

## Chapter 6.5

# Outsourced IT Projects from the Vendor Perspective: Different Goals, Different Risks

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### **ABSTRACT**

As outsourced and multinational IT projects become more common, managing risks for these projects is increasingly important. The research reported here examines key risks identified by Hong Kong vendor project managers working on both local and international package implementation projects. In addition to the typical risks that threaten project outcome success, respondents noted location-specific risks on their multinational projects. They also distinguished threats to the satisfactory process of the project, and threats to their own firms from competitors and from potential damage to their reputation arising from customer dissatisfaction with either the outcomes or the process of the project. Using an agency theory perspective, this broader focus is examined in the light of differing definitions of project success for clients and outsource providers.

### **INTRODUCTION**

For over 30 years, reports about problems with IT projects have appeared regularly in popular and academic literature, including several well-publicized major failures (Drummond, 1996; Lyytinen, Mathiassen, & Ropponen, 1998). During this period, there has also been a steady flow of advice in both academic and practitioner literature for IT project managers on IT project management, development methodologies, and risk management techniques. Risk management practice has been identified as one critical factor of the success of IT development projects (Barki, Rivard, & Talbot, 2001; Boehm, 1991; Charette, 1996; Fairley, 1994; Heemstra & Kusters, 1996; Schmidt, Lyytinen, Keil, & Cule, 2001). A significant stream of research has focused on identifying risk factors for IT projects in order to aid managers in making decisions about risk mitigation in their software development projects (see, for example: Alter, 1996; Baccarini, Salm, &

Love, 2004; Barki, Rivard, & Talbot, 1993, 2001; Boehm, 1991; Cooke-Davies, 2002; Keil, Cule, Lyytinen, & Schmidt, 1998; Moynihan, 1996; Schmidt, Lyytinen, Keil, & Cule, 2001). These studies have included surveys of managers from a variety of cultures, including Australia (Baccarini, Salm, & Love, 2004), Canada (Barki, Rivard, & Talbot, 1993), Europe (Cooke-Davies, 2002), Ireland (Moynihan, 1996), and the U.S., Finland, and Hong Kong (Schmidt, Lyytinen, Keil, & Cule, 2001), and show substantial commonality of risk perspective across cultures.

The body of work on risks in IT projects is extensive but the success rate for these projects continues to be poor (Standish Group, 2003). One increasingly popular risk mitigation option for organizations is the outsourcing of development and implementation of IT projects (Lacity & Willcocks, 1998; Levina & Ross, 2003; Willcocks, Lacity, & Kern, 1999), either by contracting specialist software development firms to build custom information systems, or by purchasing off-the-shelf packages, typically with some customization to fit the client's needs (Lacity & Willcocks, 1998; McFarlan & Nolan, 1995; Natovich, 2003; Rao, 2004; Russo, 2000). Such outsourcing, which can be within country or offshore (Rao, 2004), offers the benefits of risk transference, cost reduction and improved performance (Lassila & Brancheau, 1999; Martin & McClure, 1983; Natovich, 2003).

Recent research has focused on how client organizations can best manage the outsourcing relationship in order to maximize these benefits (Choudhury & Sabherwal, 2003; Foxman, 1994; Willcocks, Hindle, Feeny, & Lacity, 2004). While certain cross-cultural issues have been highlighted for off-shore sourcing arrangements (Kliem, 2004; Krishna, Sahay, & Walsham, 2004; Rao, 2004), there is a broad level of consensus in recommendations for both within country and cross-country outsourcing (Choudhury & Sabherwal, 2003). Software package projects are especially interesting in the context of IT risk management

practice, in that their use is claimed to ameliorate or avoid many of the risks to client organizations associated with custom developments (Lassila & Brancheau, 1999; Martin & McClure, 1983). Interest in the *client* perspective on risks related to software package implementation projects is increasing (Parr, Shanks, & Darke, 1999; Scott & Vessey, 2002; Sumner, 2000), but the *vendor* perspective on these projects has received less attention (Davis, 1998; Gable, 1998; Goles, 2001; Levina & Ross, 2003).

While many risk factors for IT projects in general have been identified in the literature (Alter & Sherer, 2004; Barki, Rivard, & Talbot, 1993; Schmidt, Lyytinen, Keil, & Cule, 2001), little is known about which of these risks are of high concern for managers of vendor-driven projects. To explore the issues associated with vendor risk management of outsourced IT projects, the research reported in this article examines the key risks identified by experienced vendor managers of software package implementation projects on client sites. An agency theory perspective was used to provide a framework to examine and explain the findings. In the next section, I review the literature related to outsourcing IT projects, and discuss the underlying agency theory assumptions supporting much of the prior research. The following sections describe the research methodology, results, and discussion of findings. The article closes with a discussion of implications for practice and research and a brief conclusion.

## LITERATURE REVIEW

There is an extensive body of work on the typical risk factors faced by in-house software development project managers, which has focused on developing comprehensive checklists of risk factors to be considered when planning and managing an IT project (Alter & Ginzberg, 1978; Barki, Rivard, & Talbot, 1993; Boehm, 1991; Heemstra & Kusters, 1996; Schmidt, Lyytinen, Keil, &

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