads to increased cultural diversity in work relations. Most companies perceive this increased diversity as a risk, a problem that needs to be minimized or remedied for offshoring to succeed. Building on the business case for diversity management literature we propose an alternative positive view of cultural diversity in the context of offshore relationships. We suggest that the increased cultural diversity that offshoring brings can actually be an opportunity companies should recognize and leverage in order to foster business performance. We specifically argue that under certain conditions related to the organizational context, type of project, teams, and tasks offshored, offshore projects driven by innovation might actually hold a unique competitive advantage through the utilization of their team cultural diversity.

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BUILDING THE BUSINESS CASE FOR DIVERSITY IN OFFSHORING

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Abstract

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INTRODUCTION

Offshoring subsumes a broad array of sourcing practices that vary along two main dimensions: the geographical dimension and the organizational dimension (Contractor, 2008). On the geographical dimension firms choose between nearshoring to countries that are not too distant and offshoring to far-away countries. On the organizational dimension, there is a continuum of possible arrangements ranging from fully captive to fully outsourced models, with intermediate models involving, among others, shared ownership, indirect outsourcing, and hybrid delivery models. As it requires managing teams that cross not only national boundaries but also organizational boundaries, offshoring intensifies the cultural diversity firms normally have to deal with. In the offshoring literature this increased cultural diversity is recognized as a major risk companies face, and a critical factor for the success of offshoring initiatives (e.g. Gurung and Prater, 2006; Ang and Inkpen, 2008; Metters, 2008).

Yet, the diversity management literature that has emerged in the past 20-25 years clearly proposes a more nuanced discussion of the impact of diversity on organizational outcomes. In response to the conservative view of diversity as a threat, a management challenge that companies either try to minimize or often ignore (based on the assumption that "business is business"), an alternative view has emerged where diversity is presented as a business opportunity for companies to develop a competitive advantage (Thomas and Ely, 1996; Cox, 1991; Dass and Parker, 1999). In this paper we follow this later conceptualization, also known as the "business case for diversity", and use a content analysis technique to study how extant literature on offshoring has dealt with the issue of cultural diversity, in particular as regards to how companies deal with differences between national cultures. Using insights from the

management literature on the business case for diversity we then argue that scholars studying offshoring need to refine their understanding of the potential impact of cultural diversity on the performance of offshoring projects and recognize that, at least for certain types of projects and teams, greater diversity could lead to greater innovation through enhanced creativity.

After a short literature review on offshoring and the role and implications of cultural differences in that context (Section 2), Section 3 summarizes the key points of the management literature on the business case for diversity pertinent to the questions of firms' internationalization and to offshoring more specifically. Section 4 discusses the conditions under which increased cultural diversity is likely to be an opportunity to leverage in offshoring projects. Concluding remarks follow in Section 5.

OFFSHORING AND CULTURAL DIFFERENCES

Offshoring refers to the sourcing of services from abroad in support of a firm home-base or global operations (Lewin et al., 2009). According to Kshetri (2007), since offshore employees interact closely with onshore employees and customers, cultural issues are more acute than in other types of international investments. Indeed, offshoring involves relying on global virtual project teams (e.g. Fulk and DeSanctis, 1995; DeSanctis, Staudenmayer, Wong, 1999 ; Jarvenpaa and Leidner, 1999) where managing across cultures is recognized to be a critical factor (Walsham, 2002) and a major managerial challenge that requires significant time and effort (Ebert and Neve, 2001). Yet, despite the greater risks associated with geographical and cultural distance, offshoring is growing and diffusing rapidly (Lewin and Peeters, 2006), with advantages exceeding those of onshore outsourcing (Gonzales et al., 2006).

Cultural factors (culturally supported habits and subconsciously accepted rules and customs) are part of the broad range of institutional factors that influence offshoring decisions (Kshetri, 2007). They also relate to the concept of *psychic distance* that has been widely studied in International Business research (e.g. Johanson and Wiedersheim-Paul, 1975; Stottinger and Schlegelmilch, 1998; Evans and Mavondo, 2002). Psychic distance can be understood as the degree of uncertainty of a foreign market a firm considers entering (Kogut and Singh, 1988). It covers not only the cultural differences between countries but also differences in languages, business practices and environment, political and legal systems, human capital, infrastructure, and economic development (Evans et al., 2000). In their framework, Gurung and Prater (2006) present the psychic distance as a factor that negatively affects the likelihood of success in global outsourcing. Although this still needs empirical validation, Stringfellow et al. (2008) share this view when they argue that the invisible costs associated with offshoring are due in part to interaction distance, a combination of cultural, language and geographical distance, with greater cultural distance leading to greater interpretation difficulties. Along the same lines, Babar et al. (2006) show that cultural understanding is a key factor for building and maintaining trust in software development offshoring relationships, a result that partly helps interpreting Bunyaratavej et al.'s parity study (2007) of offshore location choice where they show that firms are more likely to select countries that are not too dissimilar in wages, education levels and national cultures.

Kshetri (2007) documents several challenges associated with cultural differences, such as human resources management issues resulting from Western HRM practices that may not work as well

with Chinese or Indian employees, or customer dissatisfaction problems with offshore contact centers due to offshore operators not understanding the customers' cultural context. Keil et al. (2007) find also a significant effect of culturally constituted views of face-savings on employees' willingness to report bad news on software development projects in the US and Korea.

The view that cultural diversity represents a major barrier to the success of offshoring explains the efforts spent by both client companies and offshore service providers to train employees and managers to improve their cross-cultural competence and learn about the specificities of each others' national cultures (e.g. Slater, 2003). Ang and Inkpen (2008) extend Early and Ang 's (2003) concept of individual cultural intelligence, the capacity of individuals to function effectively in culturally diverse settings, to firm-level cultural intelligence, arguing that firms can learn and generate the necessary knowledge to operate effectively in culturally diverse environments. They further argue that cultural intelligence is necessary for effective offshoring decision making and organizational success. Such efforts may involve training, but also cultural differences minimization strategies like asking offshore employees to change their names to American names (Alster, 2005) or sending them to accent neutralization classes (Dhume, 1999). Krishna et al. (2004) argue that adequate practices regarding the choice of projects, the management of the relationship, the staffing of the project and the training of people may significantly reduce the risks related to cross-cultural issues in global software outsourcing projects. To overcome the challenges associated with cultural distance, Carmel and Agarwal (2001) recommend to have mixed teams of onshore and offshore workers with people responsible for cultural liaison. Internalizing the offshore entry mode could also limit the problems linked to cross-cultural management (Carmel and Agarwal, 2001) as this would allow

companies to develop and leverage a strong organizational culture shared across national boundaries (Stringfellow et al., 2008). Furthermore, Gurung and Prater (2006) argue that international experience may reduce the negative effect that cultural difference may have on outsourcing success.

In sum, the picture that seems to emerge from this literature is that cultural diversity, whether defined as psychic distance, cultural understanding, or plain cultural differences, has the potential of inhibiting the performance and limiting the success of offshoring projects. Indeed, the little empirical research on the topic seems to focus on identifying the extent of the cultural diversity threat or "problem" and on developing recommendations to minimize it or remedy it. But to our knowledge, the notion of actually utilizing or leveraging on cultural diversity remains to be fully explored.

THE BUSINESS CASE FOR DIVERSITY

In contrast to the cultural diversity as threat picture that seems to emerge from the offshoring literature, the business case for diversity management literature presents diversity as an opportunity for companies to develop competitive advantages and create value (Robinson and Dechant, 1997). In their review of the literature on work group diversity, van Knippenberg and Schippers's review (2007) define diversity as a characteristic of a group that reflects both objective and subjective differences between group members. Although in this article we focus on cultural diversity more specifically, the possible sources of diversity are much broader and include things such as gender, age, education, and experience (e.g. Millikens and Martin, 1996). Point and Singh (2003) found that the term could encompass no more than 27 different criteria.

Konrad (2003) has proposed three major arguments for the business case for diversity. First, in an increasingly globalized economy the competition for talent requires companies to reach out and embrace an increasingly diverse pool of workers wherever they may be or come from. Second, a global economy requires companies to have a diverse workforce that can better understand and anticipate diverse customer needs and thus lead to an increased market share. And third, she argues that the greater the diversity the greater the range of perspectives, which leads to greater innovation and problem solving through greater creativity. The fourth argument underlying the business case is more implicit. It assumes that since cultural diversity is a fact of business today, diversity management is the only right thing to do. With 75% of Fortune 1000 companies in the US having diversity initiatives (Daniels, 2001), few companies today would disagree with these claims. In fact, some companies such as IBM go as far as making diversity it´s strategy (Thomas, 2004). In Europe, a survey of company websites across eight countries confirms a similar picture, with companies clearly identifying diversity as a strategic issue (Singh and Point, 2004). The European Business Test Panel (EBTP) identifies several economic benefits of diversity, beyond the ethical and legal reasons leading companies to adopt diversity policies (European Commission, 2005), such as resolving labor shortages (42% of respondents), enhancing company's image (38% of respondents), and enhancing creativity and innovation (26%).

In this paper we would like to focus our attention on the third claim made by the business case for diversity, namely that the multiple perspectives and insights a culturally diverse workforce provides are expected to foster a wide range of creative decision alternatives, effective decision

making, high-quality decisions, and most importantly *greater innovation* (Cox, 1991; 1993; McLeod, Lobel, & Cox, 1991). Page (2007) provides rationale for why diversity is expected to be particularly positive for innovation. He shows that diverse teams, groups and organizations are likely to be more innovative because their members have diverse perspectives, i.e. they see problems differently, and diverse heuristics, i.e. they look for solutions in different ways. He argues that the positive effect results from the superadditivity of solutions diverse members bring to a same problem: if two individuals propose two different solutions, the combination of these two emerges as a third solution. We feel the link between cultural diversity and innovation is particularly useful in understanding the relevance of the business case for diversity for offshoring projects.

Several empirical studies have validated the positive impact of cultural diversity on firm performance with regards to innovation (Richard, 2000; Richard, MacMillan, Chardwick and Dwyer, 2003; Richard, Ford & Ismail, 2006). For example, the work of Richard and colleagues suggests, in contrast to findings that cultural diversity leads to either poorer or better firm performance, that curvilinear relationships can better explain the impact of cultural diversity management on firm performance. For instance, he found that in firms with highly innovative strategic postures, both low and high diversity were associated with higher productivity than was moderate diversity (Richard, 2000). In his research with banks (Richard et al. 2003) he found that racial diversity enhanced performance for banks pursuing an innovation strategy, whereas for banks low in innovation, performance declined suggesting that it is cultural diversity in conjunction with an innovation-focused business strategy that may provide firms a competitive advantage. His research (Richard et al. 2006) has also shown that an organizational life cycle

may act as a moderator of the impact of cultural diversity on firm performance with organizations in earlier stages (start up) benefiting the most from diversity, probably because it is at this stage that innovation takes precedence, and greater creativity and entrepreneurship are important. In contrast, his results suggest that firms in later stages (maturity and decline) experienced more economic performance losses with more diversity possibly because stronger formalization, control and stability might not encourage innovation, 'outside-the-box-thinking' and creative decision making.

In terms of strategy formulation and implementation *within* top management teams, the diverse perspectives of a diverse management team are expected to enhance the development of strategic alternatives and promote creative and more innovative competitive strategies. This has been confirmed empirically. For example, in their study of top management team diversity in the banking sector, Bantel and Jackson (1989) found a positive relation between top management team diversity and innovation. But for teams in general there is ample research suggesting how and when cultural diversity may positively affect team outcomes, including innovation (for recent reviews see Horwitz and Horwitz, 2007; van Knippenberg and Schippers, 2007). In line with research linking cultural diversity to firm performance, the team level research also points to the possibility that curvilinear relationships across time may better explain the impact of cultural diversity on team performance (van Knippenberg and Schippers, 2007).

Embracing this positive view of diversity, Doz et al. (2004) argue that the European cultural diversity should not be seen as a problem but as an opportunity to foster innovation. The authors observe that many European firms that have become worldwide market leaders share a common

pattern of stimulating innovation by accessing pockets of knowledge from different environmental, institutional and cultural contexts. On the other hand, they acknowledge that accessing geographically dispersed knowledge pockets may also create costs and difficulties associated with virtual teams. In fact, in the business case for diversity literature several authors have highlighted the "cut both ways" nature of cultural diversity, presenting it as both an important source of creativity and innovation – know as the value in diversity perspective (Cox, 1991; 1993), and at the same time a cause of misunderstanding and conflict in the workplace that can result in absenteeism, poor quality, low morale, employee turnover and loss of competitiveness (O'Reilly et al., 1989; Williams and O'Reilly, 1998; Jehn et al., 1999; Bassett-Jones, 2005). Though the empirical evidence in support of the different aspects of the business case for diversity remains unequivocal (Jackson, Joshi and Erhardt, 2003), it is indeed also clear that a lot has to do with the organizational context, the characteristics of individuals, organizational units and tasks, as well as with *"how"* diversity is managed. These conditions under which the "business case for diversity" holds, and the nature of the relationship between cultural diversity and innovation (which may well be curvilinear as suggested by Richard 2000 at the firm level and by van Knippenberg et al. 2007 at the team level) are of utmost importance and will serve as a basis for the discussion of its relevance and applicability in the context of offshoring projects in Section 4.

BUILDING THE BUSINESS CASE FOR DIVERSITY IN OFFSHORING

Surprisingly, the large body of literature in management documenting the positive effect of cultural diversity at multiple levels of analysis (individual career outcomes, workgroup cohesiveness and communication, and organizational effectiveness - for a review see Cox, 1991)

seems to have little impact on the way cultural diversity is addressed in the offshoring literature. Instead, our review of extant literature suggests that offshoring researchers continue to be focused on the managerial threats, barriers or problems associated with increased cultural differences as opposed to the business opportunities, and on developing solutions to minimize or remedy cultural threats.

But why would offshoring projects and teams be different from other projects and teams where diversity is recognized to be beneficial? We argue they are not. Companies involved in offshoring too have the opportunity of reaping the benefits of cultural diversity. van Knippenberg and Schippers (2007) focus their review on studies that include moderating effects such as to enable the identification of particular circumstances when diversity is expected to have positive or negative effects and to inform about the processes underlying the positive or negative outcomes of diversity. Using insight from this approach this section seeks to identify the particular conditions under which the increased cultural diversity that offshoring brings is likely to be an opportunity for offshoring companies. They are summarized in Table 1.

Insert Table 1 around here

First, not all offshoring projects are likely to equally benefit from cultural diversity. One important aspect of the offshoring project has to do with the strategic intent, or strategic driver, of the project. Harvesting the positive effects of diversity management requires investing time and effort, which obviously has both direct and indirect costs linked to the resistance to diversity initiatives. The increased costs in offshoring are likely to be justified for projects targeted at

creating value for the company but not for projects focused on cost savings. More specifically, among the value creation objectives companies may pursue with offshoring, innovation is an important one most companies struggle with and for which we expect cultural diversity to have significant positive impact.

The literature on innovation and creativity has long recognized the positive effect of relying on diverse sources for increasing innovativeness of teams and companies (e.g. Nonaka, 1994, Leonard-Barton, 1995). Gassman (2001) argues that although it increases the challenge of ensuring effective transfer of tacit knowledge, multicultural teams can actually increase creativity and innovation of international industrial R&D. In their seminal work on absorptive capacity Cohen and Levinthal (1989) already emphasized the role of diversity of backgrounds at both individual and organizational levels to foster innovation in firms.

Second, following Ely and Thomas (2001) who argue that because of high within firm variability, the most appropriate level of analysis to study the link between diversity and organizational outcome is the work group, or team, the reference unit of our argumentation is a team working on an offshoring project. Page (2007) argues that a condition for teams to benefit from diversity is the need for interaction. A central point of Page's model is that having a diverse workforce is not sufficient for an organization to benefit from diversity. It will need to make its members interact for example through collaborative teams. Similarly, relying on the work by Pettigrew (1998) and Gaertner and Dovidio (2000), van Knippenberg and Schippers (2007) conclude that the effect of diversity is expected to be more positive for cooperative interdependent teams than in less interdependent or more competitive settings.

Multinational companies increasingly use collaborative multinational project teams that cross geographical and cultural boundaries as a way to foster creativity and innovation, paving the way for globally distributed innovation processes (Lewin, Massini and Peeters, 2009). But the development and management of such teams involves a far greater degree of complexity than more traditional geographically and culturally bounded teams (Iles and Hayers, 1997). This is because multinational project teams require more time and attention to be dedicated to issues such as trust, information flows and communication, and cultural differences. In line with this view, we argue that though for offshoring projects that require innovation cultural diversity in teams may initially lead to more difficulties, in the long term it will be an asset.

To ensure sufficient representation of diverse perspectives as well as sufficient degree of interaction between perspectives, companies may actually favor globally distributed innovation processes by having teams with onshore and offshore members (possibly in several offshore countries) over the relocation of entire innovation processes to teams in the offshore location. Although the latter may be easier to manage in terms of minimizing coordination difficulties associated with cultural differences, both the cultural diversity present in the innovation teams and the need for interaction would be lower, reducing the positive effect of diversity on creativity and innovation. In the extreme case there would be no cultural diversity at all, with pure onshore teams focusing on certain projects and pure offshore teams on others.

Page (2007) further argues that for the positive effect of diversity to hold, teams drawn from the organization must be large enough to offer different perspectives, team members must have the

ability to perform the tasks, and the diverse perspectives that different team members bring must be useful and pertinent to the project. In other words, relevant cultural diversity is what really counts and not just cultural diversity. Companies should therefore avoid using demographic identity (nationality, color, ethnic origin, gender, social class, etc.) as proxy for different cognitive perspectives (Garcia-Prieto, Bellard & Schneider, 2003) and should instead pay particular attention to developing methods for identifying useful perspectives. According to Basset-Jones (2005), together with appropriate management of work routines, the formation of appropriate teams would in fact be much more effective to foster creativity and innovation in diverse contexts than high levels of supervision of individual actions. Thus, simply putting together people from different cultures in an offshoring project team will not create any value. Companies will need to invest in designing and implementing specific diversity initiatives that will actually make use of the increased diversity offshoring brings (Iles and Hayers, 1997; Moore, 1997; Gassman, 2001; Bassett-Jones, 2005).

Furthermore, because the positive effect of cultural diversity on innovation may well be curvilinear and depend on project life cycles (Richard et al. 2006; van Knippenberg and Shippers, 2007), time is of essence. This would imply that the impact of cultural diversity on the innovation outcome of offshoring project teams may be more positive in early stages, when creativity is needed and valued, and more negative in later stages (cf., Richard et al. 2006).

In this paper we would like to bring forth a less studied but important aspect of culturally diverse team functioning that might be having a positive impact on innovation, namely the process of information sharing, i.e., the disclosure of factual, task-relevant information to other members

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(Stasser & Titus, 1985; Stasser, 1992). The extent to which members in a team share information has been positively linked to enhanced team performance (Jehn & Shah, 1997; Saavedra, Early & Van Dyne, 1993). The major argument has been that the pooling and coordination of members' diverse perspectives or pieces of information is expected to lead to better team decisions, more creative and thus innovative solutions (Gigone & Hastie, 1993). However, research on decision making teams has consistently shown that in general sub-optimal decisions end up being made because team discussions tend to be biased in favour of exchanging *shared information* (information already known to all members) at the expense of *unshared or "unique" information* (know by only one or a few members; Stasser & Titus, 1985). Ironically, research on culturally diverse decision-making teams (such as a team composed of culturally diverse members from onshore and offshore locations) shows that these teams may be less susceptible to these biases and have less coordination loss (Phillips & Loyd, 2006; Phillips, Northcraft, & Neale, 2006; Sommers, 2006). In fact there is growing evidence that the mere presence of visible cultural diversity (because of the anticipation of interacting with dissimilar others) might elicit greater use of alternative perspectives and more throughout processing of information (Antonio et al. 2004; Phillips & Loyd, 2006; Philips, Northcraft and Neale, 2006; Sommers, 2006). It has also been shown that unique information is more likely to be used in the discussion if held by a social outsider to the team (someone likely to be categorized as an "outgroup", which could be for example a member coming from an offshoring location) (Phillips, Mannix, Neale & Gruenfeld, 2004). A model recently proposed by Phillips & Lound (2007) offers some promising insights as to why cultural diverse teams may have an advantage when it comes to information sharing. These authors build on research showing that negative emotions and affect can lead to more controlled, cautious, detailed analytic systematic processing (Bodenhausen, Mussweiler,

Gabriel & Moreno, 2001; Bodenhausen, 1993; Tiedens & Linton, 2001) and that positive emotions and affect can lead to less effortful information processing strategies (Boddenhausen et al., 2001; Mackie & Worth, 1989) to propose that the advantages of team diversity may stem from the more negative affective reactions (e.g., uncertainty and anticipation of relational conflict) that team members may typically associate with diversity. The two propositions that stem from their model are that working in diverse teams will lead to more negative affective tone which may enhance systematic information processing enhancing decision-making, and working in homogenous teams will lead to more positive affective tone which may lead to reduced cognitive complexity decreasing decision-making. Hagel III and Brown (2005) have also suggested that the frictions that inevitably come with diversity may actually be productive and lead to increased creativity and innovation.

The innovation benefits organizations are likely to derive from team cultural diversity of course will also depend on the type of tasks offshored. For example, in the diverse team research Jackson (1992) has suggested that team cultural diversity will have a more positive impact on performance when tasks are oriented towards creative thinking and problem solving versus execution-oriented tasks. Along the same lines, Hambrick et al. (1998) suggest creative tasks that require to generate and sort through ideas with no verifiable correct answer are the most likely to benefit from diversity in team members' perspectives, knowledge, values and assumptions. Such diversity will be less useful for tasks requiring clear-cut data collection and analysis, and could even be harmful in the case of coordinative tasks involving high level of interaction and mutual adjustment. Similarly, Iles and Hayers (1997) conclude that team cultural

diversity will have a more positive impact on innovation if the tasks are non routine and oriented toward creativity rather than execution.

Taken together, these results imply that offshoring projects requiring team members to apply knowledge creatively and come up with innovative ideas for reengineering processes or developing new products and services are likely to have the most to gain from valuing the diverse backgrounds and perspectives present in the team. Conversely, offshoring projects involving simple, codified and repetitive tasks may not gain much from increased diversity in the team performing the activity. For those projects, the cost of managing diversity is likely to exceed possible benefits and we expect companies to pursue their efforts of minimizing the possible threat posed by cultural differences. For projects requiring creativity and innovation on the other hand, companies should recognize the potential value of leveraging the diversity of perspectives brought by the various members of the team offshore and onshore. But as Gibson and Gibbs (2006) show, this will not go without significant challenges associated with virtual design strategies, including geographic dispersion, electronic dependence, and national diversity.

Last but not least, the extant literature has highlighted that for the business case for diversity to hold the <u>organizational context</u> is critical, meaning the organization's approach to diversity management, and related team members' mindset vis-à-vis diversity.   Thomas and Ely (1996) have classified companies' perspectives on the issue of diversity into three main categories. First, the discrimination-and-fairness perspective leads to a defensive response by organizations, which consider fair treatment to give historically disadvantaged groups equal access to open positions and promotions. This perspective is usually associated with the definition of protected groups.

Second, the access-and-legitimacy perspective is justified by the need to tap diverse markets and customer categories. Differences between an organization's members are usually broadly defined and valued as a way to improve performance. Companies therefore adopt this perspective as a choice more than a legal requirement. Finally, the integration-and-learning perspective emphasizes the opportunity for long term learning from adequately managed employees' similarities and differences. It is associated with active strategic actions to learn from different or even conflicting perspectives. Dass and Parker (1999) later added the resistance perspective as a fourth category to reflect losing ground but still alive practice in certain organizations to resist the call for increased diversity, or even destroy evidence of discriminatory behaviors. Ely and Thomas' study (2001) shows that only an integration-and-learning perspective of diversity provides the guidance necessary to derive and sustain benefits from team diversity. Similarly, Kochan et al. (2003) have shown that gaining value from diversity requires systemic and long term commitment to diversity as well as a company culture that considers diversity as an opportunity for everyone to learn from each other.

In sum, taken together these results offer the intriguing possibility that innovation is a domain in which culturally diverse offshoring teams might actually hold a competitive advantage. Therefore, offshoring companies have much to gain from becoming pro-active with regards to managing their cultural diversity. In this paper we have specifically argued that gains are likely to be particularly high with regards to projects that have an innovation strategic intent. The key is to have tailored made cultural diversity management initiatives that help teams managing offhsoring projects reap the benefits of diversity for innovation. This implies favoring teams that are collaborative and interactive, large enough to bring different perspectives, with members that

have the ability required for the task, and to make sure that the diverse perspectives are relevant for the task. It also requires that managers anticipate at which stages of the project diversity will be the most beneficial for the team, and to give opportunities for the teams to voice "unique" information so essential for innovation (potentially though conflict and negative emotions). Finally, we have draw attention to the importance of developing an organizational context that encourages learning from diversity. Paying attention to these conditions may help companies improve the innovation benefits that offshoring can bring.

CONCLUDING REMARKS

This paper shows that extant literature on offshoring addresses the issue of increased cultural diversity from one perspective only; that of a risk companies should seek to minimize to avoid potential negative impact on project success. It completely disregards the developments in the diversity management literature that recognizes the positive effect that diversity may have on teams and companies' performance. Although the particular types of projects where the positive approach to cultural diversity in offshoring applies need further research, this paper shows that the field would gain from integrating such an alternative view of diversity as it is likely to open promising new research areas and allow a more nuanced understanding of the significant strategic and organizational transformation offshoring entails (Lewin and Peeters, 2006).

Relying on extant diversity literature, we identified several conditions for the promise of the business case for diversity to hold true in the context of offshoring. They are: the innovation orientation of the project; the characteristics of the team in terms of reasonable size, degree of interaction, ability of members and relevance of their diverse perspectives, life-cycle, and

sharing of information between members; the creativity and non-routine content of the tasks involved, and the organization's learning approach to diversity. Building on those conditions, we believe software development projects and other product development activities may be particularly well suited to further explore the opportunities increased cultural diversity offers offshoring companies, and the way to leverage such opportunities. In fact, the same characteristics of software development projects that made Ang and Inkpen (2008) argue they require the development of cross-cultural intelligence even more than other types of offshoring projects lead us to conclude that they also constitute a very promising ground for companies to leverage the benefits of cultural diversity. The unique information a diverse team of qualified software developers interacting with one another on interdependent non-routine tasks shares is indeed likely to foster creativity and, through improved problem-solving, help resolve the high uncertainty and ambiguity inherent to such complex projects. In line with Ang and Inkpen (2008) and other authors in both the offshoring and diversity literature streams, we expect greater cultural diversity to lead to increased difficulties for team leaders of diverse teams, and possibly even to conflicts between team members. But we argue that when creativity and innovation is the target, recognizing and using the conflicting perspectives is likely to bring more value than simply trying to minimize or avoid them.

We suggest that team leaders who manage culturally diverse teams in an offshoring project that requires innovation need to start by allowing the possibility that cultural diversity will not *inevitably* or *necessarily* hinder the success of the offshoring project in terms of innovation. Leaders should be encouraged to resist the dominant approach offered by the offshoring literature and supported by consulting firms whereby cultural diversity is a risk that requires

immediate action to search for remedies through cross cultural training, or other cultural diversity reduction strategies. Leaders would do well to prepare for the added cultural diversity in work relationships, especially in team functioning, by anticipating and approaching these situations as "innovation" goldmines. These are after all the situations under which different perspectives required for innovation might lead to "superadditivity" (Page, 2007).

But reaping the benefits of cultural diversity will require a paradigm shift in the way managers approach offshoring, from seeing cultural differences as a problem to seeing cultural differences as part of the solution. Such a shift will have tremendous implications for the way companies see their offshoring relationships and conceive their offshoring contracts and service level agreements. As suggested by the trend towards more hybrid organizational forms identified by Lewin and Peeters (2006) and the strategic stage of Kedia and Lahiri (2007) offshoring partnership model, this shift will require companies to start seeing offshore providers and colleagues as partners to innovate and create value as opposed to mere suppliers in arms' lengths relationships or low cost subordinates constrained to standardized, routine, non strategic tasks.

Finally, although this paper focuses on cultural diversity arising from differences in national cultures, offshoring has the potential to raise diversity in many other ways. In terms of culture, differences in organizational cultures resulting from the use of offshore third party service provider should be studied as well. More generally, sourcing services from foreign countries is likely to change the composition of teams companies are traditionally used to, with for instance certain countries having a larger proportion of females in certain functions (more women go in Engineering schools in India than in the US for instance), or with more educated people

performing given activities (university graduates working in call centers in the Philippines instead of high school graduates in the US for instance). The impact of all these sources of diversity that offshoring is likely to increase deserves further research.

Likewise, this paper applies the business case for diversity to the specific context of offshoring projects and concludes that cultural diversity could add value and improve the performance of certain types of projects. This is however a narrow focus and we encourage researchers to investigate the opportunity to extend this value adding conceptualization of cultural diversity to other traditional IB contexts, such as FDIs or cross-border alliances for instance, where extant literature building on the concept of psychic distance has also predominantly viewed cultural diversity as a risk companies should minimize and not as an opportunity to leverage for increased performance.

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Tables to insert in text

TABLE 1

Summary of Conditions Underlying the Business Case for Diversity in Offshoring

Level	Conditions
• <u>Project</u>	• Innovation strategic intent
• <u>Team</u>	• Cooperative - Need interaction • Size - large enough • Ability of members • Relevance of diverse perspectives • Time - stage • Sharing of unique information
• <u>Tasks</u>	• Creative thinking, problem solving Non-routine
• <u>Organization</u>	• Integration-and-learning approach to diversity