
Managing International Subcontractors

By Lothar Katz

Jack was frustrated. For many weeks, he and his small team had found themselves in a tug-of-war with the Indian IT company hired to develop user interface and control software for a new medical system. Early versions of the software were buggy and lacked critical functions. Since then, the Indians had missed two important delivery dates. Five days ago, Jack had once more pointed all this out, reminding the vendor of the penalties spelled out in the contract if they failed to meet the agreed-upon deadlines and criteria. So far, he had received no response at all.

What was wrong with these people? Why didn't they treat him as a client should be treated? Were they just not capable of doing the job? Was this whole offshoring project a bad idea?

Jack's experience is not uncommon; in fact, many companies have experienced similar troubles in recent years. Some Western businesses, especially from the U.S., consider disengaging from their offshore engagements or have already done so. Journalists already coined a new term, 'back-shoring', for this move.

Pulling out of offshore contracts altogether may nevertheless be short-sighted. Across many industries, companies have demonstrated the benefits of global collaboration and the use of offshore subcontractors. The key is to manage these engagements right. Those struggling with poor vendor performance all too often overlook three important rules:

Don't Expect Your Subcontractor to Understand You or Your Business

Asia's large outsourcing vendors, among them many of India's IT heavyweights, are quick to assure Western clients that they won't have to worry about distance, language, or cultural differences. They usually point to their extensive expertise in working with this client group and to proven processes that allegedly minimize the risks presented by such factors.

These assurances are best taken as statements of good intentions, rather than facts. In reality, each new subcontracting engagement, especially one that requires working across cultures, requires a carefully managed process of learning about the other's ways of doing business, practices and processes. When engaging with a new foreign client, you know you have to understand their expectations, their competencies, their culture, their boundaries, and so on, all of which goes both ways. Don't expect this to be any different if you are working with a foreign vendor.

Don't Assume Bad Intentions

Things sometimes go wrong. When they do, it never helps to assume that the other side intentionally failed you. Wanting to make clients happy and taking pride in having done so are universal traits that have little or nothing to do with culture. What may be strongly

culture-specific, though, is what defines success or failure. Being late by a few days, or not having done something you were supposed to do, may be major issues in one culture and minor nuisances, if even that, in another.

That makes it critical to be very clear about your expectations, and not only those regarding deliverables and deadlines. Let your vendor know which deviations from your agreement might be acceptable and which ones won't be. Most importantly, give them a reason for the latter. The better a vendor understands your expectations and requirements, the more likely they are to avoid issues or at least give you early warnings of potential delays, giving you a chance to identify possible workarounds in time.

Don't Use a Contract As a Stick

The forces of Globalization have made legal systems in many countries much more dependable, especially in the area of contract law. Trying to enforce a contract in court, once considered naïve in many places, is now often realistic. Smart international businesspeople know to do this only as a last resort, though, as such a step is likely to cost both parties steeply, not only monetarily but also in damages to their reputation and lost future business opportunities.

Nevertheless, Western clients tend to be quick to point to contractual obligations and threaten legal consequences whenever disagreements surface. This is usually counterproductive. In international business engagements, contracts serve two important purposes: to clarify nature and scope of the agreement and to provide strong evidence if seeking legal remedies. Attempting to use a contract as a management tool to direct a subcontractor's work rarely makes sense. For one, threatening legal consequences usually makes the vendor less communicative, out of fear of increasing their legal exposure. In addition, vendors belonging to relationship-oriented cultures, for instance in Asia or Latin America, tend to respond by becoming less collaborative. In these cultures, threatening legal action is considered the last resort after all other attempts to resolve a dispute have failed. When a client threatens them with legal action too soon, vendors might no longer be motivated to fulfill the contract – just the opposite of what the client hoped to achieve.

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A seasoned former executive of Texas Instruments, a Fortune 500 company, Lothar regularly interacted with employees, customers, outsourcing partners, and third parties in more than 25 countries around the world. He teaches International Project and Risk Management at the University of Texas at Dallas' School of Management and is a Business Leadership Center Instructor at the Southern Methodist University's Cox School of Business.
