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Robert Gregory
E-Finance Lab, Goethe University Frankfurt, RWGregory@iese.edu

Roman Beck
Fachhochschule Frankfurt am Main, beck@itu.dk

Michael Prifling
E-Finance Lab, Goethe University Frankfurt, prifling@wiwi.uni-frankfurt.de

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Drivers of Individual Performance in IT Offshore Outsourcing Projects – A Case Study from the German Banking Industry

Robert Gregory
E-Finance Lab, Frankfurt am Main
gregory@wiwi.uni-frankfurt.de

Roman Beck
E-Finance Lab, Frankfurt am Main
rbeck@wiwi.uni-frankfurt.de

Michael Prifling
E-Finance Lab, Frankfurt am Main
prifling@wiwi.uni-frankfurt.de

ABSTRACT

The research question of this paper is what drives individual performance of members in IT offshore outsourcing projects. The research methodology chosen to analyze this research question is an exploratory and interpretive case study design. 15 unstructured and semi-structured interviews were conducted and analyzed with the aim of contributing to the theory-building process of individual performance in offshore outsourcing. The result of our investigations is an integrated performance model including expectancy theory, goal-setting theory, and cultural intelligence. In summary, we found four essential drivers for individual motivation and performance in the project: A cascading approach to meet deadlines which enhanced self-efficacy; the clarification of roles, responsibilities, and goals supported by a work coordination tool; the mutual clarification of expectations and open communication between German and Indian project workers as well as between superiors and subordinates; and the development of cultural intelligence for successful cross-cultural adaptation.

Keywords:
IT project management, cross-cultural IS research, exploratory case study, individual performance in offshore outsourcing

INTRODUCTION

There have been several studies examining individual-level drivers for IT project performance (e.g., (Abdel-Hamid, Sengupta and Swett, 1999; Rasch and Tosi, 1992)). However, we are not aware of any study examining in detail the drivers of individual performance in IT offshore outsourcing projects. Offshore outsourcing projects differ from onshore projects due to geographic distance, language barriers, and cultural distance (Dibbern, Winkler and Heinzl, 2007). Especially problems due to cross-cultural differences can “make or break an offshore project” (Gupta and Raval, 1999; Nicholson and Sahay, 2001; Rottman and Lacity, 2004). Therefore, investigations on individual performance in this context needs to take into account that cross-cultural barriers can be an inhibitor of performance and that particular individual-level skills and adaptation strategies are necessary for successful intercultural collaboration.

Research on cultural differences has shown that power distance, risk attitude, and collectivism versus individualism are important cultural dimensions in the context of offshore outsourcing between Germany and India (Dibbern et al., 2007; Hofstede, 2001; House, Hanges, Javidan, Dorfman and Gupta, 2004). While there is extensive empirical support for the importance of these cultural dimensions and their impact on individual behavior, there are few studies that examine how cross-cultural problems based on these differences can be overcome and what individual abilities or skills are needed that affect the performance in offshore outsourcing projects (Molinsky, 2007).

In this study we inductively develop a model explaining individual performance (i.e., the effectiveness how tasks are completed to contribute to the overall goal of in-time, in-budget, and high-quality project completion) in IT offshore outsourcing projects. The research question is what drives performance of individual project members in IT offshore...
outsourcing projects. The methodology chosen to investigate the research question is an exploratory and interpretive single-case study.

The paper is structured as follows. The next section contains the theoretical foundations consisting of expectancy theory (Vroom, 1964), goal-setting theory (Locke and Latham, 1990b), and cultural intelligence (Earley and Ang, 2003). The following section presents the selected research methodology followed by a brief case description. Then the case analysis and discussion of the results is presented. The paper concludes with theoretical and practical conclusions alike.

THEORETICAL FOUNDATIONS

Expectancy Theory

Expectancy theory originates from psychology and has been used to examine individual behavior at work and particularly motivational issues (Baker, Ravichandran and Randall, 1989; Carol A. Nickerson, 1989). The basic assumption is that people have preferences among outcomes expressed by a subjective expected utility of exerting effort to that outcome. The higher the preference and expectancy of benefiting from the outcome, the higher the outcome is valued by the individual (Van Eerde and Thierry, 1996; Vroom, 2005). In that case individuals are highly motivated and will exert higher effort levels which will result in more individual performance (Vroom, 1964). An individual’s effort level will be influenced positively by the clarity of the role in the project. The better the project member understands his role and responsibilities and knows what is to be accomplished as well as how his performance will be evaluated, the higher will be his or her effort level which leads to increased performance (Lawler and Suttle, 1973). An additional factor that influences directly the level of performance is the individual’s abilities which refer to the intellectual capabilities as well as the formal training and education (Aladwani, 2002; Ferris, 1977; Guinan, Cooprider and Faraj, 1998; Rasch et al., 1992).

Goal-Setting Theory

There are multiple empirical analysis and substantial support for the basic principles of goal-setting theory (Locke and Latham, 1990a; Locke et al., 1990b; Wofford, Goodwin and Premack, 1992). At the core of the theory lies the assumption that specific and difficult goals result in high effort-levels and performance, supposing that they are accepted by the individual and that feedback is provided (Latham and Locke, 1991; Locke, 1996). Furthermore, goal-setting is most effective when there is positive feedback which gives the individual information regarding his or her progress toward the goal (Latham et al., 1991; Locke, 1996). Note that the positive relationship between goal difficulty and performance depends on the individual’s goal commitment as well as his or her knowledge and skills which are necessary to achieve it. Therefore, goal commitment and the individual’s abilities are critical for the performance-enhancing effect of goal-setting (Ambrose and Kulik, 1999; Latham et al., 1991). An additional positive effect of setting specific and clear goals is to reduce the role ambiguity of an individual project worker (Locke et al., 1990b; Rasch et al., 1992). This means that specific goals – either predetermined by the project or program manager or set individually in case of room for maneuver – make it clearer for the individual what the responsibilities, tasks and performance evaluation criteria are. Another issue that is important for the positive effect of goal-setting on individual performance is self-efficacy which can be defined as individual’s confidence in their ability to organize and execute a given course of action to solve a problem or accomplish a task (Bandura, 1997). It has been argued that individual’s efficacy expectations influence goal setting behavior and the willingness the exert effort (Bandura, 1997; Locke, 1996).

Cultural Competence

The theories presented so far explain very well where individual motivation and performance come from. An important issue mentioned in both expectancy and goal-setting theory is the individual skill or ability level. Apart from task-related skills and general social as well as management skills, skills for cross-cultural learning and adaptation are important in an offshore outsourcing context. A concept that has been applied frequently in the context of cross-cultural adaptation in international business is cultural intelligence which refers to a person’s ability to adapt effectively to new cultural settings or contexts based on multiple facets including cognitive, motivational, and behavioral features (Earley et al., 2003; Molinsky, 2007). The motivational dimension emphasizes the importance of goals and self-efficacy. Additionally, curiosity is important, which is the desire to know about a foreign culture (Berlyne, 1960; Langevin, 1971). The cognitive dimension consists mainly of cultural knowledge about the basic beliefs, customs, values, practices, and taboos of the foreign culture which is important because natives may be reticent or inexperienced about explaining themselves to strangers (Earley and Mosakowski, 2004). The behavioral dimension is basically the result of combining cultural knowledge with motivation to actually adapt one’s behavior to the foreign culture. It consists of abilities which are domain-specific sets of skills that a person has acquired over time and aptitudes which refers to the general capacity to acquire additional abilities (Dunnette, 1976).
METHODOLOGY

The research methodology chosen for this paper was an exploratory and interpretive single-case study (Walsham, 1993). This seemed to be the most appropriate method due to the research question. According to Yin, “what” questions are suitable for exploratory studies where there is a lack of understanding about the phenomena at study (Yin, 2003; Yin, 1993). The epistemological position we draw upon is the interpretive research paradigm implicating – among other things – that we did not start our investigations with any predefined propositions or hypotheses as would have been the case for a positivist research methodology (Dubé and Paré, 2003).

Data collection took place between April and November 2007 and involved 15 unstructured and semi-structured interviews. Interview partners were selected along three dimensions (client versus vendor organization, position in company hierarchy, and role in the project). Additional secondary data was collected for triangulation purposes (e.g., project documentations, project member matrices, steering committee, kick-off, and cultural training workshop presentations). This sample size of 15 interviews was chosen according to the criterion of “theoretical saturation”, meaning that the last few interviews we conducted did not contribute new insights to our inquiry (Eisenhardt, 1989; Glaser, 1998).

The data analysis and inductive theory-building process was conducted in a structured manner. The interview transcriptions, personal notes, and secondary data were classified and organized according the interview partner selection criteria (i.e., client versus vendor organization, position in company hierarchy, and role in the project). After this initial classification, the first open coding process was carried out and important categories identified. The theoretical basis of our study evolved over time as we gained a deeper understanding of the relevant issues that played a role in our research context (Walsham and Sahay, 1999). We started with cultural intelligence as a “sensitizing device” for our data collection as we wanted to find out about individual-level drivers of performance in cross-cultural offshore outsourcing projects. Moving back and forth between the data and possible theoretical conceptualizations (Glaser, 1998; Glaser and Strauss, 1967), our analysis showed that cultural intelligence explained very well how cross-cultural issues involved in the project could be overcome. However, we realized that expectancy theory and goal-setting theory offered more detailed insights into individual performance in general. The result of our analysis process is a theoretical model incorporating cultural intelligence, goal-setting theory, and expectancy theory. These theoretical foundations for our analysis evolved over time as a result of an exploratory and interpretive research process (Walsham, 2006; Walsham et al., 1999).

In our data analysis and coding process we identified several concepts for which we found support from the theory during the research process. These are for example self-efficacy, goals and objectives, and clarified roles and responsibilities. However, we also identified a new concept: the mutual clarification of expectations facilitated by open and frank communication. This forms one of our theoretical contributions as will be explained in the case analysis and conclusion section.

THE CASE STUDY

The case upon which our analysis is based comprises a large and technically complex software reengineering project. A large-size bank with significant operations in Germany had two separate IT systems in operation for several years to handle the bank’s current accounts. One of the two systems was a legacy system from the 1970s which the bank wanted to integrate into the other system, which was newer and more suitable for future demands. The bank decided to integrate the older system into the newer one and merge the joint functionalities onto one single architectural platform.

The decision was taken to execute the reengineering project with an external vendor. It was the first time for some of the IT units of the client organization (i.e., the bank) not only to collaborate with an external IT service provider, but also with an international firm from India. The project was initiated without the involvement of the external vendor to specify business requirements and to develop a sophisticated project planning. After about a year, the Indian provider was involved in the project to start with technical requirements analysis and implementation planning. The course of the project can be summarized into five distinct phases:

Phase 1 consisted of gaining support from the two involved business departments, analyzing the business requirements, building a coherent and motivated project team, as well as starting with project planning activities.

Phase 2 was the time when the Indian service provider was involved in the project. Initial workshops were conducted focusing on cross-cultural training and establishing a formalized procedure for cross-border and cross-organizational collaboration. However, many people from the bank were skeptical to cooperate with their new Indian team colleagues due to the fear of job loss resulting from the new offshore outsourcing strategy pursued by the bank and the restructuring of the IT
department that was going on at that time. This fear affected negatively their motivation to collaborate with an offshore vendor.

In phase 3 the first sub-projects were initiated. Despite problems in communication due to language barriers and cross-cultural differences (for example, Indian project members frequently said ‘yes’, without communicating clearly setbacks or implementation problems), good working relationships started to develop.

Phase 4 followed, when the first lines of code and software packages were delivered. The quality of these initial deliveries was high, but did not fully meet the expectations of the client. That led to some degree of dissatisfaction with the service quality of the vendor organization and decreased the motivation of the client team members. Accordingly, in this phase some situations in particular sub-projects escalated and led to conflicts.

Phase 5 saw an alignment between the expectations of the client and the vendor on different levels – from the top management, the project leaders to the project members on both sides. Frequent client-vendor meetings were organized to facilitate the clarification of expectations from both sides. The level of motivation and performance among all project members regained momentum which contributed enormously to project success.

ANALYSIS AND DISCUSSION

As the case description shows, the level of motivation and individual performance was not always as high as expected during all times of the project (see phase 2 and phase 4). The project management team faced two major challenges: Create a motivated and coherent project team in the beginning of the project and maintain a high level of motivation and performance during the project’s lifetime. Due to the project’s length – approximately 4.5 years – and the obstacles of cross-cultural interaction, technical complexity, virtual team work, and client-vendor collaboration, this was everything but a trivial task to complete. The following case analysis will show how the objective was achieved of creating and maintaining a high degree of motivation and individual project member performance.

An important performance-enhancing technique was the cascading approach to meet deadlines which helped to increase the self-efficacy of the project workers. Due to the size and complexity of the project, it was a major challenge especially for the vendor organization as well as the young project members from the client organization to understand the technical and business requirements and grasp the whole picture. For example, many project members from the client organization did not believe in the feasibility to reengineer the whole system as expressed clearly at the initial kick-off meeting of the project. The vendor organization also had problems with the high performance goals and complexity of the project which was expressed frequently by Indian project members in phase 4 of the project. To give an example, the following statement was made by an Indian project manager:

“We are on this project for over 2 years now. It is nice to have the project divided into sub-projects, but still we do not see when we have fulfilled our contractual obligations and when we have achieved our objectives. We need more transparency!”

One of the solutions to the problem was to implement a cascading approach to meet deadlines. Initially, for each sub-project one deadline was set until when the deliverables had to be fulfilled by either the client or vendor organization, depending on the responsibility of the particular sub-project. As deadlines were not met on a continuous basis, the project management team started to set more deadlines and divide the project’s objectives into more sub-objectives. This increased the performance of the project members as the successful accomplishment of one objective increased the self-efficacy and motivation for the achievement of the next objective. A client project manager expressed it in the following way:

“In such a long-term project you need to stimulate the project members through clear-cut objectives and continuous individual success. Otherwise it is difficult to maintain a high level of motivation in the project team over the project’s lifetime.”

The cascading approach to meet deadlines helped overcome a cross-cultural problem, too. Indian project members frequently said ‘yes’, without communicating clearly setbacks or implementation problems, That way, frequently the promised quality was not delivered at the scheduled point in time. The cascading approach helped to get initial results of the processes before the actual deadline which helped to identify problems at an early stage.

A further technique was to implement an excel tool containing a matrix list. On one axis, the timeline of the project was inserted while the sub-projects were inserted on the other axis, so that the full set of deadlines and deliverables could be overviewed. Additionally, the responsibilities were documented so that it was clear for each deliverable who was the person in charge. This tool helped enormously for the work coordination between client and vendor organization and increased the
motivation of the project members due to increased transparency. The principal project manager from the client organization explained this project control issue in the following way:

“When the project started I communicated clearly to all project members that I would assign clear responsibilities to each project leader and set milestones as well as deliverables in order to control for project performance. A detailed matrix list was developed to document and track the project workers to fulfill their responsibilities.”

The issue of assigning responsibilities to key project members is closely related with goals and objectives which are handed over alongside the responsibilities. What one of our Indian interview partners told us also illustrates the role of goals and objectives for project motivation:

“We wanted to get this project up and running fast in order to demonstrate our capabilities and build up trust in the relationship with our client. […] Our goal was to understand their culture and adapt ourselves to them in order to create a more effective work environment and deliver high-quality results.”

The statement shows the important role of having clear objectives for motivation. However, as explained above in our case analysis, the positive effect may be diminished if there is no transparency concerning the deliverables, responsibilities, timeline of sub-projects, and so on. Additionally, it is important to have the mutual expectations and obligations clarified between client and vendor organization as well as superiors and subordinates in the project. The following statement made by an Indian project member illustrates this:

“Initially, we did not report setbacks or problems in the implementation process directly to our supervisors or our German team colleagues. They did not seem to be happy with that situation and after telling us over and over again that they wanted us to communicate frankly and openly any problems, we realized that it was ok for them to know about implementation problems without getting upset with our performance.”

Clarified expectations are also important between subordinates and project leaders as demonstrated by the following statement made by a project leader from the client organization:

“I remember very well a meeting we had with the principal project manager to discuss a major problem we had in our sub-project. At the beginning of the meeting you could feel the heat in the air and everyone was quite loaded with emotions. However, the goal of our meeting was to clarify expectations in order to prevent problems in the following sub-projects. We had open and frank conversations concerning what the project manager expected from me, as a project leader, and what I expected from him. The meeting helped to motivate me and resolve many personal disputes that had developed so that we decided to carry out such meetings in the beginning of each sub-project to come.”

We see that the clarification of expectations between the sub-project manager and his superior led to more clarified goals and objectives and increased the motivation as well as performance of the sub-project manager.

Besides goals, role clarity, self-efficacy, effort levels, and motivation, the individual-level abilities of the project members play an important role for performance. In the context of offshore outsourcing projects, cultural intelligence is an important ability which is the ability to adapt effectively to new cultural settings or contexts and includes motivational, cognitive, and behavioral elements (Earley et al., 2003). The collected data from our case study indicates that cultural intelligence was an important individual-level driver of performance in the project. To give an example, a project member from the Indian organization made the following remark:

“Initially, I saw myself confronted with many cross-cultural issues and particularities of the German culture. For example, I did not understand their formal approach to testing and project documentations. Conflicts occurred that affected negatively my self-esteem as I did not understand whether they were due to poor service quality or other reasons. As the project went on, I learned a lot about the German culture and reasons for their risk attitude. I started to adapt my behavior more actively.”

On the other hand, the German project members had to adapt to their Indian colleagues by learning how to communicate in a way that their Indian colleagues could save their faces or by interpreting correctly answers to their questions. To give an example, when one of the German project members asked his Indian team partner for the name of his colleague who had conducted a cultural training workshop at the German bank two years ago, in order to ask this person whether he would be available for some questions concerning our research project, he answered politely:

“There are many trainers – if there is a requirement for conducting such a workshop, we would be glad to arrange it for you.”
The German project member interpreted the message for us as follows: “No, an interview is not possible because the trainer does not work with the company any more. Subsequent interviews supported our analysis results, showing how cross-cultural adaptation stimulated by cultural intelligence was an important individual-level driver of project performance. First cultural knowledge (cognitive dimension) is needed. In this case the Indian project worker needed to know about the high risk avoidance culture of the Germans. Second motivation for cross-cultural adaptation is essential (motivational dimension) and we can observe in the collected data that the motivation to adapt was facilitated by a deeper understanding of the cross-cultural issue involved. When the Indian project member understood that the conflicts were not due to his poor performance or uncongenial German project members, but rather due to a cultural particularity, he knew that he had to set himself the goal to adapt actively because the cultural issue would certainly not dissolve. The understanding of the cultural differences (cognitive) and the willingness and desire to adapt (motivational) resulted in active cross-cultural adaptation. A lack of cross-cultural adaptation would have had an inhibiting effect on performance.

In summary, we found four essential drivers for individual motivation and performance in the project: A cascading approach to meet deadlines which enhanced self-efficacy; the clarification of roles, responsibilities, and goals supported by a work coordination tool; the mutual clarification of expectations and open communication between German and Indian project workers as well as between superiors and subordinates; and the development of cultural intelligence for successful cross-cultural adaptation.

CONCLUSIONS

This case study illustrates how individual performance in IT offshore outsourcing projects is driven by personal abilities (e.g., cultural intelligence) and motivation which is driven by targeted goal-setting, clarified roles and responsibilities, and self-efficacy. An additional issue that we found in our data was the clarification of expectations between German and Indian project workers as well as between superiors and subordinates at the German client organization that helped to clarify roles, reduce conflicts, and stimulate motivation for exerting more effort. The inductive development of this concept is the first theoretical contribution of this paper. The second theoretical contribution is the introduction of the cultural intelligence concept to the literature on individual performance in the context of IT offshore outsourcing. There have been no attempts so far to adapt or extend theories of individual performance in project teams to the cross-cultural context. The third theoretical contribution is to the domain by increasing our understanding of what drives individual performance in IT offshore outsourcing projects and developing inductively a theoretical framework. This framework consists of goal-setting theory, expectancy theory, and cultural intelligence and contains the concepts analyzed in this paper. The fourth contribution of this paper is a methodological one by conducting an exploratory study in the domain of cross-cultural IT project management, a call that has been made by leading scholars in the field (Reynolds and Yetton, 2007).

This paper also offers some practical contributions. Our data indicates that a cascading approach to meet deadlines helps to increase momentums of success and self-efficacy. This in turns increases the motivation and performance of the project members. Another useful tool was a simple excel sheet containing a matrix list with a detailed timeline and all goals (sub-projects to be accomplished) and responsibilities. This augments the transparency of the workload and increases role clarity between German and Indian project members as well as between superiors and subordinates in the different project teams. An important success factor for the project and driver of individual performance was the project management style of the principal project manager. In particular, the assignment of clearly structured roles and responsibilities to sub-project leaders represented a “mental change” for the project members as they were not used to this project management style from past projects. The main effect was increased motivation and performance. Despite the strong influence of the above mentioned ‘formal’ project management leadership style and techniques, our findings also indicate the importance of more ‘informal’ elements. In particular, open and frank communication between project workers from different organizational levels and between client and vendor organization helped to clarify mutual expectations and create transparency and trust. A final practical conclusion is that cultural intelligence is an important individual-level capacity in the context of IT offshore outsourcing projects and should be encouraged by project managers, for example by sending project members to the home country of the project partner.

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