



DO&IT Seminar Series

Speaker: Vijay Gurbaxani, Professor of Information Systems
The Paul Merage School of Business, UC Irvine

Date: Friday, November 14, 2008

Time: 2-3:15 pm

Location: VMH 1335

Title: **IT Outsourcing Contracts and Performance Measurement**

Abstract: Companies that outsource IT services usually focus on achieving multiple objectives and outsourcing contracts typically specify a variety of metrics to measure and reward (or penalize) vendor performance. The specific types of performance metrics included in a contract strongly affect its incentive content and ultimately its outcome. One specific challenge is the measurement of performance when an outsourcing arrangement has a mix of objectives, some that are highly measurable and others that are not. Recent advances in contract theory suggest that the design of incentives for a given objective is affected by the characteristics of other objectives. However, there is little empirical work that demonstrates how relevant these “multi-task” concerns are in real-world contracts. We apply contract theory to examine how objectives and incentives are related in IT outsourcing contracts that include multiple objectives. We establish empirical results about performance measurement in IT outsourcing contracts that are consistent with recent theoretical propositions. We find that the use of strong direct incentives for a given measurable objective is negatively correlated with the presence of less-measurable objectives in the contract. We show that outsourcing contracts that emphasize goals with high measurement costs employ more performance metrics than initiatives whose objectives have a lower measurement-cost profile. Surprisingly, as the number of performance metrics increase, satisfactory outcomes decrease, which we explain within a multi-task theory framework. Overall, our results provide empirical support for multi-task principal-agent theory and important guidance in designing outsourcing contracts for complex IT services.

Bio: Dr. Vijay Gurbaxani is Professor of Information Systems and Computer Science, and Director of the Center for Research on IT and Organizations at the Paul Merage School of Business, University of California at Irvine. His research interests are in the economics of information systems. He is the author of a book, *Managing Information Systems Costs*, and numerous journal articles. His research has appeared in *Information Systems Research*, *Management Science*, *MIS Quarterly*



Review and Communications of the ACM. Vijay Gurbaxani received Master's and Ph.D. degrees in Business Administration from the William E. Simon Graduate School of Business Administration, University of Rochester, New York, and an integrated 5-year Master's degree in Mathematics and Computer Science from the Indian Institute of Technology, Bombay. His doctoral thesis won the prize for the best dissertation in a worldwide competition sponsored by the International Center for Information Technologies. He was awarded the 2002 Outsourcing World Achievement Award in the academic category by PricewaterhouseCoopers and Michael Corbett and Associates.