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Vendor Related Risks in IT Development: A Chronology of an Outsourced Project Failure

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Many organizations consider outsourcing their information technology (IT) development projects as an attractive risk-mitigating approach. In such an engagement, the vendor may agree to complete a project for a fixed cost and according to a defined time schedule. Nevertheless, while the vendor is liable for the traditional project risks, other forms of risk may arise, which are the vendor risks. This paper presents a recent case study of a project failure that demonstrates some of the major vendor risks and their contribution to system development failure. The risks discussed in the paper are: (a) Adversarial relationships and loss of trust between the vendor and the client; (b) Vendor management de-escalation of commitment; and (c) Difficulty in breaking the contractual engagement. The case shows that IT outsourcing, an organization might not eliminate the traditional IT project risks but rather exchange them for equally fatal vendor risks. Furthermore, the case raises doubts regarding the effectiveness of the contract-driven control approach to mitigate vendor risks. This paper suggest that perhaps, since placing all risks on the vendor is impractical, a partnership approach of sharing risks and rewards may be more effective in bringing the client and the vendor to successful project outcomes.

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