Exploring the Impact of Team based Reward on Project Performance in Outsourced System Development

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ABSTRACT

Outsourcing system development to international information technology vendors working in project teams can notably facilitate the successful implementation of client information system development (ISD) projects. Reward structures in such culturally different environments, however, are not well defined or understood. The authors examined the effects of team performance based reward structures on ISD project performance. A total of 194 responses were solicited, obtained, and analyzed. The results indicated that reward based on team performance can improve the level of task cohesion which in turn facilitates increased information utilization. Both task cohesion and information utilization enhance project performance. Directions for management practice and future research are discussed.

Keywords: Information System Development (ISD), Information Utilization, Project Management, Reward for Team Performance, Task Cohesion

INTRODUCTION

An information systems development (ISD) project is comprised of challenging decisions and a myriad of problem solving activities. The project team for this context is constituted of individuals with varied knowledge and capabilities to undertake complex tasks. Throughout the project life cycle, team members work on their individual and aggregate tasks, ascertain problems, diagnose the parts of problems, and develop solutions to problems. The final team performance is largely driven by their cumulative commitment towards the team’s tasks. When compounded by multiple cultures and organizations, the crux is to develop concerted commitment towards team tasks or task cohesion more effectively. Task cohesion is the basis for exchanging unique information, facilitating group membership and team decision making (Zaccaro, Gualtieri, & Minionis, 1995).

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A temporary project team exhibits numerous obstacles in forming a cohesive unit as compared to permanent business units or a team with an extended history where members interact with each other more extensively. In the context of outsourced IS development projects, where teams are constituted for the duration of the project life cycle over multiple organizations and dissolved once the project is implemented, task cohesion is difficult to form since there is only limited time for team members to interact with each other. Furthermore, team members are likely distributed across multiple geographic locations resulting in differences in organizational culture or location specific work cultures between and among the client and vendor teams (Gopal & Gosain, 2010). The existing literature deals extensively with cultural differences at the organization level such as work ethic, work hours, importance of hierarchy, mode of communication, and concern for quality (Bhat, Gupta & Murthy, 2006) and at a national level with factors such as language barriers, time differences, and socio-economic, political, and religious diversity (Anbari, Khilkhanova, Romanova & Umpleby, 2003). Moreover, among offshore IT providers, the turnover rate of employees has been 15-30%, while in the business process outsourcing (BPO) segment the rate has surged to no less than 40% (Schaff, 2005). We believe, under these conditions, task cohesion among team members is hindered and certain managerial interventions are required to enhance task cohesiveness.

Team performance linked rewards (a type of managerial intervention) are often selected by managers across different types of teams to improve aspects of individual and overall team performance such as cooperation, strengthened task identity, and unified team goals (Haines & Taggar, 2006). According to social interdependence theory, a team can work together to accomplish shared goals or competitively to achieve a goal that only one or a few can attain (Johnson & Johnson, 2005). From this perspective, past literature has identified interdependence structured by utilizing team rewards as a critical indicator of collaboration, expertise sharing, and innovation (Johnson & Johnson, 2005). Team based rewards are commonly prevalent in information system development program teams (Pattit & Wilemon, 2005). Research on understanding the role of team based rewards and performance has been conducted in many contexts to establish a direct link between rewards and performance outcomes (Allen, Sargent, & Bradley, 2003). Surprisingly, the existing general and IT project management literature lacks empirical research examining the efficacy of team based rewards and final project outcomes that are difficult to attain in most environments, but especially in those that cross organizational and cultural boundaries (Beel, 2007).

Based on social interdependence theory, this study aims to understand the relationship of a team based reward system and its potential impact on task cohesion and subsequently to project performance in the context of outsourced IT projects. Specifically, we argue that managerial intervention (team based rewards) is required to build task cohesion in a temporary team. Finally we argue that, those common understandings composing task cohesion facilitate team processes (information utilization) and lead to a better outcome (project performance). Survey data of 194 IS developers from IT outsourcing firms located in India was collected to validate the model. In the following sections we first review the literature on team based rewards and social interdependence, then build hypotheses based upon the literature. A description of the research methodology and data analysis are followed by implications for researchers and practitioners.

THEORETICAL BACKGROUND

Social interdependence theory has emerged and presented a conceptual structure to understand cooperation in groups. Different types of social interdependence that exist among group members include resource, expertise, goal and reward interdependence. When interdependence exists, such as in ISD project teams, group members can take action in ways that relate to the actions of others (Johnson & Johnson, 2005). The basic presumption of social interdependence theory
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