Chapter 57

Managing International Information Technology Project Relationships:
An Agency Theory Perspective

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ABSTRACT

Many organizations in recent years have adopted an offshore model to deliver most or part of their information technology needs. While offshoring can be associated with significant cost savings and implementation benefits, it can also be a challenge to effectively manage the international client-vendor relationship. Thus, it is argued that the effective management, coordination and structuring of the international client-vendor relationship is critical to project management success. In this paper an agency perspective is applied to examine the management of international client-vendor relationships in offshore information technology (IT) projects. This paper synthesizes key relational findings from eight offshore IT projects consisting of 29 client interviews. The authors' findings suggest that the relational tenets of agency theory (shirking, privately held information, task programmability and monitoring) play key roles in successfully managing international project relationships. Based on the findings, propositions are presented to guide future offshore IT project research and organizations to successfully manage and structure their client-vendor relationships.

INTRODUCTION

Organizations have been under great pressure to control information technology (IT) costs and to demonstrate higher returns on their IT investments. A popular response to these pressures is to embark in a shift to internationally sourced IT projects. In recent years, technology and communications advances have made it significantly easier to structure work outside the traditional boundaries of the firm. Today,

IT providers from low-wage nations can now underbid providers from high-wage nations and win contracts (Gefen & Carmel, 2008). In this research we consider information technology offshoring (ITO) to consist of a client firm contracting with a vendor firm, located outside the home country of the client to provide either project oriented work that is associated with specific completion criteria (i.e., application development) or ongoing operations (i.e., help desk or technology maintenance). The growth in globalization, worldwide competition and inherent economic advantages of ITO due to the lower offshore wages has made offshoring a business necessity being explored by many enterprises. With this growing ITO usage and ultimate acceptance, firms are in search of ways to successfully manage ITO projects and one possible under emphasized factor may be the management of the client-vendor relationship.

Early ITO research has overlooked the role of relational factors driving project success (Rai, Maruping & Venkatesh, 2009). When investigating reasons behind failed projects, relational factors such as communication challenges and misunderstandings due to cultural differences have been identified as key reasons for cost escalation and client dissatisfaction (Krishna, Sahay, & Straub, 2004). However, more recent literature suggests that sourcing relationships are more relational in nature than merely the terms delineated through the formal contract. Consequently, the client-vendor relationship is often considered as a key differentiator between project success and failure (Rai et al., 2009). Consequently, with firms relying more and more on the ITO relationship, the locus of value creation is no longer within the boundaries of a single firm, but is instead at the nexus of how the relationship is managed between the parties (Malhotra, Gosain, & El Sawy, 2005).

As the scope of ITO explodes, agency theory may provide a valuable framework for successfully managing key relationship tenets. Agency theory helps explain the problems that occur when the principal (client firm in our case purchasing the ITO activities) hires another party/agent (vendor firm in our case performing the ITO activities) to perform work on the principal's behalf (Eisenhardt, 1989a). However, it is not clear how the management of key relational dimensions contribute to ITO project success or failure. Recent literature contributions help us understand sourcing relationships in general, but our understanding of the relationship's eventual impact on project success remains limited (Haried & Ramamurthy, 2009; Rai et al., 2009).

In this research an agency theory perspective is applied to provide a valuable initial framework describing the factors in play to successfully manage the unique ITO client-vendor relationship. The above observations from the literature, coupled with the limited research base directly investigating ITO project relationships led to our inductive research method. We pursued an in-depth case study approach to investigate client ITO relationship perspectives via an agency theory lens. Hence, this paper reviews relevant literature centering on key agency theory relational factors vital to ITO project management. One of the primary purposes of this paper is to synthesize and clarify the ITO relationship in a logical framework so that it can be more effectively studied and evaluated in the future. The results from this study include a set of propositions that may challenge traditional views of ITO relationship management. As a result, this paper is centered on the following research questions:

1. What are the key agency theory factors that affect the client-vendor relationship?
2. How do the agency theory dimensions contribute to the management of internationally sourced IT projects?

The remainder of this paper is organized as follows. First an overview of key agency theory dimensions is provided to examine the ITO client-vendor relationship. The following section presents the research

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