

UNIVERSITI TEKNOLOGI PETRONAS

Challenges of Information Technology Outsourcing in Developing Countries – An
Exploratory Interpretive Case Study in Malaysia Suppliers' Perspective.

By

Abdul Jaleel Kehinde Shittu

A THESIS

SUBMITTED TO THE POSTGRADUATE STUDIES PROGRAMME

AS A REQUIREMENT FOR THE

DEGREE OF DOCTOR OF PHILOSOPHY

INFORMATION TECHNOLOGY

BANDAR SERI ISKANDAR

PERAK

JULY 2009

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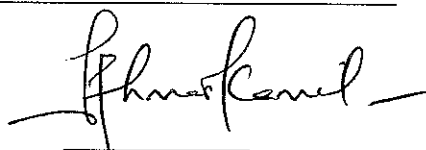
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IN INFORMATION TECHNOLOGY

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DECLARATION

I hereby declare that this thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted as a whole for any other degree at UTP or other institutions.

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ABSTRACT

Information technology outsourcing (ITO) practices in developing countries have come with numerous problems ranging from organisational setup, absence of mutual trust between IT suppliers and clients, inconsistent policies and lack of deployable ITO model. Malaysia is not an exception in these problems. Therefore, this research took an in-depth look into various challenges facing Malaysia's ITO industry especially from suppliers' perspective and presents a theoretical model that could be a possible solution to the identified problems. The research looked at problems facing ITO practices in the light of; mutual trust, government policy, cost of service and ITO model. This qualitative research used interpretive and exploratory approach for its analysis and suggested a modified performance and result/outcome-based pricing model based on industrial and academic alignment of the findings. This is a multiple case studies research with five different IT-based organisations; four IT suppliers and one government agency for IT development all within Malaysia. MAXQDA data analysis tool and constant comparative analysis (CCA) method were used to analyze the data. This research contributes to the IS/IT research on ITO from qualitative research paradigm and at the same time succeeded in developing a theoretical model for ITO success in Malaysia through four phases.

ABSTRACT (BAHASA MELAYU)

Amalan *ITO* di negara-negara membangun terus berkembang namun berhadapan dengan pelbagai masalah bermula dari peringkat pembentukan organisasi, tiada kepercayaan mutual antara kedua pihak pembekal dan klien, polisi yang tidak konsisten, sehinggalah ke peringkat ketiadaan model *ITO* yang sesuai. Malaysia tidak terkecuali dari menghadapi situasi serupa. Oleh yang demikian, kajian ini dijalankan untuk melihat secara menyeluruh pelbagai jenis cabaran yang dihadapi oleh industri *ITO* di Malaysia khususnya dari perspektif pembekal serta membentangkan secara teori model yang dapat membantu menyelesaikan permasalahan tersebut. Kajian ini memberi fokus terhadap amalan *ITO* dari sudut kepercayaan mutual, polisi kerajaan, kos perkhidmatan, dan model *ITO*. Kajian kualitatif ini menggunakan pendekatan interpretif dan explorasi untuk menganalisa selain mencadangkan suatu model harga berasaskan *modified performance and result/outcome* yang diolah berdasarkan kedapatan akademik dan industri. Ini adalah kajian kes pelbagai (*multiple case studies*) terhadap lima organisasi berasaskan IT – empat daripadanya pembekal IT dan satu agensi kerajaan berkaitan pembangunan IT kesemuanya di Malaysia. Data dan maklumat di analisa menggunakan perisian MAXQDA dan juga kaedah analisa perbandingan berterusan (*Constant Comparative Analysis*). Kajian ini menyumbang kepada bidang kajian IS/IT berkaitan *ITO* berasaskan paradigma kajian kualitatif dan pada masa yang sama telah mampu membangunkan model teoritikal untuk memahami kejayaan *ITO* di Malaysia melalui empat peringkat.

This research is dedicated to my family and the upholders the Truth around the globe.

ACKNOWLEDGEMENTS

All praise is due to Allah *al Jaleel* in His Oneness, without His mercies and bounties this effort would not have yielded a fruitful result. And may His ceaseless peace and blessings continue to shower on the soul of the harbinger of truth (pbuh). Numerous individual and groups have contributed in no mean measures towards achieving this feat in my academic career. These few words are not enough to express my appreciation, but it won't go uncredited.

Foremost is my supervisor, Dr Ahmad Kamil Mahmood. His thoroughness, painstaking attention and diligence deserve a worthwhile kudos in supervising my thesis. It is an understatement to say I have learnt from him. Indeed I have benefited immensely from him, openness and humility were great lessons I have achieved from my interaction with him.

To Prof. Dr. Mohd Ishak Desa and Dr. Suziah Sulaimon, my examiners thank you for the contributions, your hours long questioning and drilling will keep lingering positively in my mind. Hardly, you know that you succeeded in casting away my fear forever and rebuild my confidence, credence to your progressive mind.

My special gratitude goes to my loving, caring and helpful wife Nafisat Afolake who has been supportive throughout my PhD program and was actively involved in this research in particular. I shall never forget her unflinching supports and prayer.

More importantly, I appreciate the endurance of my little children; Anees-Aaliyat Olajuwon Aduke and Haneef Oladapo Alabi throughout my studies. They made my sojourn in Malaysia a memorable one. I love you too.

My family members especially my beautiful mother Safurat Bayonle Aduke, I will ever appreciate your endurance (THANK YOU MUM), my father Toyeeb Alabi whose resounding prayers keep me on feet and my siblings; Ishaq Kolawole, Jaleelat Taye (my partner from womb), Abass Olalekan, Sekinat Idowu, Ruqayat Alaba, Lateefat Taye and Toyeebat Jumoke) were not also left out in my struggle to attain great heights. You have always been supportive with prayers and words of encouragement. I love and miss you all. May Allah spare our lives to meet again in peace and happiness. Same goes to all my nephews and nieces, you are on my intranet.

I cannot also forget my in-laws (parents and siblings) thank you for giving me *The Stabilizer* my wife. The Kelanis, Oyesomis, Adebayos, Mudathirs, Najimudeens, Tijanis, Opatokuns, Olatunduns, Rajis, Owoyemis, Ahmads (Otun), Osenis, Mustafas, Adewales, Oyefolahans and countless more (you have been a wonderful family). I appreciate you all.

I am also indebted to all dignified members of NIDOMY and NISCOM some individuals in the two communities were the propellers in my wheel, thank you all. My micro community Nigerian and African at UTP, thank you too for lubricating the wheel.

Last but not least, I will like to thank Dr. AbdRahman Ahlan who assisted me in translating the abstract to *Bahasa Melayu* despite a very short notice. Also to the families of Prof. Ahmad Sheu Abdussalam, Prof. MJE Salami, Prof. S. Muyibi, Dr. AbdulKabir Soliu, Dr. Umar Abdurrahman, all from IIUM. You are the *Ansar* in my *Hijra*.

My everlasting thanks to the Management of Universiti Teknologi PETRONAS, the Postgraduate office under Dr. Mohd Nor Karsiti (chairman viva panel) without your support, my dream to proceed to doctoral studies would have been shattered. Also, my appreciation goes to the entire staff (academic and non-academic) of CIS department, The Postgraduate Office (I am happy for ever meeting you all). I also acknowledge every single person that has contributed in one way or the other to the success of my Doctoral program (lecturers, friends and colleagues.) May Almighty Allah bless you in return (Amin).

Wa Akhiru Da'wahana annil-l-Hamdulillahi-r-Robbil-l-Aalamin

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“...human behavior always comes with meaning, with intentions and purposes. That is to say, the way others see and react to what you do is powerfully affected by what they think you mean, what you are trying to do and why”.

Sam Beer, “Letter to a graduate Student”

CHAPTER ONE

INTRODUCTION

1.0 Background of Study

Kearney's 2007 index of the 50 most attractive offshoring locations ranks Malaysia third in the world, hot on the heels of India and China in the criteria of financial attractiveness and workforce skills/availability (Goolsby, 2007). She proclaimed Malaysia as "*the natural choice for offshore services*". In the business environment criteria, Malaysia scored 2.0, higher than the 1.4 of India and China.

Although another study was conducted by International Data Corporation IDC in 2007 (Figure 1.1) on favored IT outsourcing destinations, neither Kuala Lumpur nor any city in Malaysia is included. This is in contrast with Singh et al. (2007) study conducted under the *Gartner* which rated Malaysia 'good' for outsourcing based on ten criteria listed (Table 1.1) below.

Table 1.1 Malaysia Outsourcing Rating
(Singh, et al. 2007)

Criterion	Rating
Language	Good
Government support	Good
Labor pool	Good
Infrastructure	Good
Educational system	Good
Political and economic environment	Good
Cost	Good
Cultural compatibility	Good
Global and legal maturity	Good
Data and intellectual property security and privacy	Fair

Outsourcing in general has been around for many years in many functional and divisional areas of organisation such as: marketing, human resources management and information technology. Nonetheless, Lacity and Hirschheim (1993: 297) established

that, information technology (IT) outsourcing is a relatively new area and its existence can be traced back to 1950s during the dawn of computing age.

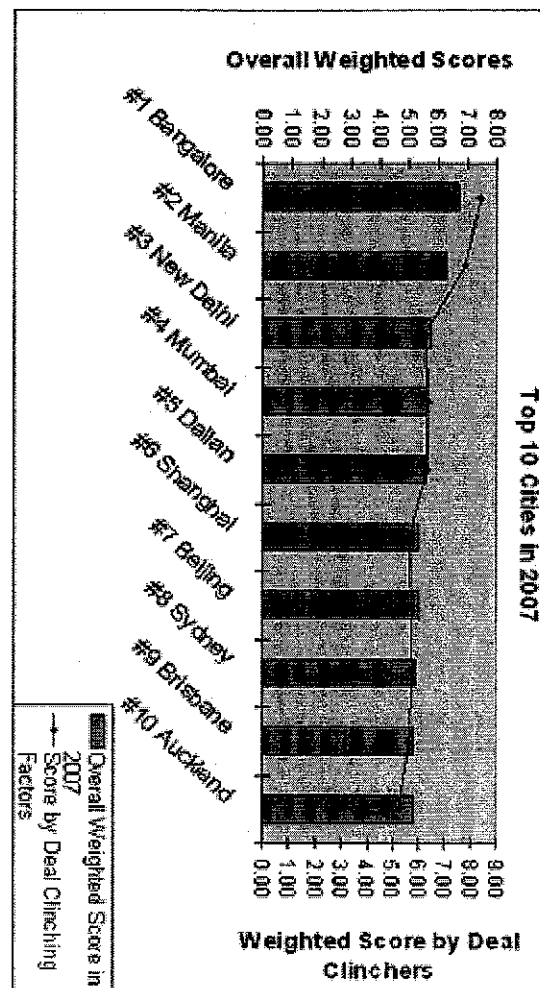


Figure 1.1 Information Technology Outsourcing Favored Destinations
(IDC, 2007)

In another perspective, Lee et. al. (2003) claimed that IT outsourcing is not a new phenomenon, they submitted that: *“IT originated from the professional services and facility management services in the financial and operation support areas during the 1960s and 1970s”*. They gave the timeline for outsourcing trend as Figure 1.20 below depicts.

Year	Outsourcing Focus	Outsourcing Approach
1960s	Hardware	Services and Facility Management
1970s	Software	Facility or Operation Management
1980s	Hardware and Software Standardization	Customization Management
1990s	Total Solution	Asset Management

Figure 1.2 Timeline in Outsourcing Trend

Lee, et al., (2003)

They explained further about outsourcing timeline trend thus:

In the 1960s, the use of external vendors was confined to time-sharing or processing services. Since computers were large and expensive, most companies relied on service bureaus, systems houses, and other professional firms to provide facilities management services. The 1970s marked the beginning of the standard application package concept. To overcome the increasing demand for IT applications and the inadequate supply of IT personnel, managers began to rely on contract programming, which became the predominant form of outsourcing during the 1970s. Then came the rapid decline of some processing services from the end of the 1970s, which can be seen in historical perspective as an early manifestation of technological downsizing. The arrival of low-cost minicomputers and then PCs also hit the processing services business at the beginning of the 1980s. By the time the focus shifted to IT-supported vertical integration in the 1980s

Outsourcing nature has evolved from merely a simple client-vendor relationship to strategic alliances, aiming at achieving shared benefits for both parties (Grover, et al., 1996). The review shows that very little attention was given to understanding the outsourcing relationship both conceptually and empirically (Kern and Willcocks, 2000, Dibbern et al. 2004).

In the same sense, little attention is also given to study of IT outsourcing vendors in relation to the IT outsourcing client in an IT outsourcing environment arrangements (Sengupta & Zviran, 1997; Goo & Nam, 2007). In Malaysia, lesser interest has been shown in the study of IT outsourcing from the vendor's window, especially in reference to mutual trust, government policy, high cost IT service and customized IT outsourcing model for the developing world in general and the Malaysia in specific.

Mostly, the previous studies on IT outsourcing in Malaysia focused on banking and financial institutions (Ahlan 2006; Suhaimi et al 2005). Another work on outsourcing is on the perceived impact of outsourcing on customer service management by Khong (2005). Beside these IT outsourcing research streams in Malaysia, a recently addition to the research is a study of IT outsourcing in Petroleum sector, a case study on PETRONAS by Shittu and Ahlan (2006). Apart from all these focused works on IT outsourcing in Malaysia, Sulaiman, Jafar and Beng (2005) gave an insight into IT outsourcing trends in Malaysia, using the quantitative method in their research. Therefore, this research will bridge the gap on IT outsourcing researches conducted in Malaysia firstly by studying IT outsourcing from vendor's perspective and secondly by adopting qualitative approach in order to balance the research skew in the IS/IT community and understand nature of ITO practice in developing and emerging countries.

Commercially, the notion of outsourcing has been an accepted practice for organisations (Tho, 2005: 5; Anderson & Trinkle, 2005). The industries that practice outsourcing may choose to use third-party suppliers to provide a substantial number of components, either to be assembled as regards manufacturing or provide services as regards financial institution, education, etc (Tho, 2005: 5).

During the last decade, outsourcing has emerged as a major strategic option in information technology management (Jae-Nam et al., 2008). Dibbern et al. (2004) note the continue wave of billion dollars from outsourcing deals. Citing International Data Corp (IDC), the estimated worldwide outsourcing market size has increased from \$100 billion in 1998 to \$152 billion in 2005 to whopping increase of £1200 billion by 2005. Kern et al., (2002) projected \$US190+ billion by 2006 as global market revenues on information technology outsourcing. Cobb (2005) while referring to IDC, the U.S. outsourcing market will increase by 5.6 percent to \$268.7 billion in 2005 and ultimately reach \$355 billion by 2009. There is a sharp increase in the projection made by IDC in 1998 and 2005, which indicates that IT outsourcing market is growing tremendously from \$152 billion to \$268.7 billion.

The modern era of IT outsourcing is over 20 years old now (if one assumes it began when Kodak-IBM-DEC signed their outsourcing deal, which was reported in 1989). Since then companies have been signing major outsourcing deals across the globe,

gaining enormous confidence in Kodak-IBM-DEC outsourcing alliance deal. This trend is expected to continue for many reasons such as its cost effectiveness, concentrating on organization's core business activities and keeping abreast with rapid IT technological advancement, just to name a few.

According to Cullen and Willcocks (2005), the IT industry has added mystique to describe outsourcing by establishing its own vernacular, though according to Cullen and Willcocks (2005) these vernaculars are sometimes controversial. Phrases such as; strategic partnering, strategic alliances, co-sourcing, value-added outsourcing have been coined to suggest greater depth to the prospective relationship between client and ITO supplier. Kern et al. (2002) lamented thus:

More recently, ITO has seen the somewhat false start of what it called netsourcing that is renting applications, services and infrastructure over a network. This idea is considered to have profound applicability in the medium term to 2010

As more functions become candidate for outsourcing, a new language is spoken by a generation of globally savvy business executives. To these executives, outsourcing connotes strategic flexibility, a return to core competencies, focus, discipline, leverage, cost consciousness, nimbleness etc. In short, outsourcing to some of these business gurus means: progressiveness; modernity; open-mindedness and the likes. In contrast to old pejorative labels on outsourcing such as defeatism, laziness, or incompetence, where outsourcing was seen as an admission of limitations for small firms and for a large firm it was seen as a sign of failure, even financial distress, all these were in the 1950s (Anderson & Trinkle, 2005).

Nowadays, large and small firms outsource virtually anything. Large companies go to the extent of announcing their outsourcing moves with the hope that such news will lift their stock price, which according to Anderson and Trinkle (2005) it often does. The outsourcing revolution that took place in the late 1990s and continues into new millennium has made the logistic options in corporate supply chains to easily make or mar a company's manufacturing and supply chain model (Cook, 2007). This millennium changes has made outsourcing to become "*downright fashionable*" (Anderson & Trinkle, 2005). To this research, these phrases symbolize a constant growth in ITO management

and at the same time indicate some of the challenges that continue to arise in the face of client/supplier relationship and IT Outsourcing management.

Apparently, effective management of IT outsourcing continues to be a challenge to organisations today (Koh et al. 2004, Hongxun et al. 2006), likewise the high cost of outsourcing service, failure to established mutual trust in ITO transaction (Rottman and Lacity, 2008; Lumsden and Mackay, 2008; Mao, Lee, and Deng, 2008) and inconsistent government policy were part of challenges facing suppliers in ITO industries. (Oza et al. 2004; Hongxun, et al. 2006; Siakas, et al. 2006; Kancharla, 2007 and Jae-Nam, et al., 2008).

The supply side of IT outsourcing has received little attention in the academic research community since focus has been largely on client strategies (Currie, 2000; Ernst, Kamrad and Ord, 2007; Mao, Lee, and Deng, 2008). This has tended to produce one-dimensional approach to the study of IT outsourcing in Malaysia.

The literature review in this research details that IT outsourcing can broadly be looked at from two perspectives, that is: the suppliers/the vendors and the clients/customers. This research looked into IT outsourcing from supplier's side. Therefore, the area of interest of this research is focused on challenges and prospect of IT outsourcing suppliers in Malaysia. It analyzes the effect of high cost of service, the lack of standard IT outsourcing management model, the difficulty in establishing a stable mutual trust with vendors, and inconsistent government policy on ITO services vis a vis small and medium ITO enterprises (SMEs).

1.1 Statement of Problem

Outsourcing is not something that can be considered in isolation. It has become a major factor in commerce. The dramatic advances in technology over the last few decades have created an almost intolerable situation for everybody involved in management (Dodgson, Gann & Salter, 2008). Managers in all organisations are now seeking means to achieve maximum competitiveness in performing and adopting best practices (Currie & Willcocks, 1997; Sengupta, 2004). Outsourcing originated and became popular as a cost-saving strategy during a recessionary environment. This had made the world's largest

organizations to call into question the efficacy of outsourcing in today's economy (Deloitte, 2005).

Pfannenstien and Tsai, (2004) emphasized that companies offshore mainly to seek "*cost efficiencies by exploiting wage differentials*". They pointed out information technology (IT) hourly rates for workers in Asia and other emerging markets are reported to be anywhere from 30 to 75% lower than they are in the United States, generating close to 50% savings for offshoring an activity.

In contrast, the rising cost of outsourcing services, coupled with the enterprises incapability of information technology and systems has made IT outsourcing a nightmare. Small scale enterprises (SMEs) were the most affected by this phenomenon. This development had led several SMEs to fold up, due to their inability to compete even within their local environments (King, 2005; Beaver and Prince 2004; Hashim, 2007).

In support of the above assertion, Rottman and Lacity (2008) explored the offshore outsourcing experiences of a US-based biotechnology company, based on 45 interviews and significant documentation. This company offshore outsourced 21 IT projects to six suppliers in India. Senior managers and the official documents from the Program Management Office consistently reported that offshore outsourcing was successful in reducing the company's IT costs. However, interviews with knowledgeable participants actually managing the projects suggest that many projects were not successful in meeting cost, quality, and productivity objectives. They found evidence that this company's offshore strategy to simply replace domestic contractors with cheaper, offshore suppliers was a poor fit with its social and cultural contexts (Rottman & Lacity, 2008).

Another study conducted by DiRomualdo (2005) also present a mixed picture of outsourcing experiences. The number of buyers that have "abnormally terminated" an outsourcing relationship soared to 51 percent from 21 percent last year. The primary reasons for those mass terminations were poor provider performance (36 %), a change in strategic direction of the buyer (16 %), decision to move the function in-house (11%), and not achieving cost savings (7 %).

With the rapid evolution of information technologies, to many enterprises, the importance of the IT has been unceasingly increasing, more and more is getting into the

main business of an enterprise in depth, and IT eventually becomes a vital part of the enterprise's core competence, which will definitely have a great influence on the decision making and the development strategies of an enterprise in a long run (Hongxun et al, 2006).

However, most IT suppliers in Asia are relatively inexperienced with the management of IT outsourcing relationships. Not only the IT suppliers are inexperienced, the outsourcing companies do not have a track record in the management of IT-outsourcing relationships (Beulen & Ribbers, 2002).

Although outsourcing is an effective way to help the enterprises manage their IT system management, it is not an easy job, if it is not properly handled. Outsourcing may result in a nightmare instead of the expected benefit (Tan & Sia, 2006). According to them, this occurs when there is no standard IT outsourcing management system in place and where client and supplier do not mutually trust each other. Absence of a perfect IT outsourcing management system is born out of inadequate government policy.

Cullen and Willcocks (2003) saw that any organisation will be in a superior position if it develops the future IT organisation and contract/supplier management strategy early. Though they considered such superiority position as tempting, but organisations have to wait and try to 'make a go of it', with a caution that, this approach assumes a level of effortlessness regarding ITO management that rarely exists.

Unfortunately, this fatal flaw has left some organisations with out-of-control costs, high IT personnel turnover, inadequate supplier monitoring and poor IT planning (Cullen & Willcocks, 2003). For instance, a state-based insurance company who had entered into a strategic partnership with an IT organisation, startled with the level of basic management required alone to manage the IT capability. IT strategy was non-existent and IT costs were demonstrably higher than the market. This development had made the organisation to start rebuilding its IT organisation. This and some other cases exposed the flaw in IT management system claimed to be in-place.

Several studies had shown that organisations that develop their firm's outsourcing relationships based upon mutual trust rather than relying on punitive service level agreements and penalties benefit from a "trust dividend" worth as much as 40% of the total value of a contract (Annesley, 2005). Willcocks and Cullen (2005), study found that:

“contracts with well-managed relationships based on trust rather than stringent SLAs and penalties are more likely to lead to a ‘trust dividend’ for both parties.”

Trust is considered as a central aspect of successful IT outsourcing (Jae-Nam, 2008). Jae-Nam proposed a trust-based relationship research model to assess the perceived IT outsourcing success in two terms: the first one is mutual trust with its temporal dimension of initial trust and initial distrust, and the second is knowledge sharing with the moderating effect of mutual dependency.

Mutual trust is undoubtedly an important component of many social and business relationships and has been considered essential in many business activities (Anderson & Narus 1984; Gefen 2002; Mohr & Spekman, 1994). Previous studies have shown that mutual trust determines the nature of many buyer–seller relationships (Dwyer et al. 1987; Heide & John 1990). Mutual trust has been identified to be a key factor contributing to alliance success as well as alliance performance (e.g., Dyer & Chu 2003; Mohr & Spekman 1994; Zaheer et al. 1998; O’Brien, 2001). According to Zaheer et al. (1998), mutual trust is defined in the context of supplier and buyer relationship.

Unlike inter-personal trust, which is the trust placed by the individual to his/her individual opposite member, mutual trust refers to the extent of trust placed in the partner organization by the members of the focal organization. This definition clearly indicates the intrinsically complex and multifaceted nature of mutual trust as well as the variety of units and levels of analysis to which trust can be applied (Zaheer et al. 1998). Mutual trust in an outsourcing relation is very similar to that of other relations because it involves interactions between a customer and a service provider.

These interactions often go beyond the rules, agreements, and exceptions specified in a legal contract, because quite often partners commit themselves and make contributions to their relationship that go beyond what was specified in the contract (Nelson, 2005).

As a result, mutual trust plays an important role because there are trust-related elements which are intangible and might not be easily captured in a contract. However, it cannot be assumed that a trust-based relationship always leads to successful results in outsourcing. Indeed, it is believed that mutual trust is a necessary but not sufficient

condition for outsourcing success, especially in a knowledge rich phenomenon such as IT outsourcing (Yao & Murphy, 2005).

Several IT companies have formed strategic alliance or partnership between IT and non IT-based companies (Sauer & Willcocks, 2004: 3). This arrangement positioned such IT vendors in the board of the allied or partnership companies. Such alliances and partnership arrangement are mostly based on long term strategic relationship which involves long periods of due diligence that focused on the intents, interests, capabilities and viability of the parties as Applegate et al., (2003: 14) rightly puts it:

Formal contracts contain provisions for joint planning processes that are designed to identify and address strategic uncertainties and for changing terms to deal with unforeseen opportunities and risks. Provisions for 'death' and 'divorce' become critical in outsourcing strategic IT system development or operation.

Other new strategic responses to outsourcing as identified by Henderson and Venkatraman (1994) apart from strategic alliances and partnerships outsourcing mentioned earlier by Applegate et al. (2003), include joint ventures, re-engineering and rightsizing. Soliman (2003: 736) identified a new trend in outsourcing drive, which he called 'global outsourcing'. He distinguished global outsourcing from traditional one because "*the required development tasks are contracted to an offshore service provider*". He categorized global outsourcing into three; direct global outsourcing, global outsourcing via domestic consultant, and global outsourcing via application service provider (ASP).

Soliman (2003) claims that, the above three forms of global outsourcing are widely practiced nowadays. The above-mentioned are the practices that revolve round outsourcing deals, which this research is able to identify at the preliminary research stage. As the research progresses it hopes that, more practices may be identified or discovered, going by the nature of the approach adopted by this research, which is interpretive and exploratory case study.

Outsourcing is no longer confined to industries that are not vigorously driven by information, even information-intensive industries like banking, which are traditionally known for keeping information processing and management in-house, are actively engaged in outsourcing (Gupta & Seshasai, 2004). Financial services, insurance, health

care, communications, and travel agents are some principal clients of outsourcing vendors (Gupta, 2007). The outsourcing of IT services and development of software applications have been flat in the travel and several other industries. Though, the outsourcing of many back-offices and customer call-center services has kept pace with other industries when it comes to processing that is directly generating revenue for the few large Global Distribution Systems (GDS).

On the other hand, technology executives often considered business managers shortsighted, lacking the vision to exploit all that technology has to offer. Willcocks and Lacity (1998: 1) reported the view of a Chief Information Officer (CIO) of an oil multinational company about outsourcing, saying; *“outsourcing is a method of rebuilding the focus of the organisation so that you focus on what is important to the organisation, and not what is important to the traditional IT world”*. Most organisations are also not specific in term of assigning importance to IT-functions in their organization. Some see information technology as an enabler (IBM, 2006).

IT [Information technology] is a business enabler and catalyst for innovation. These organisations recognized that information technology can provide business leverage and be a driver of top-line growth... using technology to render more efficiency across the business and enabling the business to integrate and exploit new requirements more readily...also using technology to provide new distribution channels, understand different ways to segment markets and develop profound new customer insights

Initially, Applegate et al., (2003) claimed that business executives often view the IT-function with apprehension, that they see IT-function as the *“province of technocrats primarily interested in new features that may have little relevance to real world-business problems”*. While technology executives on the other hand often considered business managers to be, *“shortsighted, lacking the vision to exploit all that technology has to offer”*.

IT-based organisations see information technology as the core operation in their industry. Likewise, some non IT-based organisations also see information technology as part of core operations of their organisation (EDO, 2005). Therefore, there is a need for an organisation to identify the role of information technology before subsequently opting for outsourcing of their IT-functions.

Outsourcing the production of goods to developing countries already plays a key strategic role for companies seeking to reduce costs and streamline operations. Advances in information and communication technologies (ICT) and their business applications, together with the globalization of the world economy, have led to a rapid internationalization of information-technology-enabled services (ITES). The growth of BPO services specifically in developing countries results from a combination of various factors, including recent ICT developments in these countries, and it mirrors increasing demand from enterprises located mainly in the United States and Europe to outsource non-core business functions at a low cost in order to focus on their main core operations (Forey & Lockwood, 2007; Dossani & Kenney, 2007).

Case studies indicate that developing-country entrepreneurs seeking to enter the BPO business need to assess infrastructure and skills requirements, define a business plan, and develop marketing strategies to promote local competencies. Governments wishing to support the development of a BPO sector may, as a matter of policy, address issues related to ICT infrastructure, education, regulatory environment and taxation (UNCTAD, 2003). In the case of this research, it tries to get insight into Malaysia ITO environment.

However, this research tries to get insight into Malaysia ITO environment by adopting interpretive method due to few numbers of IT outsourcing suppliers' organisations in Malaysia and the caliber of interviewees needed for this research. Beside the above two reasons, ITO industry is considerably new in Malaysia, therefore a large pool of data (needed for quantitative research) is not feasible for this research sampling. This is in line with the nature qualitative research which aims to provide an in-depth understanding of people's experiences, perspectives and histories in the context of their personal circumstances or settings (Spencer, et al., 2003). Incidentally, qualitative research is characterized by a concern with exploring phenomena from the perspective of those being studied; with the use of unstructured methods which are sensitive to the social context of the study (Spencer, et al., 2003).

1.2 Malaysia IT Outsourcing Environment

Malaysia government views outsourcing as a value-added service in generating more revenues and improving IT service and performance (Hussin, et al., 2006). A report from *Price Water House*, a research market firm, indicates that Malaysia can attract at least RM11.4 billion out of RM1.9 trillion global outsourcing businesses by year 2008 (Cheong, 2003). In the ninth Malaysia Plan (2006-2010) released by the Prime Minister, a substantial allocation was provided for IT and telecommunications industries, in the development of infrastructure plan and development of IT solutions for modernizing the country (Teoh, 2006). An amount of RM5.7 billion has been allocated for various ICT projects (Singh, 2006). Therefore, a substantial amount will be further awarded to IT service providers. This demonstrates that the future path for IT outsourcing growth in Malaysia is promising (Hussin, et al., 2006).

Malaysia's government agencies and private sectors are continuously seeing a rising trend in engaging into IT outsourcing arrangements involving significant amount of deals. For instance, *Bank Negara* (Central Bank) Malaysia sparked these large outsourcing deals as an effort to soften the 1997 financial crisis in the Malaysia banking industry. Massive computation projects were outsourced in the early 1990s in an attempt to mobilize Malaysian government's large-scale systems integration projects. Implementation of Multimedia Super Corridor (MSC) flagship applications marks the beginning of ICT project in the public sector, which includes E-Government (EG) initiatives. Malaysia IT clients are ranging from those wanting minimal e-services solutions to those with mega IT needs.

In 2005 Budget, a sum RM500 million was set aside for infrastructure outsourcing projects especially in the education and health sectors (Suhaimi, et al., 2007). Outsourcing has been realized as a strategic mean to accelerate IT projects, in other to achieve the Vision 2020 envisaged by Malaysia government. However, in 2009 budget, the Prime minister advocated for greater utilisation of ICT as an "*essential for businesses to remain competitive*" (Badawi, 2009). The budget emphasized the use of ICT requires companies, especially SMEs, to incur large expenses to replace and upgrade ICT assets. The Government proposed an Accelerated Capital Allowance (ACA) which is currently

claimed over two years be accelerated to one year on expenses incurred on ICT equipment by private sector (Badawi, 2009).

In essence, Malaysia 2009 budget gave room for wider direct foreign investments (FDI), which is not limited to IT multinationals only. The Malaysian budget 2009 read thus:

To ensure Malaysia remains an attractive investment destination in the region, particularly among multinational companies, the tax framework has to be transparent and business friendly. To enhance certainty on pricing issues for inter-company trades within a group, the Government proposes to introduce an Advanced Pricing Arrangement mechanism.

This mechanism is believed to be widely practiced in developed countries and has succeeded in resolving issues relating to transfer pricing.

1.3 Research Questions

In the light of the issues stated above, and the information technology outsourcing trend in Malaysia, this study attempts to address this question:

How cost of outsourcing services, government policy, business mutual trust and an IT outsourcing management system contribute to the success of IT Outsourcing?

The emphasis of this research is on the IT supplier which is also called IT vendor. From the central research question above, this study identifies four factors as major contributor to the success of information technology outsourcing and they are:

- a) The rising cost of ITO suppliers' services (Cullen and Willcocks, 2005; King, 2005; Beaver & Prince 2004; Rottman & Lacity, 2008).
- b) Effect of government policy on ITO practices in Malaysia (Badawi, 2009; Chini, 2008; Goolsby, 2007; Kancharla, 2007; Rithauddeen, 2007; Barrar & Gervais, 2006; Kwok & Jianmei, 2006; Argy, 2004; Leong, 2004; Heeks, 2002).
- c) Problem of mutual trust in conducting ITO services (Jae-Nam et al. 2008; Mao et al, 2008; Babar et al, 2007; Annesley, 2005; Akhter, 2004; Dyer &

Chu 2003; Chu 2003; Gefen 2002; O'Brien, 2001; Anderson & Narus 1984; Mohr & Spekman 1994).

- d) Inadequate IT outsourcing management system in term of customized IT outsourcing model (Lacity et al, 2008; Easterby-Smith et al, 2008; Gupta, 2007; Holcomb & Hitt 2007; Bravard & Morgan, 2006; Bartels, 2006; Burkholder, 2006; Anne & Sparrow 2005; King, 2005; Diromualdo, 2004; Willcocks, 2003; Dixon et al, 2002).

1.4 Research Objectives

The aim of this research is to identify and understand how the IT outsourcing being practiced in a developing country (Malaysia) can contribute effectively to their economic development and maximised global opportunity rendered by IT outsourcing practices. In order to realise this aim, the researcher has set the following objectives, to be achieved by the end of this research:

1. Analyze and evaluate the extent at which the global IT outsourcing market price is affecting outsourcing services in Malaysia.
2. Analyze and evaluate government policies that are affecting IT outsourcing services especially on the suppliers' side in Malaysia.
3. Identify and analyze the effect of mutual trust between ITO vendors and clients.
4. Develop a theoretical IT outsourcing management model for successful IT Outsourcing suppliers in Malaysia.

In summary, this research intends to identify all the above mentioned challenges and proposes a model in accordance with ITO suppliers' request incognizance with ITO global delivery model, that inbuilt mutual trust and create workable environment under established government policies with relatively minimum service cost.

1.5 Limitation

Generally speaking, it is widely believed that limitations in IT outsourcing research relate to the level of expertise and the staffing in the client's organisation influence the client's ability to manage IT outsourcing deal (Kaganoff, 1988; Burkholder, 2006; Dominguez,

2006). The degree to which the client's contract office can specify the terms of the outsourcing contract is very crucial, because, IT outsourcing may place new demands on management, particularly organisations that have specific core business beside information technology.

This research will cover some selected MSC status IT vendor organisations available in Malaysia. It shall also make some comparison analysis among these selected organisations in the information technology outsourcing industry.

As this study aims at establishing the outsourcing practices from the vendor perspective through the lens of interpretivism, all the interview sessions with the interviewees and other materials gathered directly from those selected organisations would be used as primary source of data. This research will limit its analysis to issues that were initially raised by this researcher and issues that were generated in the course of interviewing the selected individual. As this research is interpretive and explorative in nature, the research is limited only to the above mentioned criteria.

This research is also limited in its analysis to the method supported by MAXQDA, a qualitative analysis tool deployed in this research and with the use of constant comparative analysis (CCA), by arranging all these issues into tabular format. This will help to develop conceptualisations of the possible relations between various pieces of data (Thorne, 2000, 2008a; Gasson, 2004).

1.6 Research Assumptions

- The first assumption in this research was that the targeted people would be willing to be interviewed more than one time.
- The specific organisations would cooperate with the researcher and assist the research morally, by giving access to information that were relevant to this research.
- Another assumption was that the order of the interview questions would not influence the responses. Despite the fact that the questions were set up in an arbitrary manner, more so, the method is explorative, though some may assume there was method to the question's layout, which in fact was not true.

- The last assumption of this research was that some questions might encourage interviewees to be more specific and less flexible. However, the explorative nature of the research would assist in diving more into any ambiguous questions or responses. While interpretive approach to this research will give the researcher academic freedom to interpret data based on researcher's perspective without necessarily biased.

1.7 Definition of Terms

ITO: Information Technology Outsourcing.

IT Suppliers: It also mean IT vendors, that is any organisation that provides IT services such as: Total value, print/design, applications development, network setup, network Management and operations, Web services, Database services and operation, procurement, IT Trainings, IT marketing, computer hardware, IT maintenance and servicing, others. This research considered any company that deals in one or more of IT services as an IT supplier.

IT Vendors: Any organisation that provides IT service(s) to supplier/vendor.

MSC Status: This is accreditation given by Multimedia Super Corridor Malaysia to IT organisations operating in Malaysia.

MSC Cybercities: MSC cybercities and cybercentres are area designated by Multimedia Development Corporation to catalyse and support the growth of ICT industries. Cybercity houses MSC Malaysia status companies, where ICT activities are intensified to extend ICT benefits to Malaysians by providing jobs, economics opportunities, education, training and state-of-the-art e-services. Such as: Cyberjaya, Technology Park Malaysia, UPM-MTDC, KLCC and Menara KL

Qualitative Analysis: A process of examining and interpreting data in order to elicit meaning, gain understanding, and develop empirical knowledge.

MAX Maps: Visual modeling for qualitative analysis tool used in this research. The primary task of MAX Maps is to provide a graphical representation of the different elements within an MAXQDA project. MAX Maps also allows research to design graphical models or networks that are completely independent of MAXQDA's data.

Service Level Agreement (SLA): An SLA is a document that describes the minimum performance criteria a provider promises to meet while delivering a service. It typically also sets out the remedial action and any penalties that will take effect if performance falls below the promised standard. It is an essential component of the legal contract between a service consumer and the provider.

1.8 Organisation of Thesis

This thesis comprises of six chapters. This is done to enable the research to be organised and follow sequence in qualitative research.

1.8.1 Chapter 1: Introduction

Chapter one, gives an overview to the thesis research topic. This includes research background, introduction to the Malaysian IT outsourcing environment, research questions and objectives of the study. The significance of the study follows and finally outlines the organization of the thesis.

1.8.2 Chapter 2: Literature Review

In chapter two, a review of relevant literature related to this research is presented, apart from general knowledge on outsourcing which this research deems relevant for detailed understanding of what outsourcing is all about in general and IT outsourcing in particular. The chapter presents the evolution of IT outsourcing, types of outsourcing relationship model, outsourcing motivations, IT outsourcing arrangements and factors influencing IT outsourcing industry in Malaysia, as well as presents and past research on IT outsourcing in Malaysian context. It also tries to identify the missing links in ITO researches which are yet to be critically addressed in the ITO research

1.8.3 Chapter 3: Research Method

This chapter begins by diving into general knowledge on research methodology, classification and comparison. Later, the need for adopting interpretive method and case study approach for this research is explained as one of paradigm and

method in IS research. It justifies the research methodology used in collecting data for analysis and research sample. The chapter also provides further discussion on interview questions. Constant comparative methods (CCM) used in analyzing qualitative research was elaborates.

1.8.4 Chapter 4: Data Collection and Analysis

Chapter four portrays the result of the data by comparing different responses on particular theme. This chapter discusses interview of IT suppliers selected for this research, and categorizes the interview into different themes, to ease and standardized the analysis.

1.8.5 Chapter 5: Discussion of Cases and Research Findings

This chapter discussed several issues raised on case by case based and later comparison was made among the cases in thematic form using comparative analysis approach, thereby, a particular Case is used as anchor-case in comparing to other Cases. In this same chapter research findings were also discussed.

1.8.6 Chapter 6: Research Conclusion and Recommendation

Finally, Chapter six highlights the contribution made. It then concludes the study listing the limitations and suggestions for future avenues of research, within the domain of IT outsourcing.

1.9 Research Road Map

This section presents a road map that could be used in appraising this research, nevertheless the road map itself is neither static nor final, as it continued to evolve and develop out of the case study, which needed further refinement or validation as the research progressed. It was developed with particular reference to ITO suppliers (practice and problems) and the development of ITO industry in Malaysia.

This research road map was built on:

- ✓ A comprehensive review of the literature on IT outsourcing, prospects and problems;

- ✓ A review of qualitative research methods used in evaluating information technology outsourcing studies;
- ✓ Exploratory and in-depth interviews with a range of people from ITO suppliers in Malaysia, who have an interest in finding a probable lasting solution to the problem of high ITO service price, persistent mutual trust problem, lack of adequate ITO model and inconsistent government policy.

All these strands of activity have heavily influenced the content of the road map and the premises that surround its operation. The research road map shown in Figure 1.3 below emanates from the researcher's understanding of the ITO process and problems in Malaysia.

1.10 Summary

The chapter begins with overviews of the study, followed by the research background. The changes in the Malaysia IT industry had catalyzed IT outsourcing practices, especially the supplier of ITO services. High service cost, absent of mutual trust, inconsistent in government policy and lack of globally harmonized and locally customized IT model were identified as challenges facing ITO in Malaysia, looking from supplier's perspective. Theoretical framework of this research was sketched to guide research progress. Next chapter presents the review of IT outsourcing literature.

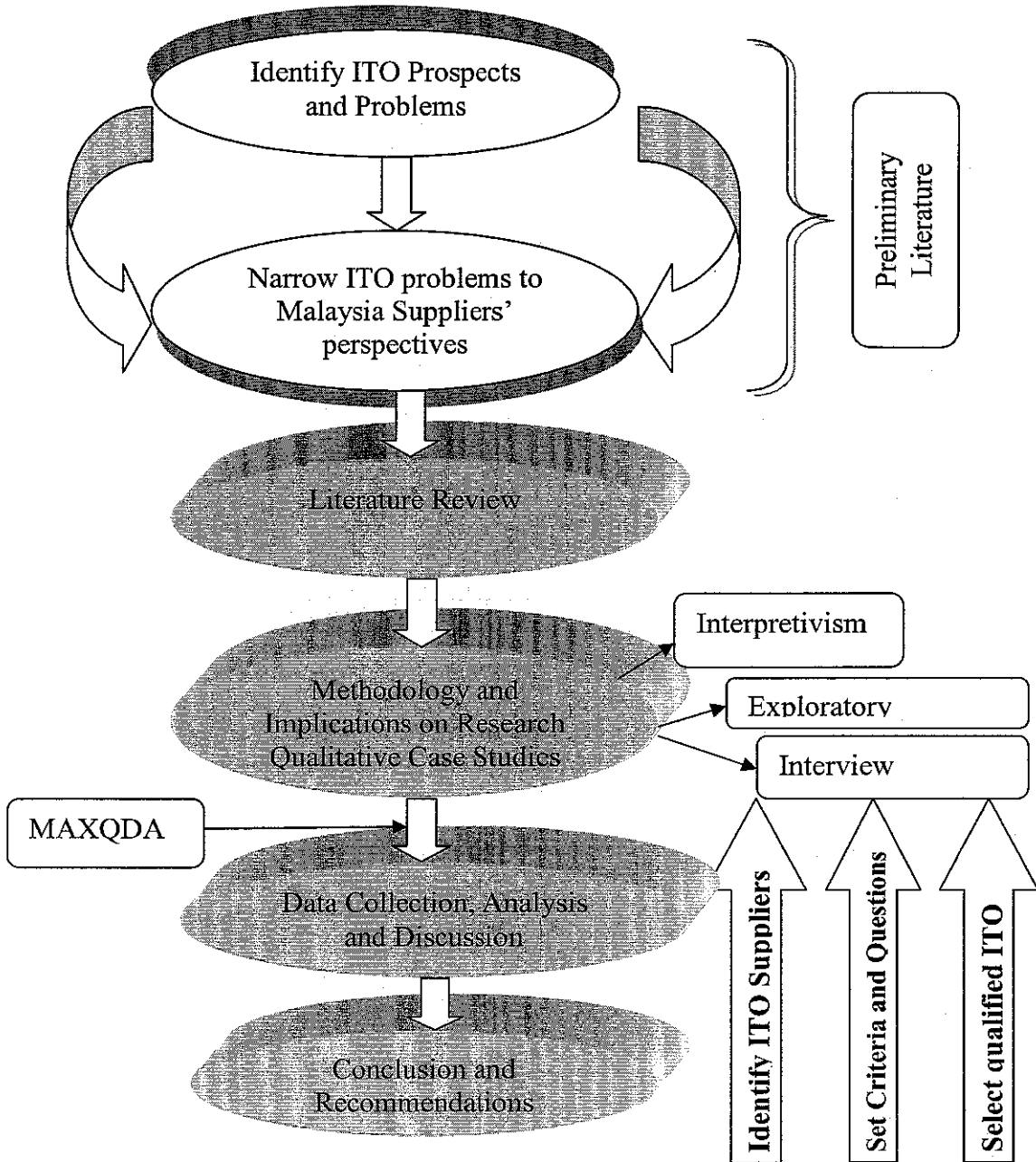


Figure 1.3 Research Road Map

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

In this section, a review of outsourcing literature is presented, apart from general knowledge on outsourcing such as advantages and disadvantages of outsourcing which this research deems relevant for detailed understanding of what outsourcing is all about in general and IT outsourcing in particular. This chapter presents the evolution of IT outsourcing, types of outsourcing relationship model, outsourcing motivations, IT outsourcing arrangements and factors influencing IT outsourcing industry in Malaysia, as well as presents and past research on IT outsourcing in Malaysian context. It also tries to identify the missing links in ITO researches which are yet to be critically addressed in the ITO research

2.1 Introduction

Information technology outsourcing (ITO), or the plethora of names under which it is also known such as; contracting out, partnering, co-sourcing, etc. is handling over IT activities and assets to third party management for monitored outcomes (Cullen & Willcocks, 2005). In Cullen and Willcocks (2005) assessment of ITO, they concluded that ITO has outlived the five-year period typical of a management fad and is now regarded as a standard IT management tool. The concept of outsourcing as a management tool has been popularized by number of authors including; Heeks (2002), Osborne and Gaebler (1992: 87), Cross (1995: 1), Lacity and Willcocks (1998: 263-308), Heywood (2001: 9), Tho (2005), Burkholder, (2006), Bragg, (2006). Apart from these authors, several other books, Internet resources and articles were reviewed later in this chapter.

Mehta et al. (2006) and Nobrega and Sinha (2008) identified managerial challenges faced by business process outsourcing firms in India. Their study looked into; strength, weakness, opportunity and threats (SWOT) of IT outsourcing vendors in India.

While Leymann, Roller and Schmidt (2002) and Dominguez (2006), identified managing people asset, business process outsourcing (BPO), and the long-term contracting of non-core business processes to an outside services provider, as measure that helped outsourced organisations achieved significant cost reductions by providing superior services of shared functions of accounting, information technology, human resources and internal auditing.

Non-core business processes outsourced to a flexible, experienced business partner can be managed faster, better and less expensively than the traditional internal approach Bragg (2006). They also claimed that outsourcing allows organisations' management to focus on their core business of the respective organisations.

Therefore, there is a need for client's organisations to identify whether IT-function is part of its core operation or not and subsequently weigh the potentiality of getting the expected benefits of outsourcing its IT-function from its selected outsourcing vendor.

On the other hand IT vendors were not without their peculiar challenges ranging from; government policy, mutual trust, perceived high cost of ITO services and unavailability of standard ITO model. Some of these challenges can be categorised as internal while others are considered external challenges.

2.2 Definition of Outsourcing

In a layman's term, outsourcing can be defined as a process in which a company delegates some of its in-house operations/processes to a third party. Although this definition of outsourcing is not complete in the full sense and seems very much close to contracting it is to be noted that contracting and outsourcing are in no way related (Jagdish, Arvind, & Srinivasan, 2004: 2-47). Grossman and Helpman (2005: 135) simply said that "*we live in an age of outsourcing*". This statement clearly indicates that outsourcing is now an accepted business strategy (Mehta et al. 2005). Thompson et al. (2008) identified that the current interest of many companies in making outsourcing a key component of their overall strategy and their approach to supply chain management represents a big departure from the way that companies used to deal with their suppliers and vendors.

Outsourcing has variously been defined in the IS literature as “a conscious decision to abandon or forgo attempts to perform certain activities internally and instead to farm them out to outside specialists and strategic allies” (Thompson et al. 2008) “... turning over to a vendor some or all of the IS/IT functions...” (Apte et al., 1997, p. 289) “...the contracting of various information systems' sub-functions by user firms to outside information systems vendors” (Chaudhury et al., 1995, p. 132) “...the organizational decision to turn over part or all of an organization's IS functions to external service provider(s) in order for an organization to be able to achieve its goals”(Cheon et al., 1995, p. 209). Tho (2005: 7), in his claim, said that; “outsourcing can no longer define straightforward as before”. He further maintained that, “each scenario in outsourcing carries unique flavours and nuances” Tho (2005).

In order to get a full-fledged definition of outsourcing one has to take into consideration the matter of ownership or control as pointed to by (Northfield, 1992; Garnick, 2002; and Grossman & Helpman, 2005). They claimed that generally in contracting, the ownership or control of the operation/process being contracted lies with the parent company, whereas in outsourcing the control of the process is with the third party and not with the parent company.

Domberger (1998) defines outsourcing as “an activity where the supplier provides for the delivery of goods and / or services that would previously have been offered in-house by the buyer organisation in a predetermined agreement”. Garnick (2002: 3), defined outsourcing “as phenomena in which a company or organisation delegates a part of its in- house operations to a third party with the third party gaining full control over that operation/process”.

Cohen and Young (2006: 21-22) described the option of using external sources for the provision of services by an organisation as traditional outsourcing, where potentially any service may be bought rather than built. Among other definitions are:

...the significant contribution external vendors provide in the physical and/or human resources (HR) associated with either the entire IT infrastructure or specific components of it...

Loh and Venkatraman (1992)

[Outsourcing is] a contractual relationship where an external organisation takes responsibility for performing all or part of an agency's Information

Technology functions. This can involve a partial or complete transfer of staff and/or resources.

Geoff and Duesburys (1997)

Outsourcing is an arrangement whereby a third party provider assumes responsibility for performing information systems functions at a pre-determined price and according to predetermined performance criteria.

Northfield (1992)

...third-party management of IT assets, people, and/or activities required to meet pre-specified performance levels and includes the operating data centers, network and communication management, systems development and maintenance and training...

Lacity and Hirschheim (1995)

IT outsourcing is defined as a transfer of any particular IT activity or a combination of activities from an organization using them to one or more external service providers.

Sengupta and Zviran (1997)

...involves transferring IT assets, leases staff and management responsibility for delivery of services from internal IT functions to third-party vendors. This situation or cooperation between two parties can be temporary or designated with an agreed length of time...

Hirschheim and Lacity (2000)

Information technology (IT) outsourcing is the practice of turning over all or part of an organisation's IT functions to never have been more important to business success...

Gottschalk and Saether (2005)

Outsourcing is the practice of hiring functional experts to handle business units that are outside of your firm's core business. It is also a method of staff augmentation without adding to head count.

Dominguez (2006)

According to e-formation's (2008) glossary, outsourcing is defined as the transfer of components or large segments of an organisation's internal IT infrastructures, staff, processes or applications to an external resource such as an Application Service Provider.

The culmination of these definitions had earlier been succinctly explained by Dunkle (1996) who saw outsourcing as a practical step to allow an organisation to focus its resources on key areas of value-added capability, or core competencies, rather than

spreading resources too thinly and overloading the capacity of the organisation. Apart from simply looking into definitions, a brief review of the advantages and disadvantages of outsourcing shall be looked into, followed by the factors and some critical issues in the outsourcing practices.

In another word, outsourcing can be seen as the process of seeking alternatives to performing information technology; operational and business activities in-house and moving these activities to third-party vendors that provide these services for a fee per established contractual terms that determine the cost and conditions of rendering them (Garnick, 2002).

This research shall adopt Garnick definition due to certain factors that were mentioned in his definition, such as: seeking alternatives to performing IT, moving both in-house activities to third party vendors, and contractual. More so, this definition accommodates the range of outsourcing options while preserving the inside to outside transfer of IT functionality.

Eventually, this lead this research to define information technology outsourcing as an activity that may or may not be previously been offered in-house by buyer (client) organisation but later decided to be handled by external organisation (supplier/vendor) based on a predetermined agreement between the two parties.

2.3 Advantages and Disadvantages of Outsourcing

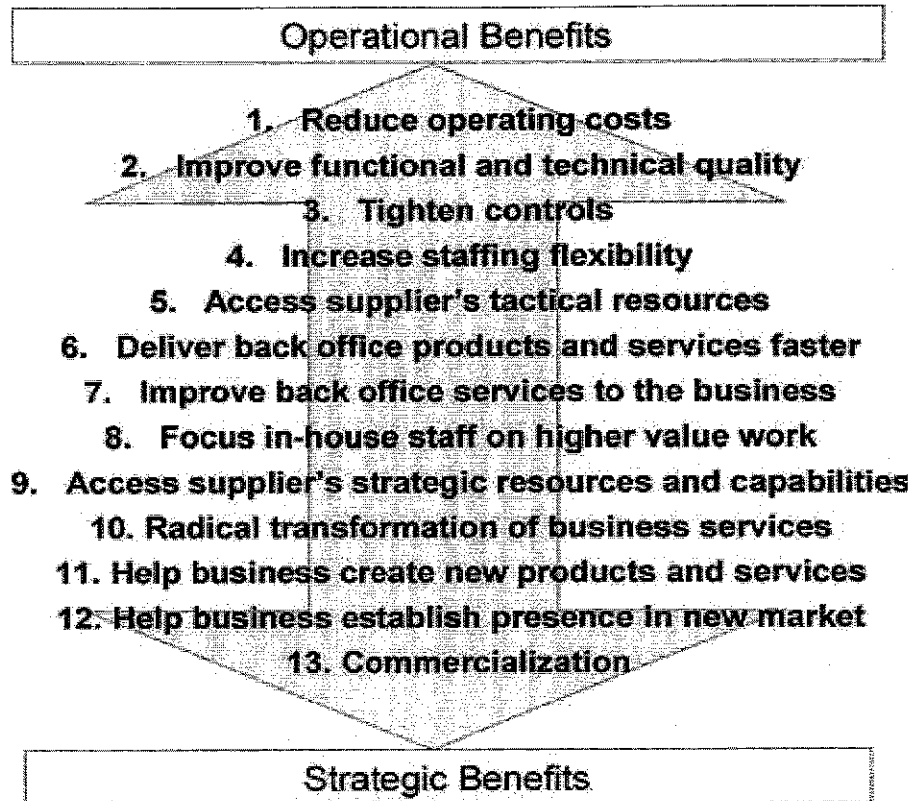
Outsourcing as a trend has come into major scrutiny by workers and media alike in the developed and some developing countries, as claimed by bizbrim.com, one of the leading outsourcing vendors. Several journal papers and articles such as: Gatner, (2007); Lacity & Hirschheim (2002); Lee (2005: 102); Applegate et al., 2003; Garnick, 2002; Cohen and Young, (2006); De Boer, Gaytan, and Arroyo, (2006). Philips (2004); Beaumont and Sohal (2004) among others have discussed merit and demerit of outsourcing, which are represented in Table 2.3 below

Table 2.3 Advantages and Disadvantages of Outsourcing

Advantages	Disadvantages
<p>Reduce and control operating cost: Outsourcing reputedly reduces IT costs. Vendors tempt firms by purporting to cut costs by 10-50 percent (Gatner, 2007; Lacity & Hirschheim, 2002);</p>	<p>Ascertaining relevant costs: It is notoriously difficult to allocate the costs of internal IT amongst individual applications or to quantify the fixed and variable components Barthelemy (2001) lists “the hidden costs of IT outsourcing.” Documenting internal operations being considered for outsourcing and preparing service level agreements (SLAs) (Sturm et al., 2000; Butler, 2000) may be a lengthy and expensive exercise.</p>
<p>Concentration on core activities and competencies: Managers should apply their experience and knowledge to core competencies and outsource activities in which they are less competent and can benefit from vendors' expertise. Vendors can supply expertise and state-of-the-art technology. Lee (2005: 102); Applegate et al., 2003)</p>	<p>Maintaining the relationship: An outsourcing relationship can be characterized as either arm's length or collaborative (suggestive of out-tasking and partnership respectively) (Davey & Allgood, 2002).</p>
<p>Variable and fractional demand: A small firm's limited internal resources make coping with sudden changes in demand difficult. Responses to increased demand usually lag demand as new capacity is acquired or new staff are recruited and trained (Gaytan, and Arroyo, 2006). Diminished demand may necessitate dismissing loyal staff in whom training and experience has been invested A vendor may have ample resources. A small organization will not hire half a lawyer, but outsource its legal requirements.</p>	<p>Loss of distinctive competencies: Lonsdale and Cox, (2000) stress that outsourcing the intellectual or other skills underlying a distinctive competence may be a bad strategy</p>
<p>Avoidance of cultural problems: Cultural differences can also often cause friction between IT and management and outsourcing may allow the “elimination of an internal irritant (Beaumont & Sohal, 2004).</p>	<p>Change problems: Outsourcing creates change problems. If an in-house system is replaced by a vendor's system, there is danger of disruption caused by misunderstanding or failure to transfer data properly. Outsourcing a function may entail dismissal or redeployment of employees, changes in the work they do or their transfer to the vendor's employment and its different conditions. (Useem & Harder,</p>

<p><i>Access to the best technology:</i> Outsourcing enables the client to keep pace with the rapid advance of technology, which is an ongoing struggle for upstream companies due to the complexity and expense involved. Selecting, implementing, integrating, upgrading and maintaining several software systems and the IT infrastructures required to support them are major hurdles to clear (Philips, 2004; Beaumont & Sohal (2004).</p>	<p>2000; Cohen & Young, 2006).</p> <p><i>Loss of flexibility and job security:</i> Signing a 3-year outsourcing contract lessens flexibility. If business requirements change or changes in technology create new opportunities or lower prices, then the client has to renegotiate the contract to access them. If the process had not been outsourced, change could have been affected by managerial fiat. Beside there is also fear of job security that is persistently re-echoing in the mind of employees (Selvadurai, 2005; Kimberly, 2002; Garnick, 2003; Aron et al. 2005).</p>
	<p><i>Dilute of Interests:</i> The best interests of the service providers may be diluted with other users in their attempt to leverage their services and maximize their profits (Vacca, 2000).</p>

Lacity and Rottman (2008), look at outsourcing benefit from two broad perspectives: operational and strategic benefits. Strategic benefits were arranged top down while operation benefits were arranged bottom down. According to Lacity and Rottman, these two wide range of benefits were considered inter-woven, as figure (2.1) below depicts.



Source: Lacity and Rottman (2008)

Figure 2.1 Benefits from Global Outsourcing

These disadvantages and some others may provide reasons why organisations think otherwise before outsourcing. Organisations try to adopt a planned approach towards outsourcing taking into account the interests of employees and customers alike and come up with a balanced advance outsourcing services (Kakabadse & Kakabadse, 2002). This is done simply to beat competitors, because, to follow competitors can lead to problems in the future. Data on global outsourcing and IT outsourcing presentation suggests that outsourcing can turn into a win-win situation in the years to come (Rouse & Corbitt, 2004).

It is naturally believed that lack of communication between two interested parties could cause problem of miscommunication (Mao, et al., 2008). The same phenomenon goes with outsourcing process if the parent's company and their outsourcing partner cannot come to agreeable and understanding terms, it could lead to major losses as predicted by Kakabadse and Kakabadse (2002, 2005). Albeit this scenario can be

completely different with the aid of newer and better technology to assist smoother flow of communications and several other factors that can determine outsourcing, some of such factors are discussed below.

2.4 Factors that Determine Outsourcing

Outsourcing is a trend that has gained increasing momentum in the past decade (Cook, 2007). Faced with mounting pressure to create value for their shareholders, companies are eager to free up scarce resources and apply them to the firm's most critical challenges (or core competencies). Jae-Nam, et al., (2004) maintained that the factors that determine outsourcing and different types of outsourcing are different.

They enumerated cost overburdens, financial pressures, major technical problems or when company needs to evaluate the efficiency of in-house operations. Information technology has developed so fast that it is difficult for companies to catch up with the state-of-art technology. Bragg (2006) claimed that since about four decades ago, there has been a billion-fold improvement in processing and storage capacity and this rate of change is expected to continue to the early 21st century. Therefore, adoption of this fast developing technology is one of the important decision factors that companies have to decide.

In the analysis of Outsourcing World Summit, reduction in operation cost, focus on the core of business and outsourcing ability to create cost structure are the leading factors why companies outsource. Other factors such as grow revenue and faster innovation are the least factors consider by organisations for outsourcing while conserved capital, quality improvement and increase speed to market are the mid-cause why organisations are opting for outsourcing. This is tabulated in Table 2.4

Reasons	Grouping	Percentage
Focus on the core of the business	A	32%
Reduce operation costs	B	36%
Grow revenue	C	2%
Foster innovation	D	2%

Conserve capital	E	5%
Improve quality	F	5%
Increase speed to market	G	5%
Create a variable cost structure	H	13%

Table 2.4 Why Companies Outsource
(Outsourcing World Summit, 2002)

Apart from the above factors mentioned by Bragg (2006) and the analysis of Outsourcing World Summit, Gouge (2003) identifies outsourcing as a strategy employed by organisations to enhance their IT capabilities and functionalities. Gouge (2003) applied Boston matrix (based on vision versus execution ability of an organisation) method to analyse reasons for IT outsourcing. In his submission Gouge (2003) claimed that based on Boston matrix, the composition of organisation that resulted to outsourcing depends majorly on the vision and execution ability of such organisation.

Apart from the above mentioned reasons for outsourcing, Costa (2001: 214) attributed; cost reduction, technical considerations and the need to focus on core activities as the major driving forces for IT outsourcing. Diromualdo (2004) identified three primary reasons for outsourcing, and they are; IT improvement, improved business performance and/or impact and commercial gain.

In his further analysis Diromualdo (2004) mentioned; good service, timely delivery, reduction in work-stack-status, cost saving, speed and flexibility as part of IT improvement. He claimed that improved business performance or impact is independent of IT improvement based on his definition of IT that was earlier mentioned in section 2.2.

On the commercial gain as a reason for outsourcing, Diromualdo (2004) argued that *“although it may be possible to provide a particular service from within the local IT function, it may prove cheaper to buy in that same function from elsewhere.”*

However, Diromualdo (2004) acknowledged that pursuing outsourcing for commercial gain may be applicable for short-term outsourcing arrangement and in order to achieve the viability of the project rather than the means of provision. This will probably apply to long-term outsourcing. In doing so several established factors for

successful outsourcing should be considered and adopted if applicable to our outsourcing objectives.

However, Beaumont and Costa (2002) and Loh and Venkatraman (1992) were of the opinion that most of the above reasons do not capture the complexity of the rationale for outsourcing, he based his argument on administrative innovation theory which he defined as *“involving significant changes in the routines used by an organisation to deal with its tasks of internal arrangements and external alignment”*.

2.5 Factors for Successful Outsourcing

Gottschalk and Solli-Sæther (2005) identified certain factors both internal and external one on the broad percept that determine the success of outsourcing. . They outlined several critical factors for successful outsourcing, such as: determining the optimal delivery model(s), deciding what to outsource, selecting a partner, developing the plan for execution excellence, building in contingency plans, executing with quality, measuring results and adjusting as required.

Apart from Garnick's arguments listed above, Goles and Chin (2005) and Willett (2008) in their studies came out with another list of what they called 'common reasons to outsource'. According to them those reasons for outsourcing are to:

- Reduce and/or control operating costs: Reducing and controlling operating costs are clearly a significant concern for both government and private industry.
- Improve company focus: barely, all the organisations that opted for outsourcing has this as one of the major factors that propel them to opt for outsourcing.
- Share risks: There are tremendous risks associated with the investments an organisation makes. When companies outsource they become more flexible, more dynamic and better able to change themselves to meet the changing opportunities.

Besides all the above mentioned factors, Wipro technologies (who is this) also identified redeployment of internal resources, enable quicker response to business drivers, access to additional resources, free up resources for other purposes, accelerate

reengineering efforts, accelerate migration to new technology and transform capital expenses and fixed assets to more flexible monthly business expenses as parts of major factors that for successful outsourcing.

Comparatively, both Garnick and Willett (2008) research have several common terms in their reasons for outsourcing except in the few areas that can either be considered old from Garnick's analysis or recent in the Willett's (2008) view.

2.6 Types of ITO Suppliers

In years past, it was common for companies to maintain arm's-length relationships with suppliers and outside vendors, insisting on items being made to precise specifications and negotiation long and hard over price (Thompson et al. 2008: 175). In the attempt of these companies to enhance their bargaining power and to make the threat of switching credible, it was standard practice for companies to source key parts and components from several suppliers as opposed to dealing with only a single supplier.

Thompson et al. (2008) however pointed out that most companies are abandoning such approaches in favour of forging alliances and strategic partnerships with a small number of highly capable suppliers. They acknowledged that, collaborative relationships are replacing contractual, purely price-oriented relationships because companies have discovered that many of advantages of performing value chain activities in-house can be captured and many of the disadvantages avoided by forging close, long-term cooperative partnerships with able suppliers and vendors and tapping into the expertise and capabilities that they have painstakingly developed.

To get significant benefits from IT, one needs to be able to trust the IT systems. This means, having confidence in the company that supplies, manages and maintains them. Choosing the right IT supplier is therefore an essential part of selecting an effective IT solution. IT suppliers range from small local outfits to global organisations. Even the largest suppliers can provide systems, services and consultancy to small businesses.

Though most IT suppliers can provide a comprehensive range of hardware, software and services, there are some differences between them. Some are considered as *resellers*, the resellers act as agents for hardware manufacturers, but can also offer software and a wide range of IT services and support. Another type is *system integrators*,

they select the appropriate hardware and software for the client needs and deliver an integrated, working system, beside system integrators, there are *consultants* which just provide consultancy, with no hardware, software or maintenance services. The other two are *specialist suppliers* and *retail, mail order and online suppliers*, the former have expertise in one specific area, such as customer-relationship management systems while the latter may be appropriate if clients are confident that they do not need advice and simply need the IT system supplying direct (Businesslink, 2008). Cullen and Willcocks (2005) enumerate five types of IT suppliers that emerged from recent IT outsourcing dealings. Below are types of IT suppliers identified by Cullen and Willcocks (2005).

1. *Evolved Bureaux*: These suppliers evolved from data processing and time-sharing bureaux. Some of these have been in the industry more than 25 years and have grown into large multi-national outsourcing contractors (Cullen and Willcocks, 2005).
2. *IT Hardware Suppliers*: Moving increasingly into service as the value added opportunities from hardware sales decline. For these hardware suppliers, outsourcing is an attempt to expand their product range, in lieu of the falling margins on hardware sales (Cullen and Willcocks, 2005).
3. *Commercialized in-house Departments*: Simply selling excess capacity or becoming commercial providers. According to Cullen and Willcocks (2005), the public sector in Australia is witnessing a strong increase in these providers as government agencies are becoming commercialized and / or privatized resulting in the creation of IT service profit centers (Cullen and Willcocks, 2005).
4. *Professional Services Consultants*: IT service branches of consultants and system implementers who are leveraging their existing market profile as wide ranging service providers. They are increasingly offering themselves as prime contractors and subcontracting asset intensive service, like data processing to others.
5. *Niche Service Players*: Specialists in certain industries, service, technology, and applications etc. that are attempting to leverage their specialist capabilities (Cullen and Willcocks, 2005).

On the other hand Bartels (2006), Vice President of Research for Forrester Research, identified connecting to suppliers as one of the biggest challenges in any IT outsourcing

suppliers' initiative. Bartels suggested, a network of enabled suppliers as solution to challenges facing ITO suppliers. By offering an integrated package of software and services, supplier networks are capable of enabling thousands of suppliers across a wide range of procurement categories and supplier technical sophistication.

According to Bartels (2006), suppliers are facing several critical challenges such as: serving many customers in many different ways most of them manual and expensive; effectively managing their cash and looking for ways to get paid faster and increasing sales while facing declining effectiveness of existing marketing channels.

2.7 Selecting the Right IT Supplier

Nowadays, organisations do not randomly select their IT vendor, learning from failure of several IT outsourcing deals that are widely reported. Instead, a steering committee is selected to develop the outsourcing plans (Rost, 2006: 64). As it was happened in the outsourcing deal between PETRONAS and iPerintis (Shittu, 2007) where the former empowered an IT-transition-committee to administer the IT outsourcing plan with iPerintis. In many cases enlisting the help of external outsourcing advisers who are knowledgeable on the topic outsourcing IT projects and have been through this process before is recommended, because "an outsourcing deal is a complex mix of administrative, legal, and technical components, and therefore a balanced mixture of skills is required, such as outsourcing experts, and people with solid IT backgrounds" says (Rost, 2006).

Rost (2006) further explained that the various business and aspects of an outsourcing deal are closely intertwined a business oriented attorney with experience in outsourcing deals should be available to the steering committee. This step might help certain individual within organisation who have serious concerns about advantages and risks of outsourcing and doubt that outsourcing step is for the best of the organisation overall. Rost (2006) considered vendor selection and negotiation of the outsourcing contract as major items on the list of costs in the process of establishing the outsourcing relationship.

In order for an IT outsourcing client to create early and sustainable growth through outsourcing, it must pick a vendor or service vendor who knows what to do, how to do, how well to do it, and how quickly to do it (Dominguez, 2006: 59). The actual

process of selecting a supplier will normally follow on from a request for a number of suppliers to submit proposals. Review the proposals you have received in detail and come up with a shortlist. Compare proposals on a like-for-like basis. Take into account: financial viability; implementation track record; quality and relevance of reference sites; project management capability; ability to understand client business at the strategic and process levels, technical knowledge and expertise; confidence that the supplier will be able to provide the solution into the foreseeable future the cost of the proposed solution.

Throughout the evaluation process, rank the suppliers and eliminate those that do not meet client technical requirements or fall outside agreed budget. This process should usually include a demonstration of their proposed offering by each of the preferred suppliers. This gives you the opportunity to evaluate the system being proposed and the supplier (Wadhwa, 2006).

The next step is to invite the potential suppliers to visit the client company. Do they understand client business needs and have experience of specific industry? And the client should be able to figure out either he feel comfortable dealing with those suppliers. In this process of doing all these, the client should make sure that the shortlisted suppliers provide reference sites and contact them as part of the evaluation process. Wadhwa, (2006) also advice visiting a site that is similar to your own as this is a useful way to assess the system and the supplier.

According to Wadhwa (2006), client should be in a position to come up with a single preferred supplier, and to consider carrying out further testing of the proposed solution, particularly if the system is going to be critical to business. He finally suggested that if clients are happy with the proposed solution of the preferred supplier, clients can then move to the contract stage. He however, caution and proposed the clients to formally agree on factors such as the levels of system maintenance and support, as well as the overall cost of the proposed solution.

However, in Rost's (2006) approach, he considered setting criteria for an ideal vendor and limitations are the responsibility of customer's steering committee, he said thus:

The customer's steering committee has to define the attributes of the ideal vendor and the limitations of the vendor selection process: which properties are strictly mandatory, which are optional, and which features

of the service provider are to be prohibited.

This approach is delegating responsibility to the steering committee therefore, put in place a proper arrangement for the execution of outsourcing deal.

2.8 Criteria for Choosing an IT Supplier

As mentioned above, a complex process at best vendor selection involves defining detailed business requirements, developing a business model and delivery model, and other processes lead a client to selecting a diligent IT supplier. A new IT system can be a significant investment, it is important to choose the right system and supplier (Oke, et al., 2009). They argued that before a client chooses an IT supplier, the client should:

- Find out whether the supplier can provide all the hardware, software, services, support and maintenance it needs.
- Check whether such supplier will install and configure your system so it's fully operational.
- Ask whether they will train your staff
- Confirm what frontline support they can provide - e.g. a telephone helpdesk
- Ask whether they will take responsibility for system components purchased elsewhere
- Investigate what sort of maintenance contracts they provide
- Get details of what exactly is included in their supply contract
- Find out what sort of warranty they provide
- Confirm whether they will continue to provide support if you take responsibility for replacing faulty hardware yourself
- Find out if they will accept payment for the system only when it is installed and working to your satisfaction
- Ask whether upgrades and fixes to software are included in the price
- Ask them to provide references from other, similar companies they have helped in the past
- Ask whether they will provide you with written documentation that will help you understand your system.

- Decide whether you feel they understand your business needs.
- Ask about any experience they may have in your industry.
- Ask whether they are happy for you to test the proposed system, perhaps under a non-disclosure agreement.
- find out whether they are financially viable and able to meet your requirements in the foreseeable future

2.9 Supplier and Client (IT) Outsourcing Relationships

Despite various theories related to outsourcing relationships, such as resource dependency theory, transaction-cost theory, agent-cost theory from the economic viewpoint, and social-exchange theory and power-political theory from the social viewpoint, there has been no integrated view that provides an in-depth analysis of the IT outsourcing relationship. This inconclusiveness of the IS literature around the relationship facets is corroborated in existing research (Willcocks, and Choi, 1995; King, 2004) causing them to seek alternative explanatory approaches within the management literature.

Thus, it was posited (Klepper, 1995) that there should be an effort to combine several theories to obtain for a better understanding of the mechanisms by which partnerships evolve and how the IT outsourcing process is managed. Indeed, Shi et al (2005) have recently argued that IS outsourcing management can be best explained by applying the inter-organizational process, knowledge management and economic perspectives. Their approach however is based on clients' perspective reinforcing that little published research has attempted to provide the perspective of IT vendors, as well as their insights on how to structure outsourcing relationships in order to yield satisfied clients and vendor profits (Doig, et al. 2001; Dibbern, et al. 2004).

Currie and Willcocks' (1998) client interdependency model provides a good basis for exploring the relationship between clients and vendors; in this model the relationship is viewed in relation to two dimensions axes. The first is the scale of IT market use and second is the degree of client-vendor interdependency. Whilst the model enriches Currie and Willcocks' understanding of possible sourcing options that can be adopted, there is a need for greater definition of the two axes. Accordingly, even though the model

taxonomies the different types of outsourcing options, it does not take a holistic view of the relationship; for example, it does not identify the softer aspects of the relationship, the approach taken by each party for managing the agreement, and the methods of implementation.

Almost half a decade ago, Levina and Ross (2003) who have studied vendors' perspectives, have pointed out that relationships matter particularly when viewing core competencies and the economic concept of 'complementarity in organizational design' and this further supports Holcomb and Hitt (2007) argument that the softer aspects of a relationship are critical from both the vendor and the client perspective. Indeed they concluded that their study "*explains how vendors are able to provide high level technical capability and manage the relationship cost effectively*". More studies of the vendor's side of the outsourcing relationship are needed to develop and validate some view case studies available (Holcomb and Hitt, 2007; Levina and Ross, 2003; Currie and Willcocks 1998).

As the variety and complexity inherent in IT outsourcing relationships have increased, developing models to optimise the number of players, their responsibilities, and the nature of the contract becomes difficult, if not overwhelming. Both multi-vendor and co-sourcing arrangements are now increasingly common. Detail about multi-vendor and co-sourcing will be discussed in the later part of this chapter.

2.9.1 Benefits of an Effective Supplier and Client ITO Relationship

Building a successful relationship with IT vendor is essential to system's success. Attempt by the client to purchase IT systems and services at the lowest possible cost with no regard to business goals for the project or the overall cost of ownership is likely to lead to a strained relationship with supplier and cause system problems (Engardio, 2006).

Ideally, vendor should have a clear view of the client business goals and the role of IT in achieving these goals, as this will help the two parties build a relationship that can deliver a number of benefits. Engardio (2006) elaborated the two major benefits as: firstly, a good relationship will help ensure that service-level agreements are met and secondly, that system availability is high and helping in the speedy resolution of problems or queries the supplier can provide valuable guidance on your business' future

IT direction through their knowledge of your industry sector and the latest IT developments.

To build a successful relationship with any IT vendor, client should be clear from the outset about what they both expect from the arrangement. Make sure that both parties have clear expectations of exactly what client will be getting in terms of hardware, software and services the business relationship are mutually beneficial (Reh, 2007).

2.10 Types of IT Outsourcing Relationship

IT Outsourcing models depend on type of outsourcing relationship existing between client and vendors, though a co-operation, collaboration,, open, supportive and honest relationship is promoted between the two parties (Sparrow, 2005). She stated that, there are two extremes of the outsourcing relationship:

- 1- An arm's length relationship in which the customer organization fosters competition between multiple suppliers and awards contracts for each new piece of work on the basis of quality, time to delivery and price.
- 2- A very close, long-term strategic relationship in which the outsourcing parties do repeated business with each other and endeavour to share risks and rewards. She however, acknowledged that this style of relationship takes time to evolve.

Therefore, organization need to determine the style of outsourcing relationship best suited to its needs and approach to business. Whichever style is chosen, outsourcing remains a commercial transaction in which the supplier has to keep earning business every day (Sparrow, 2005).

Relationship IT outsourcing business depends on several factors such as environment, organisation goal, core business and several others. These factors determined type of relationship to be established between client and vendor. Some known types of relationships are: Multi-vendor, Partnership, and Alliance

2.10.1 Multi-vendor

There are many industry examples of multi-vendor outsourcing arrangements. At Sunoco Inc. multi-sourcing has meant turning to 17 vendors to deliver IT infrastructure services over the past several years (Thibodeau, 2005). Such multi-vendor outsourcing

arrangements may be due to a variety of forces. For example, IT vendors may be changing their business strategies to focus on their own core competencies. By teaming with other IT vendors whose core competencies complement their own, IT vendors may be best able to provide comprehensive IT services to their clients.

Conversely, client firms may deliberately set a strategy of having their IT needs serviced by multiple vendors (Cross, Earl and Sampler, 1997; Currie and Willcocks, 1998). Lacity, Willcocks and Feeny, (1996) and they may choose to make explicit in their contracts that multiple vendors actively co-operate in serving them. The growing complexity of multi-sourcing arrangements by client organizations is a necessary background to the study presented here, which analyses the relationship between Large Corporate with Small IT Vendor whilst simultaneously the client has signed big outsourcing deals with some of the key IT vendors in the market. Fleming and Low (2007) unveiled a new model that explores the outsourcing dynamics and which according to them enables companies involved in these partnerships not only to manage but also to sustain the outsourcing relationship.

In an environment where there are many relationships and each one needs attention, a framework may be just the tool to help manage it. The unique attribute of such a framework is that “the model should presents a balanced approach through a clearer understanding of both sides of the relationship between the client and vendor exploring the key issues that can aid in sustaining the relationship” (Fleming and Low 2007).

2.10.2 Partnership

Partnership was defined as a “*tailored business relationship based upon mutual trust, openness, shared risk, and shared rewards that yield a competitive advantage, resulting in business performance greater than what would be achieved by the firms individually*” (Lambert, et al, 1999). The relationship between the clients and vendors are evolving from market type of buyer-seller relationship to partnership relationship. Partnership outsourcing has been the trend of IT outsourcing (Yang, Fu and Zuo, 2005). An outsourcing relationship built on a foundation of a partnership mentality is distinguished by the fact that it is mutually beneficial. According to Barrar and Gervais (2006: 245) it

leverages both organisations' core in the marketplace, which results in revenue for both of them. In such successful relationships, both organisations grow almost as though they feed off each other. In such a way thus, these organisations nurture their relationship.

Barrar and Gervais (2006) believe that in approaching outsourcing with a partnership mentality, the parties begin by being committed to a shared vision, which caused them to approach challenges and opportunities as though they are the same entity, not two different organisations. Their shared vision basically aligns their interests, which is a key factor in their ability to accomplish what they set out to do.

Conversely, challenges arising in a relationship built on a partnership mentality result in the parties demonstrating their commitment to their shared vision. This motivates them to jointly brainstorm to a workable solution and function as a team in achieving a solution. With partnership mentality, the relationship of the parties is enhanced by the fact that they had built a history of successfully hammering through obstacles together. This fact enabled them to increasingly value each other's opinions, anticipate each other's proactive recommendations and seek opportunities to collaborate (Barrar and Gervais, 2006: 247). However, outcome of any partnership relationship is largely depends on the types and cultural background of the parties involved, as Miles and Scott put it:

In business as in biology, the process of grafting two organisms together can produce undesirable or non-viable mutations. The grafting of a buyer and provider in outsourcing must result in a culturally compatible organism with the desired new traits and possibilities that allow the newly created organism to drive change from which both parties thrive.

Yang, et, al. (2005) claimed that there is need for organisations to form partnership relationship in order to deal with the IT uncertainties, that keep increasing which the market relationship outsourcing cannot completely control. They identified several factors that favor IT outsourcing relationship, such as; the inability to write complete contract, the relationship involves considerable specific asset investment, and that the term of contract is getting longer which actually affecting the cost of the contracts.

Nowadays, the relationship between the clients and vendors are evolving from market type of buyer-seller relationship to partnership relationship. Yang, et, al. (2005) submitted that “partnership outsourcing has been the trend of IT outsourcing”.

2.10.3 Strategic Alliance

Strategic alliance is a kind of contractual relationship between organisations, which although nominally autonomous, are knitted together in a close alliance (Uher and Davenport, 2002). To some quarters strategic alliance is relatively new, the process of establishing a long term relationship with a preferred supplier, subcontractor or consultant has a fairly long history. Many firms such as IBM, Boeing, Xerox, Du Pont and many more have benefited from this process for many years. Benefit received from a strategic alliance relationship positively impact on a range of business activities which include management, labour and technology.

Outsourcing does not automatically create strategic alliance. in the absence of an explicit intent to develop a long-term relationship based on shared goals, trust, a mutual concern for each partner’s business needs, an equitable risk allocation and a set of contract conditions sympathetic to the principles of alliance, outsourcing in nothing more than another projects delivery method (Uher and Davenport, 2002).

Uher and Davenport (2002) claimed further that strategic alliance has already demonstrated its potential as a highly effective tool for delivering long-term projects through a focused and mutually beneficial business collaboration of the partners and better utilization of resources and technology. Several reasons were given for forming strategic alliance, such reasons are;

- Sharing of new technology
- Pooling of research and development resources and
- Accessing new entrepreneurial cultures and skills
- Access to global markets

In essence, all the benefits from formation of strategic alliance enumerated above were part of advantages derived from outsourcing. For instance, in 1997 DuPont needed an IT partner that could provide the IT flexibility required for these changes whilst managing the impact this would have throughout the organization. As well as broadening

the range and flexibility of the services and solutions supporting the ever-changing business. This led to DuPont signing a \$4 billion, 10-year IT outsourcing contract with CSC which remains one of the largest and most innovative technology agreements in history. With a seven-year extension of the contract signed again in 2005, despite the fact that their initial contract would end two years later then (McDougall, 2005).

According to McDougall (2005), the agreement involved the transition of 2,600 IT employees from 12 countries, it also included the support of services in over 40 countries spanning the entire IT lifecycle: networks; messaging and groupware; midrange; mainframe; help desk; distributed systems; and engineering. As well as managing over 55,000 desktops, workstations and servers worldwide, CSC operates and supports DuPont's extensive telecommunications network. CSC also handles DuPont's global applications such as payroll, finance and human resources, as well as key applications including SAP R/2 and SAP R/3 which are specific to DuPont's twenty-three (23) strategic business units.

2.11 Trust in IT Outsourcing Relationship

The key to successful outsourcing is building a relationship with service provider that works in the longer term (Sparrow, 2005). Lee et al (2008) considered trust as a central aspect of successful IT outsourcing. The core of a successful relationship is the anchor of trust among the parties involved (Lee et al., 2008). According to them, trust has been widely studied in the social exchange literature, and it is considered as one of the most desired qualities in any close relationship. Lee et al (2008) believe that with trust, organizations could cooperate beyond a system of formal and legal rules.

In the light of this Sparrow (2005) called for putting time and energy into deciding in advance *"how both client and vendor are going to manage their outsourcing relationship"*. She asserted thus: *"An organisation whether customer or supplier that is satisfied with its outsourcing relationship is likely to see it as successful and take steps to reinforce and develop the relationship"*. This she believes could only be possible when the relationship is trust-based.

However, increased and improved ICT according to Siaka, et al. (2006) has facilitated continuous expansion of globalization. This development had made IT

outsourcing activities to shift to involve much greater range and depth of service providers. Outsourcing and virtual collaborations prompt for cultural sensitivity, flexibility and adaptability, together with high awareness of risks and dangers due to cultural differences. But the good side is that globalisation is a competitive advantage if handled in a right manner. In handling globalisation trend in IT outsourcing, Siakas et al. (2006) found trust as a critical success factor.

The word trust comes from the German word "trost" which means comfort. Tristan (2008) defined trust as having the confidence or faith in another person to do what they say they will do. It means believing in the honesty and the reliability of that other person. Trust is a core component of any relationship and a crucial factor in leadership. Mutual trust is a shared belief that one can depend on each other to achieve a common purpose (Lewis, 1999: 6). It also mean that "*one can depend on each other to adapt as necessary*" which involves more than keeping promises but also entails changes that cannot be planned in advance.

Definitions of trust vary across both disciplines (e.g., psychology, sociology, economics) and levels of analysis (e.g., interpersonal, societal, institutional). In their interdisciplinary survey of research on trust, Rousseau et al. (1998: 395) offered the following, general definition of interpersonal trust: "*Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another.*"

Similarly, Mayer, Davis, and Schoorman (1995) defined trust as "*the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party.*"

As these definitions suggest both vulnerability and the expectation of cooperation (or benevolence) on the part of the trusted party are central to the idea of trust. Thus, trust differs from contracts in that the mechanism underlying trust resides with the individuals involved, while contracts are external mechanisms of control (Babar, Verner, and Nguyen, 2007).

Alternatively, trust has been defined as a set of expectations that are shared among those involved in an exchange or who are otherwise interdependent (Akhter,

2004). According to this conceptualization, because contracts also help to reduce uncertainty and create shared expectations, both contracts and trust are different bases for the same underlying construct (e.g., Garfinkel, 1963, 1967). Whereas Rousseau et al.'s (1998) conception of trust focuses on a psychological state and locates trust in the individual, Garfinkel (1967) and Zucker (1986) focused on trust as a set of shared expectations that must necessarily be situated in relationships between individuals, i.e., in dyads, groups, or society.

These two perspectives are neither mutually exclusive nor contradictory. Rousseau et al. (1998) and others (e.g., Parsons, 1939; Mayer, Davis, and Schoorman, 1995; Lewicki, McAllister, and Bies, 1998; Kramer, 1999) were followed. However, in distinguishing between trust and contracts and reserving the use of the term "trust" to refer to the reduction of uncertainty (or the management of risk) via informal structures, for two reasons.

First, they were interested in the effects of formal structures (i.e., contracts) on the long-term efficacy of informal structures (i.e., trust). Second, they were interested in understanding the psychological mechanisms involved in one party being able or unable to expect cooperation from another. Thus, they conceptualize trust as a psychological state of the individual, comprising positive attributions about another's behavior that is subject to influence by formal structures in a relational context (Malhotra and Murnighan 2002).

The definition of mutual trust in this research is built on Marsh and Dibben (2005) and Zucker (1986) which focused on trust as a set of shared expectations that must necessarily be situated in relationships between individuals, since this research focuses on trust that involves client and vendor in IT outsourcing transactions.

IT outsourcing as defined by several authors shows that high level delegating or transferring uncertainties and risks, in that sense, establishing mutual trust between clients and vendor will be of paramount importance. Along this assertion, Roman, Carmen and Lopez (2007) defined trust as an important factor in any network that deals with the uncertainty about the future behaviour of some participants on the network. Thus, trust becomes essential in the decision-making process.

Trust is a requirement for outsourcing relationship to thrive. It is a vital element of any relationship not peculiar only to outsourcing, without trust, there is no relationship and without relationship between client and supplier, outsourcing becomes impractical (Cohen & Young, 2006). All IT outsourcing or e-commerce relationships contain elements of cooperative agreement and requirements of increasingly complex systems (Lumsden & Mackay, 2006; Willcocks & Choi, 1995). In order to effectively manage an outsourcing contract in today's dynamic business environment, Siakas et al. (2006) believe that both the service provider and client must value and nurture the relationship.

Cohen and Young (2006) believe that the difficult thing about ITO trust is that it is typically built or undermined through informal interactions between the parties (client and supplier) in IT outsourcing relationship. Siakas et al. (2006) concluded in his study that *"trust is slowly built through communication and experience of attitudes and behaviours of stakeholders"* A prior study conducted by Cohen and Young revealed that, *"service managers began forming their impression of the trustworthiness of service provider organisations on the basis of their first contact with a salesperson"*.

Sparrow (2005), while enumerating the vital integral components of a successful outsourcing relationship puts trust at the topmost important component. She identified eight factors that were essential in order to develop a successful outsourcing relationship. Sparrow (2005) identified the following factors that one can draw lessons that will help organisation develop an effective outsourcing relationship:

- Build trust:
- Look for win-win solutions
- Aim for co-operation not domination
- Good communications
- Aim for mutual understanding
- Criticize if you must, openly.
- Learn when to compromise
- Resolve personality conflicts
- Foster realistic expectations

Trust is far too important to the success of service relationships to be left to informal, subconscious, or intuitive measures. Though one might not be able to quantify trust but some rigor of the qualitative measurements can be added.

[IT] sourcing relationships are not personal relationships; they are business relationships. Consequently, trust must be balanced by appropriate governance for the coordination of service, implemented the six co-management process, and have developed ways to assess service levels and pricing ... formalized many of the control mechanisms, but control is not enough for relationships; trust must also exist.

Successful relationships are defined by the right mix of trust and control Cohen and Young (2006). In 2001 Cohen and Young identified ten key components of trust essential to the relationship between a service provider (supplier) and a service recipient (client) and the ten most common relationship control mechanisms. Figure 2.2, shows a study to determine the ten components of trust.

Willcocks and Lacity, (2006) believe that “*global outsourcing can deliver on its promises, but only if both clients and suppliers diligently manage the details*” Another vital factor is the people who execute these practices. On the client side, successful global sourcing requires people who can emancipate themselves from the back office silo mentality to envision and enact agile sourcing networks. While on the supplier side, Willcocks and Lacity (2006) said that, “*successful global sourcing requires people who can emancipate themselves from the sales role to become brutally honest about what can realistically be achieved*”.

2.11.1 Components of Trust

Cohen and Young (2006) apart from identifying the ten components of trust, they also define those elements as thus:

1. **Capability:** The technical, management, and financial skills and resources to do the job.
2. **Congruency:** The match between perception and reality.
3. **Dependability:** The ability to set and meet expectations such as financial certainty, financial stability, and delivering to targets.
4. **Predictability:** The ability of parties to anticipate how the other perform and behave, particularly in changing and unpredictable circumstances.

5. **Mutuality:** A shared commitment to a common goal.
6. **Communications:** Giving and receiving the correct information in a meaningful and timely way.
7. **Consistency:** The ability to understand standards, processes, and protocols and apply them consistently.
8. **Responsiveness:** The ability and willingness to understand and respond to new circumstances and to harness skills and resources to meet new needs.
9. **Compatibility:** The match between the recipient's business needs and culture and provider's delivery models and culture.
10. **Reputation:** An established track record of success verified by many sources.

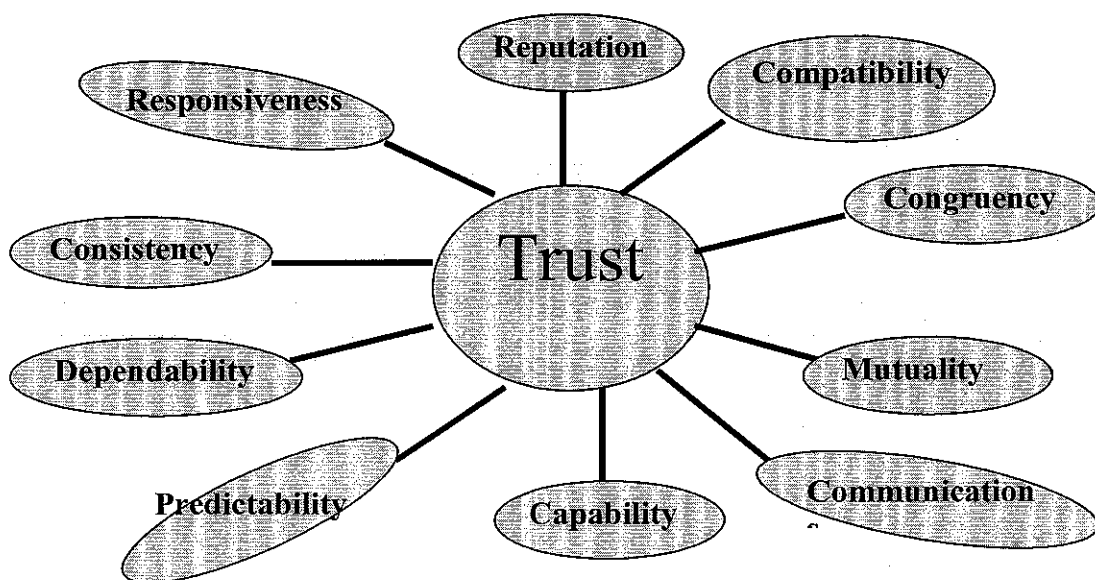


Figure 2.2: Trust and Its Components
Cullen and Young (2001)

In another dimension Trsitan (2007) identified fifteen core components of trust, and these are:

Competence: This is how well one “appear” to be at a given job or task. Imagine

going to a dentist's office for a tooth extraction and the dentist has to refer to a step-by-step guide on how to remove your tooth. Doesn't make you feel too comfortable does it? Likewise, you can also be seen as an incompetent friend or lover too. You can be seen as competent by projecting confidence and having knowledge of the subject.

Respect: In order for trust to be established, one needs to respect the boundaries of the other person. This agreement creates a solid foundation upon which further agreements can be built. Respect should be independent of whether or not you like the person. You can despise the person for what they are, like with a serial rapist or child molester, but you need to give them respect as a human being. Perhaps half or more of the people you deal with on a daily basis you wouldn't care to know on a personal level, but that does not mean that your personal feelings about that person should cloud the amount of politeness and respect that you show them. Respect builds rapport which creates trust.

Appearance: You have to look the part if you are going to establish immediate trust with a person or client. If you walk into the office of the financial advisor you want to hire to help plan your financial future and he is dressed in woman's lingerie; would you hire him? Your appearance creates the environment for trust to occur. If you are engaged in business then you must look professional. If you are looking for trust in a relationship, then you will have to dress to match their lifestyle.

Positivity: We all know the person who complains about how crappy his life is and how he hates the world and everything in it. This attitude is counterproductive to trust. People want to hear positive things like future goals and dreams because that inspires them and they can feed off that positive energy. Always be positive in life and you will find that it is easier to establish relationships and build trust.

Responsibility: There are no perfect people out there in the world and everyone makes mistakes. People know this and understand that it is part of the learning process of life. Trust is built on the basis that one takes responsibility for one's mistakes in life, and learns from them and does one best to repair the damage caused by the mistake.

Listening: People have a desire to be heard for their ideas to be shared by other people, so an easy way to build trust is to have an open ear. Let the person talk about their life and the stuff that is important to them. This will have a reciprocal factor of drawing other into their lives and building trust.

Empathy: This is ability to see the world through their eyes by “walking around in their shoes.” Empathy reduces the level of tension between two parties and facilitates trust building through mutual understanding.

Honesty: It enables one to be truthful in both personal and professional life. Honesty facilitates trust building by letting counterpart know that what has been told them is truthful and genuine. A trusted relationship is one where the person will risk making the other person upset by telling him something that they may not want to hear if they know it will help them out in the long run.

Patience: Patience equals comfort and comfort facilitates trust. Giving a client ample amount of time to think things through rather than pressuring them to sign the contract is an example of using patience to build trust.

Common interests: Sharing interests provides forum upon which a basis to talk and exchange ideas is formed. Common interests are the best way to meet people because it is something that both parties eventually enjoy.

Enthusiasm: This is the level of motivation to making things work out. People want to be around other people who are motivated to forming healthy relations.

Loyalty: A trusted relationship is one where one can count on the other person being faithful to their word. A person who is loyal always holds their end of a promise. They have a high level of integrity to do the things that they say they will do.

Good communication: In order for trust to blossom in any given relationship, there has to be a good line of open communication between parties. Good communication involves making sure that one ideas are accurately “faxed” over to other counterpart and that miscommunication is avoided. This involves exchanging information between each other and over-communicating rather than under-communicating. Good communication involves the ability to openly discuss conflicts and issues that are inevitable on the road towards relationships. The other

part of good communication is being able to read and speak good body language.

Security: According to Maslow's Hierarchy of Needs, people have a need to feel safe and secure in their environment. One wants to help facilitate that need for security by projecting oneself as a safe and comforting individual. This can be done by presenting oneself as non-threatening, intellectual, responsible, and empathetic.

Self-sacrifice: Self-sacrifice is one of the most important components of a trusted relationship. This makes the person sacrifice his own resources to help others out, with little or no gain for themselves.

The identified Tristan (2007) elements of trust are focused on how individual can build trust in oneself that is implicit analyses contrast to Cohen and Young (2006) components of trust which viewed trust from two parties (explicit).

As Jae-Nam (2008) proposed a trust-based relationship research model to assess the perceived IT outsourcing success in two terms: the first one is mutual trust with its temporal dimension of initial trust and initial distrust, and the second is knowledge sharing with the moderating effect of mutual dependency.

Cohen and Young (2006) analysed trust from two broad dimensions of trust and distrust dichotomy, which are pointers to state of confidence in relationship. Figure 2.3 below depicts complexity of trust and distrust at three different levels; individual, group and organisation.

Outsourcing relationship can either be power or trust based (Siakas et al. 2006). Recent research by Warwick Business School in the UK as pointed out by Willcocks and Cullen (2005) found that outsourcing relationships based on mutual trust rather than punitive service level agreements and penalties, benefit from a what the study called '*trust dividend*' worth as much as 40% of the contract total value.

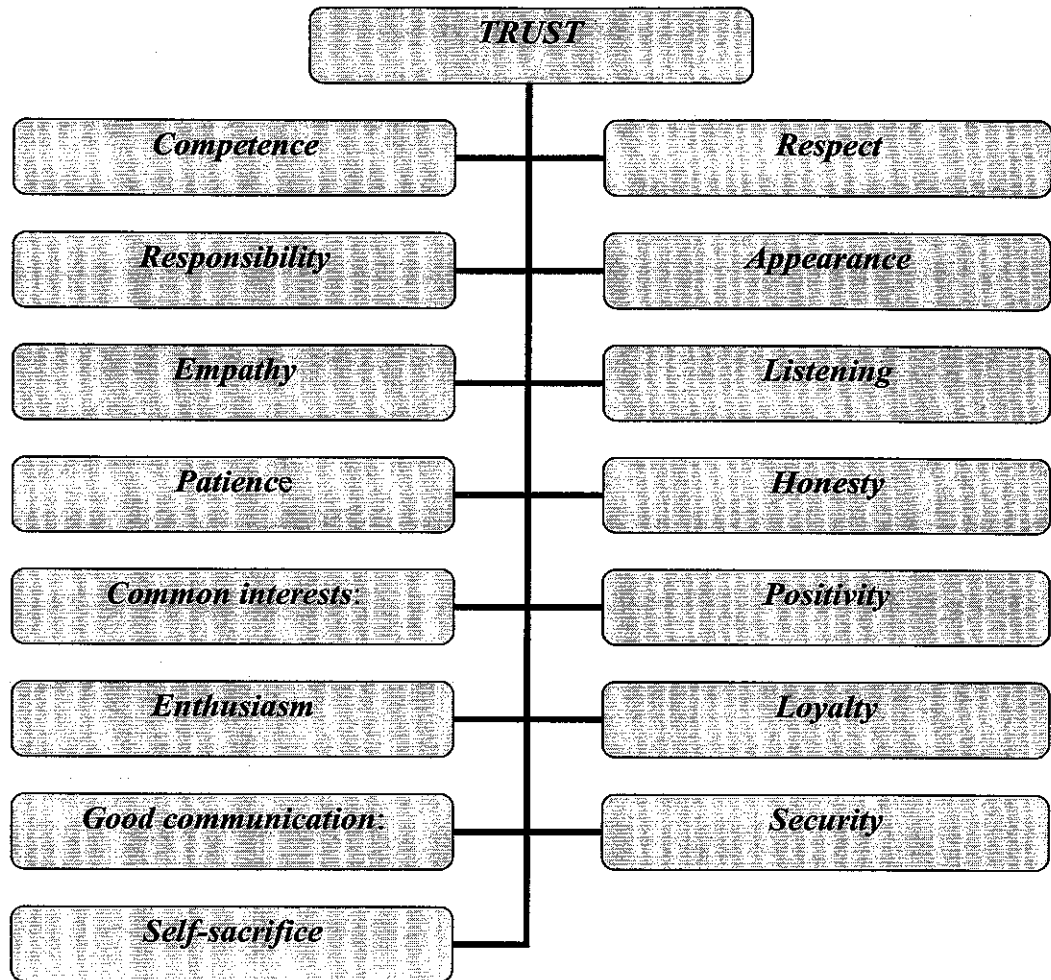


Figure 2.3 Core Components of Trust
(Tristan, 2007)

Sabherwal (1999) emphasized that “*real trust has to be nurtured and comes from planning, structures, processes and measurement*“. He further claimed that trust mitigates perception of opportunistic behaviour between outsourcing partners and thus enhances knowledge, resource and asset transfer.

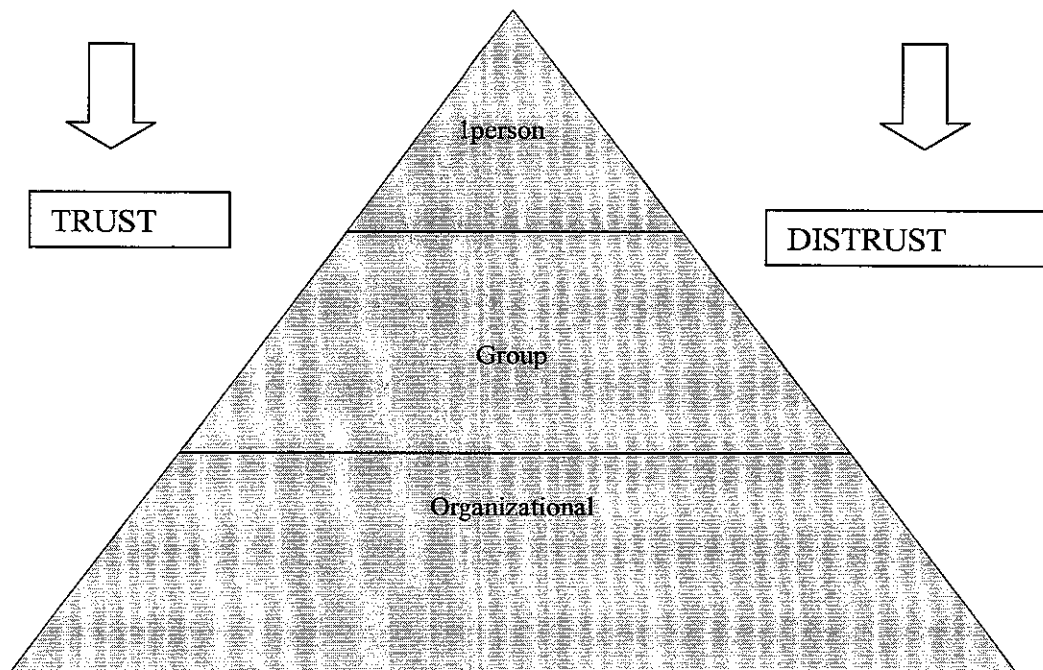


Figure 2.4 Dimensions of Trust
(Cohen & Young, 2006)

2.12 IT Outsourcing Government Policy

The pervasiveness of information and communication technology (ICT) in society, and the perception that it can form the basis of a national competitive advantage has led to a flurry of national policies geared towards strengthening the society's capacity to adopt and skillfully adapt ICTs (Chini, 2008). Proactive institutional intervention from government has been a legitimate step to take. The appreciation of ICT as source of provision for a distinct competitive advantage has prompted the involvement of regional and international authorities in joining in the ICT policy field, as the issue was deemed to be too important to allow uncoordinated action or inaction to stifle the economic potential of the state.

State based organisations such as Multimedia Super Corridor (MSC) in Malaysia, The National Information Technology Development Agency (NITDA) in Nigeria, National Information Development Authority (NiDA) of Cambodia, *Sistem Informasi Nasional* (SISFONAS) of Indonesia etc. Also there are regional authorities such as the

European Union, supranational organisations, such as the Organisation for Economic Cooperation and Development (OECD), and international organisations, such as ITU and the World Bank, have all stepped forward to create their own ICT visions, backed by policies and programmes of action. In the year 2000, ASEAN as a body entered into the e-ASEAN framework agreement to facilitate the establishment of the ASEAN Information Infrastructure and collectively promote the growth of e-services and e-commerce in business (Kotler, Kartajaya & Huan, 2007).

The impetus for e-ESEAN according to (Kotler, et al, 2007) is due to the explosive growth of ICT worldwide and the speed of growth, which had inadvertently made it harder for less developed countries to catch up with rapid changes.

The trio (Kotler et al, 2007) believed that this agreement is out of shared believe that technology is a key growth driver with ability to accelerate production and innovation, which in turn speeds up economic progress. They also acknowledged that the expansion of markets is most visible in today's convergence in information and communication technologies (ICT). ICT convergence has led to myriad possibilities for innovative applications and immense opportunities for bridging the digital divide between those who have and those who have not. This convergence has equally brought new direction in the business and economic reality under ICT, by adopting outsourcing as a tool in developing a country economy.

As applied to several countries information technology outsourcing and shared services and outsourcing in general play an important role in Malaysia because they contribute to economic growth and development in numerous ways. IT outsourcing directly contributes to economic growth. ICT producing sectors grew economy faster than envisaged therefore, catapulted Malaysia position in the global outsourcing scenario (Anne & Sparrow, 2005). Several benefits and incentives introduced by Malaysian government to enhance her competitiveness in the arena of ITO are discussed in detail later under MSC.

The Indian government is the first to realize that Information Technology outsourcing has the potential to influence extensive economic development in the country. ITO is now one of the top priorities of the Indian government and favorable policies are being formulated to extract maximum benefits from the industry. Here, we

are highlighting some of the government policies which have proved very beneficial in the growth of IT/BPO industry. These favorable government policies have gone a long way in making India a BPO/IT hub (Cronin & Motluk, 2007). This research will use India ITO policy as a benchmark for ITO success in term of policy formation and implementation. Some India ITO policies are enumerated below:

1. The reforms have reduced licensing requirements and made foreign technology accessible. The reforms have also removed restrictions on investment and made the process of investment easier. This has tremendously helped the IT/BPO industries.
2. The Indian government is actively promoting FDI and investments from NRIs (Non-Resident Indians). FDI can be brought in through the automatic route, based on powers accorded to the Reserve Bank of India.
3. In pursuance of liberalization and globalization, the Indian government has been formulating and implementing more transparent and investment friendly policies. This is now reflecting in many areas. Till 1994, DOT was the sole provider of basic telecom services in India but the new telecom policy opened the field to the private operators as well. It has made India one of the fastest growing countries in the field of telecom.
4. Another significant example of the liberal policy of the Indian government is the IT Act. The IT Bill passed in 2000 provides a legal framework for the recognition of electronic contracts, prevention of computer crimes, electronic filing of documents, etc.
5. In pursuance of the liberal policies, the Indian government has been continuously proposing amendments in the Indian Evidence Act, Indian Penal Code and the RBI Act. The mechanism of digital signature has been proposed to address the issues of jurisdiction, authentication and origination.
6. Recognizing the importance of Venture Capital Funding, the Ministry of Information Technology has set up a National Venture Fund for the Software and IT Industry with a corpus of Rs. 100 crore. The main aim of the venture capital

Fund is to provide Venture Capital to start up software professionals and small IT units.

According to indobase.com (2008) ministry of communications and information technology overseeing the Indian electronic and IT industry which include software industry and Indian BPO industry among others, while National Association of Software and Services Companies (NASSCOM), the premier trade body and 'voice' of the Indian IT-BPO industry functions like MSC in Malaysia, has been playing a crucial role in helping the IT industry achieve the IT and ITES vision and make India far ahead of other players in the field of IT and BPO. It has helped the government implement almost all the original recommendations of the last Nasscom-McKinsey Report, 1999 concerning the capital markets, venture capitalists, SEBI and the Companies Act.

2.13 IT Outsourcing Service Cost

Many of the world's largest organizations that were quick to participate in IT and business process outsourcing (BPO) are bringing operations back in-house and exploring alternatives. According to a new study released today by Deloitte Consulting (April, 2005), dissatisfaction in areas that traditional outsourcing was expected to improve, such as costs and complexity, was found to be the primary reason behind participants' negative responses.

The study, *Calling a Change in the Outsourcing Market*, revealed that 70% of participants have had significant negative experiences with outsourcing projects and are now exercising greater caution in approaching outsourcing. The study revealed that one in four (25%) participants have brought functions back in-house after realizing that they could be addressed more successfully and/or at a lower cost internally, while 44% did not see cost savings materializing as a result of outsourcing (Deloitte, 2005).

Moreover, 57% of participants absorbed costs for services they believed were included in the contracts with vendors. Nearly half of the study participants identified hidden costs as the most common problem when managing outsourcing projects.

"There are fundamental differences between product outsourcing and the outsourcing of service functions, differences that were overlooked but have now come to the fore," said Ken Landis, a senior strategy principal at Deloitte. "Outsourcing vendors

and companies may have conflicting objectives, putting at risk clients' desire for innovation, cost savings, and quality. Ladis however, cautioned thus:

The structural advantages envisioned do not always translate into cheaper, better, or faster services. As a result, larger companies are scrutinizing new outsourcing deals more closely, re-negotiating existing agreements, and bringing functions back in-house with increasing frequency.

According to the study, participants originally engaged in outsourcing activities for a variety of reasons: cost savings, ease of execution, flexibility, and lack of in-house capability. However, instead of simplifying operations, many companies have found that outsourcing activities can introduce unexpected complexity, add cost and friction into the value chain, and require more senior management attention and deeper management skills than anticipated.

2.14 IT Outsourcing Models

There are different interpretations to the meaning of outsourcing models, among the academia and industries. Based on this development, this research attempts to explore the diverse approaches and interpretations given to outsourcing models. However, this research adopts the Cohen and Young (2006) interpretation to outsourcing model from sourcing relationship options as depicted in Figure 2.5 below.

Principally, in order for organisations to realize the full advantage of outsourcing and maximize their return on investment, small- and mid-sized business (SMBs) should take a hard look at their organization and define what type of outsourcing model would be the most viable alternative for their particular business situation in term of personnel, function or Project (Cobb, 2005).

1 Personnel: Personnel Outsourcing is the most basic form of outsourcing. It's essentially the use of consulting personnel to perform a variety of tasks without the burden of additional full time equivalent headcount (FTEs). This is similar to simple staff augmentation; however, an onsite lead or account manager independently manages the outsourced personnel, and deliverables are provided based on the changing needs of the organization. In other words, if what you need is a stable of self-managed IT professionals of varying skill sets to tap as necessary, for example when additional help is needed to backfill

on basic duties during a project rollout, in such case the flexibility of personnel outsourcing makes it a viable option.

- 2 **Function:** The Function Outsourcing model allows an organization to break off a particular IT task and move it to an outsourcing provider similar to what many companies have been doing with payroll for years. This model works best for compartmentalized responsibilities that can be grouped individually and require little collaboration with other internal functions. Popular functions to outsource are support related, such as help desk support, desk side services and server maintenance. For example, employee-based service requests are dispatched to the outsourced team to handle the problem, freeing your internal IT staff to focus on more critical company issues.

Other common areas are procurement, warranty and maintenance; almost any task that doesn't integrate heavily with the internal structure of your IT department. Outsourcing a particular function may carry a higher price tag in terms of hourly bill rates, but savings are generally realized because the task is completed more efficiently; service level agreements can be assured; in-house staff and supervisors are freed to focus on core responsibilities; and the soft costs such as retention/hiring and benefits that you'd need to pay a full-time employee are eliminated.

3. **Project:** Project Outsourcing is the easiest model to define. Simply put, any engagement that has a defined deliverable and a set start and end point is a project that can be outsourced. Most are typically one-time engagements that encompass skill sets your department may be lacking or that you simply don't have the manpower to accomplish while still handling core responsibilities. A good example is a standard desktop upgrade; completing the task creates a temporary spike in demand for your IT department, but hiring additional full-time staff doesn't make fiscal sense. Implementing the Project Outsourcing model gets the job done quickly and eliminates any ongoing costs you'd incur if you had to hire additional full time staff.

Today organisations can select from a variety of sourcing relationships, with different level of control and access to best-in-class capabilities (Cohen & Young, 2006). The relationship models identified by Cohen and Young fall into two categories, they are insourced models and outsourced models. Figure 2.5 below shows their sourcing relationship options.

Traditionally, there were only two sourcing models: insource and outsource, but today's competitive world requires a far greater array of choices that recognize the dynamic needs of the organisation and the interplay of internal and external capabilities as well as the relationship between external providers (Cohen and Young, 2006: 90). According to them enterprise needs have forced an evolution of relationship options away from binary choices; full-service outsourcing an approach where an entire horizontal operation, such as IT or finance, is outsourced to a single provider has declined. Cohen and Young (2006: 91) argued that;

Organisations are generally less willing to completely dismantled internal operations and transfer their capabilities and assets externally, because of the high costs involved in switching to another provider in the future. Service recipients are also learning that effective management requires that some capabilities and competencies, and therefore some staff, stay in-house.

On a cost analysis Cohen and Young (2006) found that full single-course outsourcing can be up to 50 percent more expensive than the market average for such services and still not provide the organisation with satisfactory services or innovation. In the light of this the relationship models described by Cohen and Young fall into two categories: insourced models and outsource models, in order to implement this model one have to choose between: outcomes, customization, location, and internal versus external delivery for each service simultaneously expect in multisourcing where more than one elements can be considered. This model gives room for greater access to best-in-class capabilities and progressively less control of service delivery, as depicted in figure 2.5 below.

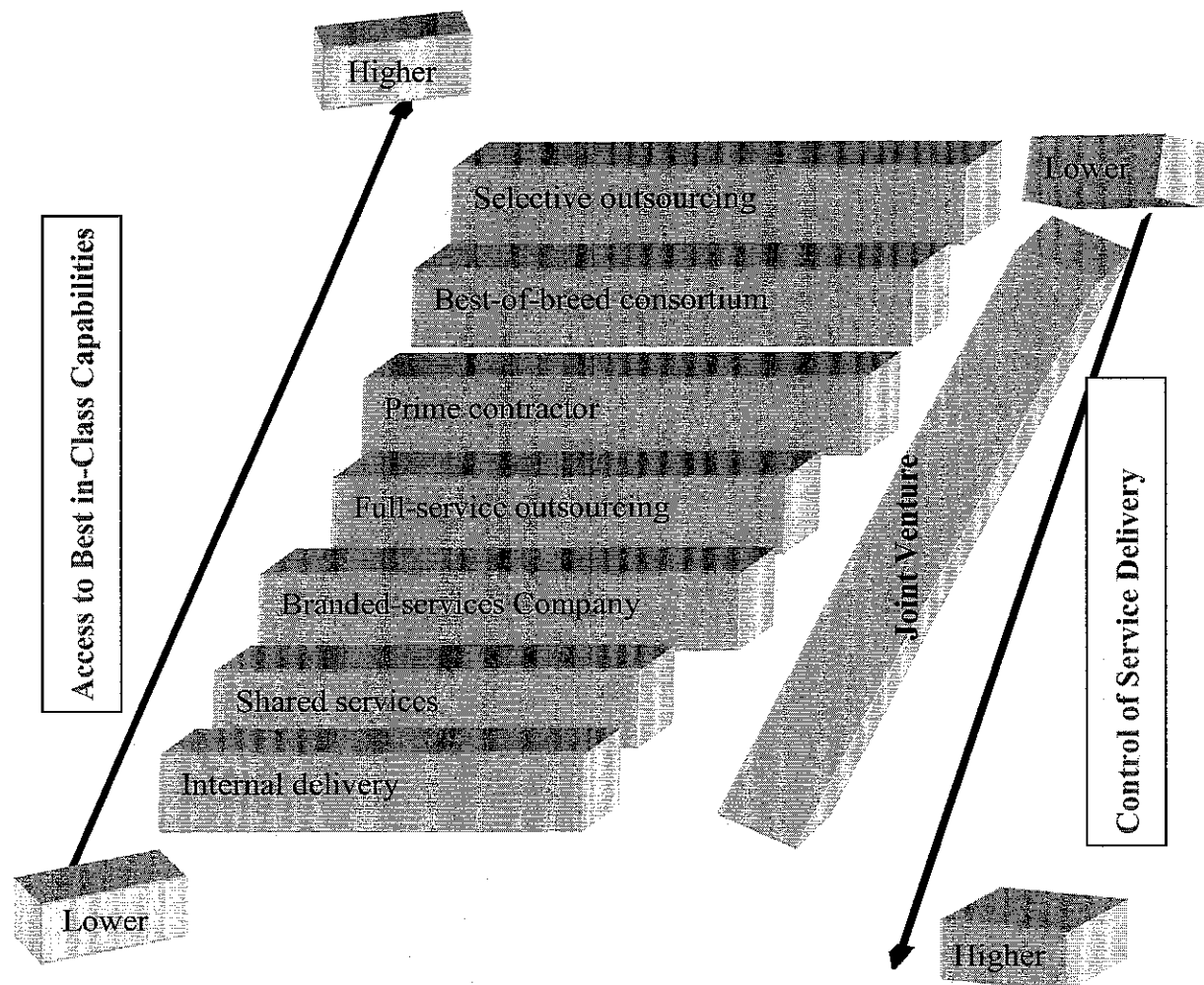


Figure 2.5 Sourcing Relationship Options
Adapted from Cohen and Young (2006)

Lacity et al (2008) highlighted particular sourcing models such as; application service provision, insourcing, nearshoring, rural sourcing, knowledge process outsourcing, freelance outsourcing, and captive centers. Some of these were later elaborate further.

Looking at IT outsourcing models from industrial perspective, Serco one of the world's leading service companies. Serco (2008) highlighted four outsourcing models available for clients that wishes to outsource. According to Serco, the model chosen is dependent upon the end objectives and how far the organisation wishes to outsource. The

following outsourcing models and examples provide an idea of the flexibility of the approach, they include:

Time and Materials: Time and materials contracts are the simplest outsourcing contracts to set-up and deliver. It requires a defined task, a period of time and a rate so that the limit of liability for the client is specified. Time and materials contracts can be used for short-term consultancy contracts, engineering manpower support or IT support services, the mechanism is very flexible.

The length of a time and materials contract can be days, months or years. With certain customers Serco has contracts that are for 5 years, although contractually the full period is normally broken down as 1 + 1 + 1 for the first three years with two potential extensions of 1 + 1. In this way the client is able to review the manpower requirement on an annual basis, whilst on the contractor's side we are able to guarantee a certain level of income depending on our operational ability.

Service Contracts: Service contracts require more consideration from the client side, as inherent in the function of a service contract is the transfer of responsibility from the client to the contractor. The client must decide the extent of this transfer of responsibility and what changes are necessary on the client's side to allow the smooth delivery of the service contract.

Elements that need to be considered include clear lines of communication, responsibilities, tools and facilities to be transferred or utilised, and Service Level Agreements (SLA) and Key Performance Indicators (KPI)

Multi-activity Contracts: A multi-activity contract (MAC) is very similar to a service contract in that it operates on the basis of Service Level Agreements (SLAs) and Key Performance Indicators (KPIs). The major difference is that a number of activities are brought together under a single contract allowing the contractor to identify areas of commonality and economies of scale. From start of the contract there is already an economy of scale for the client in having only one contract to manage rather than many.

MACs can be used for the delivery of discrete service areas (e.g. full IT support services), disparate service areas (e.g. general services for a building) or for the management of a full facility (e.g. a hospital or school).

Public Private Partnerships: Within the public sector government has many calls upon its finite resources. In many cases to balance government budgets projects which might benefit society have to be deferred or scrapped. The alternative is to use private skills and monies to deliver the facility or infrastructure and so the public sector only pays for its use.

Serco has been involved in Public Private Partnerships projects (PPPs) since 1995. We are enthusiastic about PPPs, but selective in our approach. Of more than 600 contracts, 12 are PFI based. Serco like to be involved in the full design, build, finance and operation of PPP projects. We deliver the asset and the subsequent public service to agreed standards.

Another perspective of looking at IT outsourcing model is from participating components in the outsourcing deal.

2.14.1 Small Contract Model

A widely recognized resource management solution is the small contract model whereby outsourcing vendors and IT professionals to work on-site with clients (Yao & Murphy, 2005). They see small contract model sitting between what they called traditional outsourcing model and application service provider business model because SC shares characteristic of both. Small contract model shares characteristic with traditional outsourcing model regarding provided application coverage, software and hardware ownership and customization extent. Whereas in the case of application service provider business model, small contract vendors are small firms and their contracts are generally small. However, according to Yao and Murphy (2005) application service provider business model is differ from traditional outsourcing model in terms of; target markets, vendor characteristic, function provided, resource ownership, and contract types.

2.14.2 Application Service Provision

After two decades of actively distributing computing power to individual users in the form of desktop and notebook PCs, IT executives are now being drawn back to the benefits of centralized computing platforms, as evidenced by the emergence application service provider (ASP) business model (Fang & Neufeld, 2006). Application service provision (ASP) is a deployment option that delivers software as a service. An application service provider (ASP) is a business that provides computer-based services to customers over a network. Software offered using an ASP model is also sometimes called On-demand software or software as a service '*SaaS*' (Greschler & Mangan, 2002).

ASP companies provide online software functionality on a rental basis. Typical applications are human resource management, enterprise resource planning (ERP) or customer relationship management (CRM). The provider agrees a service level with the client company, and provides each user or seat with software capability on a one-to-many basis, often over an IP network.

Despite the promise and potential of improving the way organisations develop, operate and maintain information technology application, Application Service Providers (ASPs) have fared poorly in terms of attracting a large client base (Desai & Currie, 2003).

The ASP concept was over-hyped at the time of the Millennium Bubble and this has made the phrase rather unfashionable. Some analysts and vendors now prefer to revive buzzwords which first surfaced in the 1960s and talk about 'on-demand' or 'utility' computing. These concepts can be stretched to include a wide range of services, from web-hosting and off-site storage to all types of outsourcing. Different types of ASP models that had emerged in the market at the time of its boom as can be seen from the Table 2.14.1 below.

However, Heart and Pliskin (2001) identify two main business models out of the others that are very prominent in the industry. They are horizontal and vertical. They define horizontal ASPs as the ones that cater for a wider variety of organisations and vertical ASPs as the ones who cater to one industry, such as hospitality, health, finance etc offering applications tailored to the specific needs of the industry.

Table 2.14.1 Types of ASPs
(Desai and Currie 2003)

Name (Type)	Main Features
Pure Play	This type of ASP licenses software from a variety of vendors
ASP enablers	Use the best-of-breed service Providers
Partnerships	Access a large community of prospective clients that share the same interest.
Enterprise	They target medium sized companies either through their own channels or through another ASP
Horizontal	These type of ASPs are aimed at all markets and offer collaboration tools like groupware

Point Topic (2003) prefers to use a tightly defined concept of application service provision as 'providing online access to shared general business software applications.' This puts the focus on an application which could be an important driver for broadband take-up in SMEs and which in turn could benefit greatly from the spread of broadband.

According to Fang and Neufeld (2006), there were five forms of ASP business they were tabulated in the Table 2.14.2 below.

Table 2.14.2 Forms of ASP Business
Source: Fang & Neufeld, (2006).

Forms of ASP Business	Functions
Specialist or Functional ASP	delivers a single application, such as credit card payment processing or timesheet services
Vertical Market ASP	delivers a solution package for a specific customer type, such as a dental practice
Enterprise ASP	delivers broad spectrum solutions
Local ASP	delivers small business services within a limited area
Volume ASP	a volume ASP where a specialist ASP offers a low cost packaged solution via their own website

Advantages of ASPs can be viewed from different dimensions, one is the elimination of software integration issues from the client site and at the same time, the software costs for the application are spread over a number of clients. There is also opportunity for vendors to build more application experience than the in-house staff and these vendors could keep key software systems up to date, available, and managed for

performance by experts. Another dimension is improvement in reliability, scalability and security of internal IT systems, in this sense there is more accessibility to product and technology experts dedicated to available products and IT staff and tools can be easily redeploy to focus on strategic technology projects that impact the enterprise's bottom line (Fang & Neufeld, 2006).

Similar worries about data security, and loss of control over business processes, is expressed on PointTopic (2003) have meant that ASP companies have struggled until recently. As fast Internet connections become cheaper, and as the idea of using an ASP becomes more widespread, the potential for the ASP companies seems good.

2.14.3 Insourcing

Insourcing is the opposite of outsourcing; that is insourcing (or contracting in) is often defined as the delegation of operations or jobs from production within a business to an internal (but 'stand-alone') entity that specializes in that operation. Insourcing is a business decision that is often made to maintain control of critical production or competencies. An alternate use of the term implies transferring jobs to within the country where the term is used, either by hiring local subcontractors or building a facility. In another word Insourcing is a business practice in which work that would otherwise have been contracted out is performed in house (Schniederjans, 2005).

Insourcing often involves bringing in specialists to fill temporary needs onsite. In another type of insourcing, an enterprise purchases new equipment or trains existing personnel to perform tasks that would otherwise have been outsourced. This type of insourcing may require considerable training of existing personnel for the tasks. An example is the use of in-house engineers to write technical manuals for equipment they have designed, rather than sending the work to an outside technical writing firm. In this example, the engineers might have to take technical writing courses at a local college, university, or trade school before being able to complete the task successfully (Schniederjans, 2005).

2.14.4 Nearshoring

As the outsourcing and offshoring phenomena matured, the marketplace has sought increased differentiation on the basis of location through a range of ‘shoring’ and ‘sourcing’ terms. “Rural-sourcing,” “two-shoring,” “best-shoring,” and at least a dozen other expressions have emerged. Prominent among these is “nearshore,” which first appeared in the software/IT field in an article about an entrepreneurial software development venture established in the island of Barbados (Hopkins, 1998).

Nearshore emphasizes location and proximity as opposed to the prevailing offshoring archetypes of location transparency and irrelevance of distance and time (Abbott and Jones, 2002). Hopkins presented nearshore as a reaction to the main offshore destination, India, which was viewed as “farshore,” a very distant destination, many hours to travel, many time zones away, and a very different culture.

Countries and companies viewing themselves as nearshore claim to offer some of the benefits of offshoring, such as cost reduction, while mitigating difficulties imposed by distance from the client. Studies on distributed software development have documented that distance introduces difficulties due to issues of communication, control and supervision, coordination, creating social bonds, and building trust (Carmel and Tjia, 2005). The emergence of nearshoring in an industry that encourages virtual forms of working presents yet more evidence that distance still matters. Several studies have shown that distance or proximity of an offshore facility from the client may influence the success of that relationship in subtle ways (Cairncross, 2001; Ghemawat, 2001; Carmel and Tjia, 2005).

Furthermore, most of these researchers viewed distance as the physical remoteness of an offshore facility from a client, which is associated with another interpretation of distance, that of difference; difference that imposes difficulties in the smooth operation of the sourcing relationship. Carmel and Abbott (2007) study suggests that:

Nearshore has become a convenient label, its legitimacy implicit through repeated use, with or without clarification. A destination that labels itself as nearshore seeks to differentiate itself particularly from Indian offshoring and any of the negative connotations that may be attributed to the Indian model, such as long travel time.

However, there is an inherent fallacy in this logic since India actually shares some of the very same characteristics that make nearshore destinations attractive. For instance, while

India is certainly not nearshore to Britain it has long and deep historical and linguistic ties to Britain due to the colonial period.

To recapitulate Carmel and Abbott (2007) analysis shows that distance in the nearshoring context is viewed as multi-dimensional that is, more than the physical meters between locations and that some dimensions such as one time zone apart versus seven time zones apart may be measured. The dimensions of nearshoring are often traded off with costs and risks of doing business in a specific destination. Hence, managers can make location decisions based on task attributes and how these interact with nearshoring attributes. Location consideration for outsourcing is beyond the scope of this research, more so, none of the interviewees considered nearshoring as a factor in Malaysia outsourcing environment.

2.15 Business Process Outsourcing

Over time, approaches to outsourcing have changed. As with many other long-lived phenomena, the concepts and applications of outsourcing are continually evolving. Wadhi (2004) pointed out one of such evolving model, which is call business processing outsourcing, in simpler term BPO. Mehta, et al (2006) considered BPO as one of the most common forms of outsourcing.

Halvey and Melby, (2000: 3) in their support for '*The End-User Executive's Guide*' definition of BPO, as formal definition of BPO quoted the Executive's guide thus; "BPO is the delegation of one or more IT-intensive business processes to an external provider who, in turn, administrates and manages the selected processes based upon defined and measurable performance metrics". In the same vein, Ghosh and Scott (2005) and Stone (2004) also defined BPO as "transferring the operational ownership of one or more of the firm's business processes to an external provider that in turn, manages the processes according to some predefined metric".

The measurable performance metrics identified in the above definition shall be explained later in a sub-section called Measuring BPO Vendors performance. However, Rouse and Corbitt (2004) in their analysis of business process outsourcing (BPO) said that "BPO is the act of giving a third-party the responsibility of running what would otherwise be an internal system or service."

In another word, (Halvey & Melby, 2000: 1) define BPO as "*Management of one or more specific business process or functions (e.g., procurement, accounting, human*

resources, asset or property management) by a third party, together with the information technology (IT) that supports the process or function”

For instance, an insurance company might outsource their claims processing program or a bank might outsource their loan processing system. BPO services involved transfer of management and execution of one or more complete business processes or the entire business function to an external service provider. Information technology outsourcing services has become “commoditized”, customers and vendors are looking up to BPO as a means to either revitalize their organisations or/and reduce costs (Halvey & Melby, 2000).

BPO focuses on how an overall process or function is run starting from the manager to the end-user, not only on the technology that supports such process or function (Halvey & Melby, 2000). The BPO service provider is part of the decision-making structure surrounding the outsourced business function and performance metrics are primarily tied to customer service and strategic business value. Strategic business value is recognized through such results as increased productivity, new business opportunities, new revenue generation, cost reduction, business transformation and/or the improvement of shareholders’ value.

One aspect of BPO that differs from ITO is that there is no education program to develop call center and backoffice outsourcing operations leaders. Consequently, there are insufficient quantities of talented middle management in most of outsourcing destinations (Bravard & Morgan, 2006). Now that most organisations have outsourced a little so called *easy stuff*, they are outsourcing significant amounts of simple work, more complex work, as well as acquiring transformational services. This development has created a huge management challenge for several BPO destinations. It was easy for a call center to get by on relatively easy workforce management planning, large operations demand sophisticated WFM skills. These skills are incredibly hard to find in a country such as Philippines, unless one imports them or buy them from other vendors/captives (Bravard & Morgan, 2006).

In summary, organisations that are looking at business process outsourcing are hoping to achieve cost savings by handing the work to a third-party that can take advantage of economies of scale by doing the same work for many companies. Or

perhaps the cost savings can be achieved because labor costs are lower due to different costs of living in different countries.

In exchange for the potential cost savings, the organisation in question must relinquish control over an aspect of their business, which explains why business process outsourcing is often reserved for non-critical, non-core type of work.

2.16 Knowledge Process Outsourcing

Knowledge Process Outsourcing (KPO) which has been defined as knowledge intensive differentiates itself from Business Process Outsourcing (BPO), which involves more of common processes with standard procedures and templates. Knowledge Process Outsourcing (KPO) enables clients to unlock their top-line growth by outsourcing their core work to locations that have a highly skilled and relatively cheap talent pool. We consider this to be the single most important factor that differentiates Knowledge Process Outsourcing from its predecessor, Business Process Outsourcing (BPO). KPO is about “*intellectual arbitrage*”. This differentiates KPO from IT Outsourcing (ITO) or Business Process Outsourcing (BPO), both of which emphasize cost arbitrage. KPO is characterized by niche offerings, highly skilled staff and a relatively small scale. It cuts into the traditional “core competencies” of many organizations.

Zarrella (2008) affirmed that the Knowledge Processing Outsourcing (KPO) industry has come of age. Independent researchers estimate the annual value of KPO will reach at least US\$10 billion by 2010. Not surprisingly, the financial services sector is leading the KPO charge. Knowledge processes are fundamentally different from business processes, with clear differences in process complexity, skill sets and scalability. There is a good mix of both third-party and captive structures in the KPO industry at present. KPMG expects hybrid multi-sourcing models of KPO to emerge in the near future.

They will likely consist of captive units managing relationships with third-party KPO providers. Organizations with experience in outsourcing IT and business processes will likely have a shorter learning curve when entering into KPO. Acquiring the necessary skill sets, attracting talent, protecting intellectual property and managing conflicts-of-interest will likely be the major challenges facing the KPO industry over the next three years.

Anne and Sparrow (2005) foresee a significant shift in boundaries between “*outsourcable*” and “*non-outsourcable*” activities. Activities that are analytical skills-intensive are expected to be increasingly outsourced going forward as KPO providers prove their execution capabilities. Activities that require high domain expertise will likely be at the lagging end of the outsourcing curve as service providers make concerted efforts to acquire these skills. Decisions about outsourcing may be accelerated to preserve and increase competitive advantage. “Boutique” providers will likely leverage KPO to create new services and offerings. The KPO industry’s staff qualifications and skill-set requirements are significantly different from those of the BPO industry. This requires KPO providers to develop specialized recruitment and retention strategies.

The location selection for KPO should take into account the nature of knowledge process work, skill sets, and supporting educational and certification organizations which are expected to produce a supply of talent in the selected location. India is currently the leading country providing KPO services. However, other countries have the potential to capture significant KPO market share, by better leveraging the depth and maturity of existing skill sets, and in some cases, their non-English language capabilities.

Within the KPO industry, legal and compliance departments are currently under resourced and inadequately empowered. This has implications for managing insider trading, conflicts-of-interest, intellectual property and professional indemnity liabilities. (Knowledge Process Outsourcing: Unlocking top-line growth by outsourcing “the core” (KPMG International, 2008), is said to become the next big thing for years to come.

In this recent publication, an insight is given on the leading financial sectors outsourcing their core work to offshore locations that have highly skilled but relatively cheap pools of talent. The study focuses mainly on the conventional banking and financial services which had also listed India as one of the top destinations for this outsourcing (Hulwana, 2008). Malaysia has to take the opportunity of Islamic banking and Islamic financial sector to position itself as a leading destination for this service and create its niche of outsourcing services in this specialised financial sector.

The expansion, sophistication and complexity of Islamic banking and Islamic financial sector which gives birth to new dimension in areas of Islamic private equity, Islamic bonds (*Sukuk*), Islamic real estate investment fund, Islamic securitization, have

given rise to the need for better understanding and interpretation of the Shariah law, especially in terms of the risks involved.

Coincidentally, Malaysia is considered as the most developed among the Muslim countries, with proper and adequate information technology and other infrastructures that could support modern Islamic financial system. Since Islamic finance has become part of the international system, being offered in more than 75 countries, comprises of assets amounting to US\$1 trillion, this is something too paramount to be ignored. With the rising competition for Islamic banking and finance from other financial hubs such as London and Dubai, Malaysia should be thinking of how to reposition itself towards becoming the leader in this sector, as this will create a huge market for Malaysia IT vendors in a specialised way.

Malaysia has long been outstanding in its Islamic banking and financial services sector. In fact, it was the pioneer in the industry. The setting up of the International Center for Education in Islamic Finance (INCEIF) and Islamic Banking and Finance Institute Malaysia (IBFIM) will be able to supply cheap but knowledgeable talent pools and expertise in the field, thus gives better opportunity for Malaysia to capture this size of market as an attractive outsourcing destination for this industry.

2.17 Critical Issues with Outsourcing

Although, there are advantages in outsourcing, Lacity and Hirschheim, (1993) M. da Cruz (1996) however acknowledged that there are a number of things that can go wrong. They agreed that it is prudent to stop and ask several questions on organisation's intentions, problems that organisation intended to solve, the availability of the needed solution with selected vendors and whether the organisation initiate outsourcing for reasons other than cost efficiency or for some other reasons?.

These and several other questions were identified as part of the measures to evaluate the vendor and identify the company goal before outsourcing pack could be made (M. da Cruz, 1996). Detail of such questions is available on appendix B.

Several issues have been raised in books, articles and journals, such issues are seen as critical due to their impact on the organisation's strategy and the vendors' admiration. This research will assess some of those emerging issues on the pending

research focus and later give explanation in chapter four of this work based on the data collected as the research progresses. Some of the 'emerging issues' include the following;

- Transaction Costs
- Hidden / Additional Costs
- Lack of Flexibility
- Loss of Control
- Human Resource Problems
- Lock-In, Vulnerability and Dependence
- Privacy and Confidentiality
- Intellectual Property and Competition

Beside all this aforementioned critical factors that are affecting IT outsourcing in organisation, another area to be considered is the type of outsourcing with a reference to business process outsourcing which is the latest trend in the IT outsourcing business arena.

2.18 Positioning Information Technology in Organisations

In the past few years, there have been some major trends that drastically affected the way organisations use technology. These trends make it imperative that a manager become familiar with both the use of technology and how to control it in the organisation. Lucas (2005) highlighted six major trends in information technology that are altering organisations' management and operations. Below are some of the trends identified by Lucas (2005);

1. The use of technology to transform the organisation. The cumulative effect of the technology firms are installing is to transform the organisation and allow new types of organisational structures. Sometimes the transformation occurs slowly as one unit in an organisation begins to use groupware. In other cases the firm is totally different after the application of technology. This ability of information technology to transform organisations is one of the most powerful tools available to a manager today (Lucas 2005).
2. The use of information-processing technology as a part of corporate strategy. Firms such as Cisco are implementing information systems that give them an

edge on the competition. Cisco uses the technology to provide excellent customer service while keeping its own cost low. Customers at Cisco enter more than 90 percent of their orders online: Cisco automatically routes these orders electronically to contract electronics manufacturers who build its equipment. Networks are an integral part of the way the firm operates and coordinates with customers and suppliers. Organisations that prosper in the coming years will be managed by individual who are able to develop creative, strategic applications of the technology as Cisco has done (Lucas 2005).

3. Technology has become a pervasive part of the work environment, this does not limited to largest corporations, similar trend is occurring even with the smallest business. Lucas (2005) finds that technology is used to reduce labour, improve quality, provide better customer service, or change the way the firm operates (Lucas, 2005: 14). Factories used technology to design parts and control production. The small auto repair shop uses a packaged personal computer system to prepare work orders and bills for its customers. The body shop uses a computer-controlled machine with laser to take measurements so it can check the alignment of automobile suspensions, frames, and bodies.
4. The use of technology to support knowledge workers. The personal computer has tremendous appeal. It is easy to use and has a variety of powerful software programs available that can dramatically increase the user's productivity. Internet connection provides a tremendous tool for knowledge workers.
5. The evolution of the computer from a computational device to a medium for communications. Computers first replaced punched card equipment and were used for purely computational tasks. From the large, centralised computers, the technology evolved into desktop, personal computers. Computer networks grew and became a medium for internal and external communications with other organisations. Lucas (2005: 14) reiterated that communications aspects of computers are more important than their computational capabilities for many workers today.

2.19 Some Previous Works on Outsourcing in Malaysia

In Malaysia, government is moving toward a full fledged e-government. As at 2005, the Malaysian e-government had successfully implemented applications such as; electronic labour exchange, SMS alert on e-government services, Online renewal of driving licenses, electronic filing of income tax forms, voter information, details for government tenders, and employment opportunities (mylot.com, 2005). All these applications were outsourced or contracted to IT vendors in Malaysia. This shows the extent of commitment of the government to the development of IT industry in Malaysia. This government initiative had triggered several government link organisations to outsource IT services to ITO vendors (Rithauddeen, 2007).

According to the survey done by Brown University on Rhode Island, US on international e-government ranking list, Malaysia has improved tremendously since 2005. Malaysia was ranked 157 out of 198 countries in 2005. This year, the ranking leapfrogs to 25. This is mainly due to the Malaysian government efforts in promoting e-government services (mylot.com, 2005). In another study done by Siaka, et al. (2006), India is acknowledged as the prevailing leader in software service supplier, dominating 80-90 percentage of the total offshore development revenue worldwide. This research categorized other countries into four namely: Leaders, Challengers, Up Comers and Beginners. In this study Malaysia is categorized along with Bangladesh, Korea, Taiwan, etc as the Beginners the Table 2.19.1 below.

Table: 2.19.1 Outsourcing Software Service Provider Countries

Category	Country
Leaders	India
Challengers	Canada, China, Czech Republic, Hungary, Ireland, Israel, Mexico, Northern Ireland, Philippines, Poland, Russia, South Africa
Up Comers	Belarus, Brazil, Caribbean, Egypt, Estonia, Latvia, Lithuania, New Zealand, Singapore, Ukraine, Venezuela
Beginners	Bangladesh, Cuba, Ghana, Korea, Malaysia, Mauritius, Nepal, Senegal, Sri Lanka, Taiwan, Thailand, Vietnam

The position of Malaysia on the table above shows that there is a wide gap between current position and the aspiration of former Malaysia Prime Minister, YAB Datuk Seri Abdullah Ahmad Badawi (2005) who identified outsourcing and shared

services industry (SSO) as one of the pillars of economic and financial development. In the same vein (Rithauddeen, 2008) expresses his believe that:

...there is much for Malaysia especially our local companies to fully tap into this revenue potential. The outsourcing and shared services industry (SSO) can be applied to virtually any aspect of business from backroom operations such as hosting services to supply chain management to front-line customer relations. Even functions that are conventionally kept in-house such as financial services, human resource and research activities can be channeled to a provider, whether located on-shore in the same country or offshore, without any negative effects to company's balance sheet.

Zulkifli (2008), expressed the need for IT entrepreneurs to find ways to get company an MSC status, as this will assist them to fly high as the government will elevate their effort in promoting the MSC companies globally, and perhaps form a joint venture with established multinationals (MNCs). Zulkifli (2008) reiterated the reason why local IT sector should be ready to penetrate global IT outsourcing market and get there country share of the IT global business trend. He submitted thus:

... since the local ICT industry has become increasingly successful in developing world-class products and services, the government feels that Malaysian ICT companies are ready to penetrate the global market.

Gartner (2007), in the chapter one of this research had briefly identified factors that give Malaysia IT outsourcing edge ahead several other destination behind, India, China and Philippine. Some of those factors are enumerated below:

1. High level of English language competency (Gartner, 2007; NST, Feb 2009).
2. Unprecedented government support through Multimedia Super Corridor (MSC). (Gartner, 2007; MSC, 2008; NST, March 2009).
3. Higher labour pool comparing to neighboring countries (Gartner, 2007).
4. World-class physical and information infrastructure
5. Wage inflation is well-contained, and attrition rates are low compared with those in India, China and the Philippines. Coupled with a competitive wage differential over the United States and Europe.
6. Politically stabled, economic viable and culturally harmonious.
7. Globally positioned and legally matured (Ang, 2008).

8. Provision of data and intellectual property security and privacy (Gartner, 2007).

Beside all the above positive factors that place Malaysia on the bright side of global outsourcing, Goolsby (2007) reiterated that the major factor is the ability of Malaysian providers to demonstrate a partnering approach, flexibility and alignment of interests to enable clients' innovation and strategic growth. This he summed up as; *"Partnering is the backbone of our client relationships"*.

2.20 Summary

The above literature review focused on different definitions of outsourcing as advocated by different authors, however, this research attempted to adopt the definition given by Garnick (2002) based on certain identified factors. This chapter also covers advantages and disadvantages of outsourcing and on factors that affecting and determined the success of IT outsourcing. It later gave a look into Malaysia scenario of outsourcing. Lastly, this literature looked at the outsourcing as being practiced in the Malaysian ITO environment.

Conspicuously, from this literature review, it was established that numerous work has been done on outsourcing mostly from the clients' perspective. Beside this one sided development, little attention had been given to how government policies are affecting IT outsourcing couple with the fact that little or no attention was given to studying of trust from the perspective of IT suppliers in the third world country. The benchmark on ITO standard had been largely based on the so called international standard that devoid the contribution and cultural settings of IT suppliers. This research will attempt to bridge these identified gaps in the IT outsourcing studies by making the ITO suppliers its focus and by selecting a third world country as its case study in identifying effect of government policies, perception of mutual trust and IT suppliers' interpretation of the high cost of IT services.

Despite, information technology outsourcing is not a new phenomenon to Malaysian environment as this chapter revealed, however, the extent of outsourcing practice among IT vendors in Malaysia is not fully known yet, and this could also justify this research.

CHAPTER THREE

RESEARCH METHOD

3.0 Overview

The preceding chapters have described the development of the theoretical framework, which informs and guides this study into of ITO industry in Malaysia. This chapter aims to present a discussion of the research design considerations employed by the current research and describes how it is implemented. It begins by defining research and later developing an argument for an appropriate research design for this study. This is done by looking at various research approaches and methodologies and also by looking at their strengths and weaknesses. In the later part of this chapter, the unit of analysis of this research is explored and elaborated, along with the process entailed in selecting IT organisations used in this research. Detailed background information about research samples (IT vendor organisations) is given for justifying each Case (as referred to in this research). Information related to the selected ITO in terms of: functions, operation and their status explained. However, as part of non-disclosure agreement this research had with these organisation pseudo names like Case1 is adopted for the analysis.

Research is the key component of a dissertation process. Research is defined as a systematic investigation of information to solve a problem or contribute to knowledge about a theory or practice (McMillan & Wengin, 1994; McBurney & White, 2007; Willig & Rogers, 2008). Research methodologies are used during the dissertation process to produce reliable and credible results according to the scientific method. Each research process starts with a research problem. It is important to have a well-defined research problem to perform well-defined research. The next stage of the research process is the research design.

The research design differs depending on the research methodology chosen by the researcher. The research design encompasses tasks such as sample design, data collection design, and methodology tests. The type of problem can influence the choice of the

methodology. The next stage of the process is the actual data collection and analysis. The data collection and interpretation depends on the research methodology used. The final phase of the research process is the reporting of the results and recommendations for future research.

Qualitative and quantitative researches have been represented as two fundamentally different paradigms through which to study the social world (Brannen Julia 2004: 312-326) and management world inclusive. Bryman (2001) sees these paradigms acting "*as lightning conductors to which sets of epistemological assumptions, theoretical approaches and methods are attracted and that are treated as incompatible across paradigms.*" p 445

As it could be observed later in the chapter, qualitative approach has been preferred over quantitative approach. The strength and limitation of qualitative approach will be discussed and subsequently followed by a justification for the choice of interpretive approach employed by this research. The method of data collection and analysis are discussed towards the end of the chapter. The discussion in this chapter begins with definitions of research and its perspectives.

3.1 Definition of Research

According to Powel (1995), there is no single, widely accepted definition of research "*because there is more than one kind of research*". However, by following Goldhor's (1972) definition, research can be defined as "*...any conscious premeditated inquiry – any investigation which seeks to increase one's knowledge of a given situation*". In another definition given by Hernon (1991: 4) he defined research as; "*an inquiry process that has clearly defined parameters and has as its aim either to discover and create knowledge, or to test, confirm or refute knowledge and or to investigate a problem for local decision making.*"

Macleod and Hockey (1989) defined research as "*an attempt to increase the sum of what is known, usually referred to as 'a body of knowledge', by the discovery of new facts or relationships through a process of systematic inquiry, the research process*".

Research may involve the application of a structured research process in order to answer research questions or challenge a research hypothesis. In attempting to answer

research questions or discover whether a research hypothesis can be supported, we employ a research design and research method.

However, information systems (IS) field is very diverse in terms of problems addressed, theoretical foundations and reference disciplines, and methods to analyze, collect and interpret data (Chiru, 2005). That is the reason why either of the qualitative or quantitative research method can be used in carrying out investigation or data collection.

3.1.1 Quantitative Research

Quantitative research is a formal, objective, systematic process in which numerical data are utilised to obtain information about the world. (Burns & Grove, 1993). Quantitative research is inclined to be deductive. According to Cormack (1991) quantitative research is generally acceptably categorized into three types; descriptive, quasi-experimental and experimental, while there is disagreement either correlational study can be considered as quantitative or not.

The most obvious difference between quantitative research and qualitative research is that quantitative research uses data that are structured in the form of numbers or that can be immediately transported into numbers. Therefore, objectivity, deductiveness, generalisability and numbers are features often associated with quantitative research (Burn & Grove, 1993).

3.1.2 Qualitative Research

Enthusiasm for qualitative methods is reaching an all-time high these days (Padgett, 2004). As the bandwagon of the qualitative researchers has become even more crowded with the arrival of experienced quantitative researchers who have decided that qualitative methods can take them to places they could not have previously gone. Thomas Cook a leading research methodologist states that; “*qualitative researchers have won the qualitative-quantitative debate*” where he was referring to the dramatic upsurge in popularity of the qualitative research method, a phenomenon that Patton (2002) considered being gratifying and invigorating.

Qualitative researchers engage in ethnography, grounded theory, case studies, life histories, narrative analyses, and participatory action research. Some are committed to

theory building, others value rich description, still others work almost entirely within the arenas of evaluation, policy and practice for instance this study which looks into ITO practices and policies in Malaysia. Although some epistemologies and approaches match up better than others, any given qualitative study may incorporate several elements from this menu of varied options (Padgett, 2004).

Qualitative research involves the use of qualitative data, such as interviews, documents, and participant observation data, to understand and explain social phenomena. Qualitative researchers can be found in many disciplines and fields, using a variety of approaches, methods and techniques. In Information Systems, there has been a general shift in IS research away from technological to managerial and organisational issues, hence an increasing interest in the application of qualitative research methods (Myers, 1997). Denzin and Lincoln (2008) summarized qualitative research thus:

Qualitative research is many things to many people. Its essence is twofold: a commitment to some version of the naturalistic, interpretive approach to its subject matter and an ongoing critique of the politics and methods of postpositivism

According to Hunter's (2004) analysis on the qualitative approaches to research, he opined that qualitative researches are based on a "world view" which is holistic. He also believes that there is not a single reality, that reality based upon perceptions that are different for each person and change over time and lastly that what we know has meaning only within a given situation or context.

He further explained that the reasoning process used in qualitative researches involve perceptually putting pieces together to make whole. And that from this process meaning is produced. Hunter however acknowledged that many meanings are possible, because of the divergent nature of men and their perceptions on different issues.

Quantitative research methods are often based on traditional scientific method, which is characterised by repeatability, reductionism and refutability (Galliers, et al, 2006). The repeatability characteristic assumes that an 'experiment' can be replicated in exactly the same context. Reductionism assumes that a problem can be divided into manageable parts without distorting the issues. Refutability assumes that there are verifiable predictions of anticipated outcomes and that the research process itself will not affect those outcomes.

In qualitative research, the three key characteristics discussed above turn out to be problematic when applied in IS research (Galliers, et al, 2006). For example, the repeatability characteristic will not be applicable since IS research often involves different individuals and the situation into which an information system is installed always changes. The same applies to the reductionism characteristics since it is difficult for a researcher who has evidence only about specific individuals to use it to try to explain macro-level events (Neuman, 1994). Likewise, the refutability characteristic will also not be applicable since the happenings in social research are strongly influenced by the growth of human knowledge and the future growth of knowledge is, in principle, unpredictable (Galliers, et al, 2006).

Qualitative research according to Hunter (2004) is an interpretive approach to investigate subjects in their natural surroundings. Thus, qualitative researchers conduct their investigation in the field, attempting to document situation and to garner interviewees' interpretation of situations. Hunter (2004) described qualitative researchers as those that *"attempt to make sense of, or interpret, phenomena in terms of their meanings attributed by individual [interviewee]"*.

In qualitative research, the researcher will investigate a subject area and reach preliminary conclusions about research question(s) which some consider bias or a beneficial flexibility on the side of researcher (Hunter, 2004). Those that considered the researcher biased argued that the researcher has close involvement in research situations and with research participants and that he may pose a question in a certain way during an interview, or certain aspects of the discussion may be pursued more or less intensively.

Although, Pervin (1989) accepted that in qualitative research, measuring reliability is difficult, however, he suggests that reliability in the social sciences context, "relates to the extent to which our observations are stable, dependable, and can be replicated". That is, the possibility of obtaining similar result by different person that follows the same method.

On a last note, Kaplan and Maxwell (1994) are of the opinion that the motivation for doing qualitative research, as opposed to quantitative research, comes from the observation that, "if there is one thing which distinguishes humans from the natural world, it is our ability to talk!". Qualitative research methods are designed to help

researchers understand people and the social and cultural contexts within which they live. They argue that the goal of understanding a phenomenon from the point of view of the participants and its particular social and institutional context is largely lost when textual data are quantified (Holliday, 2007).

As highlighted by Miles and Huberman (1994) the strength of qualitative data is its focus on naturally occurring, ordinary events in natural settings supported by local groundedness. Its emphasis is on a specific case, a focused and bounded phenomenon embedded in its context with richness and holism. In addition, it is fundamentally well suited to locating the meanings people place on the events, processes, and structures of their lives and it is a good strategy for discovery, exploring a new area and developing hypotheses.

Trauth (2001), on his discussion on some issues and trends in qualitative information systems research classified qualitative method into four subs: ethnography, grounded theory, critical research and interpretive research. While in Myers' (1997) earlier classification also grouped qualitative research in information systems into four, however, with action research and case study in place of critical research and interpretive research as Trauth (2001) later classified qualitative research. Generally, Whitman & Woszczyński (2004) classified qualitative research methodology into five as follow; action research, case study, ethnography, grounded theory and narrative inquiry.

Guba and Lincoln (1994) suggest that four underlying epistemological paradigms exist for social research: positivism, post positivism, critical theory and constructivism (or interpretivism). Other researchers have chosen to identify and classify the major paradigms in alternative ways. Myers (2002), for example, relies on a three-way classification of IS research: positivism, interpretivism and critical research.

According to Rouse (2002), in the discipline of IS, while the paradigm dominant in the major US journals is still positivism, there has been a growing recognition that research conducted from alternative philosophical standpoints is both valid, and important. Rouse gave instance of MIS Quarterly published three special editions consisting of non-positivist, intense qualitative research. This she claimed indicated the discipline's acceptance of alternative epistemological approaches in the mainstream, and signaled the end of what she called "paradigm wars" within information systems.

Associated with this growing recognition, there is also a movement in the IS literature to stress the similarities, rather than the differences between positivist and interpretivist research. This is exemplified by Lee (1991), and Mingers (2001).

Holliday (2007) however cautioned the researchers that attempts to divide social research into hard categories will always suffer from what he called ‘oversimplification’, because, “*qualitative will always involve quantitative elements and vice versa.*” Apparently, most authors today see qualitative and quantitative approaches as complementary rather than antagonistic (Thomas, 2003).

Mahmood (2005) in his study, expressed his intention on the comparison between qualitative and quantitative research method as not “*to fuel the controversy of the two camps that is positivist and interpretivist, but rather, in the spirit of methodological pluralism, to examine how the differences that exist can strengthen and benefit this research*”

According to Markus (1997) the ‘War’ between quantitative and qualitative research is over in the IS field. Qualitative research has ‘won academic acceptance, both within the IS field and within the larger domain of academic management studies’ (Markus, 1997). Despite the successful paradigm shift the IS research community has been slow to adopt Qualitative Analysis Software (QAS) supporting the analysis phases of the ever increasing number of interpretive studies being undertaken in the field (O’Flaherty and Whalley, 2003).

Detail on case study will be provided later under ‘the consideration for case study design’ since this research intends to investigate IT outsourcing practices in Malaysia from the vendor’s perspective and explore the relationship between the formal outsourcing practices and real outsourcing practices within the ITO spectrum.

Table 3.1 Comparison of Seven Features of Quantitative and Qualitative Methods
(Siegel and Dray, 2003; Thomas, 2003)

Features/ Aspects	Quantitative	Qualitative
Method, Design	<ul style="list-style-type: none"> • Predetermined 	<ul style="list-style-type: none"> • Ad hoc, opportunistic • Apart from the researcher
Sampling	<ul style="list-style-type: none"> • Large, representative, random 	<ul style="list-style-type: none"> • Small, strategic

Data Analysis	<ul style="list-style-type: none"> Standardised measures allow efficient data reduction Facilitates combining and comparing across cases 	<ul style="list-style-type: none"> Volume of raw data overwhelming, often of unclear pertinence Data reduction not straight forward Data not standardised across cases
Evaluation of Quality	<ul style="list-style-type: none"> Standards of quality exist, look objective, Degree of support for inferences open to scrutiny 	<ul style="list-style-type: none"> Inferences can seem to come from 'invisible' intuitions, Hard to access quality
Focus	<ul style="list-style-type: none"> Question should be specified in advance based on theory 'Zoom' lens Must be narrowed, sometime ridiculously, to isolate variable or it takes 'black box' approach. 	<ul style="list-style-type: none"> Open to possibility you don't know the right question to ask in advance 'Wide-angle' lens Broad, holistic, explanatory, tries to grasp, complex interaction of factors
Aimed at	<ul style="list-style-type: none"> Understanding what? Numerical abstractions Characterising the population 	<ul style="list-style-type: none"> Understanding 'how and why' Realistic representations Characterising the 'design space'
Values	<ul style="list-style-type: none"> Statistical validity 	<ul style="list-style-type: none"> Practical implications.

Table 3.2 Main Types of Qualitative Research

(Neill James, 2006)

Case study	Attempts to shed light on a phenomenon by studying in-depth a single case example of the phenomena. The case can be an individual person, an event, a group, or an institution.
Grounded theory	Theory is developed inductively from a corpus of data acquired by a participant-observer.
Phenomenology	Describes the structures of experience as they present themselves to consciousness, without recourse to theory, deduction, or assumptions from other disciplines
Ethnography	Focuses on the sociology of meaning through close field observation of socio-cultural phenomena. Typically, the ethnographer focuses on a community.
Historical	Systematic collection and objective evaluation of data related to past occurrences in order to test hypotheses concerning causes, effects, or trends of these events that may help to explain present events and anticipate future events. (Gay, 1996)

3.2 Qualitative Research Paradigm

Paradigms provide philosophical, theoretical, instrumental, and methodological foundations for conducting research and, in addition, provide researchers with a platform from which to interpret the world (Morgan, 1997). The empirical paradigm holds assumptions based on the supposition that an external world of objects exist, that the assumptions *"can be measured independently of one another, that these objects are lawfully interrelated, and that the relationships are mediated by a real force in objects that is called causation"* (Cook & Nunkoosing, 2008).

The qualitative paradigm aims to understand the social world from the viewpoint of respondents, through detailed descriptions of their cognitive and symbolic actions, and through the richness of meaning associated with observable behavior (Wildemuth, 2003). In this paradigm, which rejects both a cause-and-effect construct and universal laws devoid of any sociohistorical context, the separation between researcher and respondent is diminished (Sundqvist, 2007).

Kemmis and McTaggart, (2000) asserts that: *"the true value of non-experimental research lies in its connection to the real world, its ability to describe actions in their social and historical contexts, and its ability to rationally critique these descriptions"*.

Central to the qualitative paradigm is the belief that people assign meaning to the objective world, that their valued experiences are situated within a historical and social context, and that there can be multiple realities (Benoliel, 1996).

3.3 Qualitative Research in Malaysia

Research in Malaysia is as is elsewhere, diverse. The traditional positivist and non-positivist paradigms have long been at opposite poles (Daniel & Yussof, 2005). Qualitative research conjures up many ideas, feelings and questions whenever it is mentioned in Malaysia. Without fail, (as it is elsewhere) most would compare qualitative with quantitative research and say that 'quantitative is about numbers and qualitative is mainly description (Daniel and Yussof, 2005). According to Daniel and Yussof (2005) most Malaysian researchers seem to be able to conceptualize a form of qualitative research only in contrast to quantitative research. They attributed this to the individual field of expertise and paradigms that one might have acquired over the years. The

familiar sneer and scorn about qualitative methodology has perhaps become a little less, as the many positive points and advantages of qualitative research becomes more apparent slowly.

In 2004 Yusoff et al. (Yusoff Marohaini, Manaf Zulkifli A., Rohany, Hawa, Mohd Roslin Rosmimah & Omar Hafidz) conducted a study on qualitative research. They investigated two main questions from three local universities. First, the level of understanding of qualitative research and second is the level of adoption of qualitative research. Table 3.3 and 3.4 below summarized the level of understanding of qualitative research among 251 respondents conducted by Yusoff et al. (2004).

Results of Yusoff et al. (2004) the study revealed that only 45 percent of the respondents were current users of qualitative research methods. This was considered to be only a small percentage in the Institutes of Higher Learning participating in the study. They therefore concluded that, adoption of qualitative research is still not as widespread as desired.

Table 3.3 Comparison of Responses on Understanding of Qualitative Research Concepts
(Yusoff, et al., 2004)

Concept of qualitative research	Percentage of responses which shows understanding
More Meaningful Data	65.0%
Realistic Investigation	48.0%
Naturalistic Inquiry	48.8%
Emic Perspectives	60.5%
Conducting Observations	71.0%
Document analysis	52.4%
Ethnography	62.1%
Phenomenology	45.6%
Reflecting upon events	48.3%
Use of Field notes	57.0%
Use of Transcripts	71.0%
Concept of qualitative research	Percentage of responses which indicates lack of understanding
What kind of objectives are Suitable	59.3%
The use of Statistics	52.4%
Need to put forward Hypotheses at the beginning	37.1%

Conducting Fieldwork	68.4%
Questionnaires can be utilized	57.0%
Involves some instrumentation	53.0%
Emerging Grounded Theory	67.7%

Similar studies was conducted later by Zainon et al. (Zaitul Azma Zainon Hamzah, Normaliza Abd Rahim, and Siti Zobidah Omar) in 2008 aimed to identify the strengths and weaknesses of qualitative research in Malay studies, to discuss the importance of qualitative research in Malay studies at national and international level and to highlight examples of qualitative research done in socio-pragmatic discipline in Malaysia, though result of this research has not been published.

3.4 Justification for Adopting Qualitative Research

Qualitative research is increasing in a wide range of academic and professional areas Holliday (2007). Qualitative research according to Holliday, develops from aspects of anthropology and sociology and represents a broad view that to understand human affairs it is insufficient to rely on quantitative survey and statistics, and necessary instead to delve deep into the subjective qualities that govern behavior, as in this research which tries to investigate issues like mutual trust, government policy, ITO vendor service cost and need for a customized ITO model. All these issues are objective in nature and therefore, qualitative research approach is most suitable for such objective research (Walford, 1991; Gubrium and Holstein, 1997; Holloway and Wheeler, 1996; Guba and Lincoln, 2005).

Beside the above reasons, one of the essences of adopting interpretivism is in an attempt to bridge the gap existing between the advocates of positivism and interpretivism approaches. Guo and Sheffield (2008) identified that “knowledge management (KM) research in information systems journals differs from that in management journals, but neither makes a balanced use of positivist and non-positivist research approaches”. In the same vein Oates et al. (2004) suggest that empirical web engineering should use a plurality of research strategies and data generation methods, and recognize the potential usefulness of both positivism and interpretivism. Another reason for adopting qualitative research approach for this research is that it is becoming apparent “that the statistical

quantitative statements of opinion polls, government, opposition and ‘independent’ scientific reports ... can tell many quite different stories and be at the mercy of political spin” (Holliday, 2007). Walford (1991) characterized this realization of the limitations of prescribed method in the educational research as:

A careful, objective, step-by-step model of the research process is actually a fraud and ... within natural science as well as social science, the standard way in which research methods are taught and real research is often written up for publication perpetuates what is in fact a myth of objectivity

Holliday (2007) claimed that what actually happens is very different to the apparently regular methods that reported, he identified shortcuts, hunches, serendipity and opportunism as the components of day-to-day research. Besides, the above two reasons for adopting qualitative method for research, another reason is that, this study is an open-ended and the research realized that qualitative method can lead the researcher into unforeseen areas of discovery within the lives of people this research is investigating.

Guba and Lincoln (2005) argued that qualitative and quantitative research represent different way of thinking about the world, each paradigm has underlying philosophy. Table (3.4) below represents the two paradigms, and also serves as the benchmark in adopting qualitative method for this research. This table gives a detailed comparative study between quantitative and qualitative research method, by analyzing the two paradigms with four major themes namely; activities, beliefs, steps and rigour.

Table 3.4 Two Paradigms (Quantitative and Qualitative)

Adapted from Holliday (2007)

Items	Quantitative Research	Qualitative Research
Activities	Counts occurrences across a large population. It uses statistics and Replicability to validate generalization from survey samples and experiments.	Looks deep into the quality of social life. It locates the study within particular settings which: provide opportunities for exploring all possible social variables; and set manageable boundaries. Initial foray into the social setting leads to further, more informed exploration as themes and focuses
	Attempts to reduce	

	contaminating social variables	emerge.
Beliefs	<p>Conviction about what it is important to look for</p> <p>Confidence in established research instruments</p> <p>Reality is not so problematic if the research instruments are adequate; and conclusive results are feasible</p>	<p>Conviction that what it is important to look for will emerge</p> <p>Confidence in an ability to devise research procedures to fit the situation and the nature of the people in it, as they are revealed.</p> <p>Reality contains mysteries to which the researcher must submit, and can do no more than interpret.</p>
Steps	<p>First decide the research focus (e.g. testing a specific hypothesis)</p> <p>Then devise and pilot research instruments (e.g. survey questionnaire or experiment)</p> <p>Then go into field</p>	<p>Decide the subject is interesting (e.g. in its own right, because it represents an area of interest)</p> <p>Go into the field to see what is going on.</p> <p>Let focus and themes emerge</p> <p>Device research instruments during process (e.g. observation or interview)</p>
Rigour	Disciplined application of established rules for statistics, experiment and survey design	Principled development of research strategy to suit the scenario being studied as it revealed

The belief of qualitative research method that, the realities of the research setting and the people in it are mysterious and can only be superficially touched by research which tries to make sense is interpretive. This assertion justified adoption of qualitative method for this research which is interpretive in its approach. This shows that by adopting qualitative research which is interpretive in approach, this research can explore, catch glimpse, illuminates and then try to interpret bits of reality (Denzin and Lincoln, 2005) which is one of the essence of research.

3.5 Exploratory Research

As the term suggests, exploratory research is often conducted because a problem has not been clearly defined as yet, or its real scope is as yet unclear. It allows the researcher to familiarize him/herself with the problem or concept to be studied, and perhaps generate hypotheses (definition of hypothesis) to be tested. It is the initial research, before more conclusive research (definition of *conclusive research*) is undertaken. Exploratory research helps determine the best research design, data collection method and selection of subjects, and sometimes it even concludes that the problem does not exist.

Another common reason for conducting exploratory research is to test concepts before they are put in the marketplace, always a very costly endeavour. In concept testing, consumers are provided either with a written concept or a prototype for a new, revised or repositioned product, service or strategy.

Exploratory research can be quite informal, relying on secondary research such as reviewing available literature and/or data, or qualitative (definition of *qualitative research*) approaches such as informal discussions with consumers, employees, management or competitors, and more formal approaches through in-depth interviews, focus groups, projective methods, case studies or pilot studies.

The results of exploratory research are not usually useful for decision-making by themselves, but they can provide significant insight into a given situation. Although the results of qualitative research can give some indication as to the "why", "how" and "when" something occurs, it cannot tell us "how often" or "how many". In other words, the results can neither be generalized; they are not representative of the whole population being studied.

3.6 Interpretivism

This research is set within the interpretivism paradigm which, in contrast to positivism and critical research. This three (interpretive, positive and critical) categories are the known to be philosophical perspective of IS/IT research (Denzin & Lincoln, 2005). Due to the exploratory nature of this study, interpretivist case studies methods were adopted and comparative analyses method is also deployed while interpreting the data in chapter five and six of this research.

Interpretive is appropriate in situations where the researcher is attempting to study real-life experiences by participation in order to better understand and express its values, details and features. (Healy & Perry, 2003: 119). It is the preferred paradigm when dealing with complex social phenomena involving reflective people who make choices in the real world, with the choices themselves being contingent upon the environment (Healy & Perry, 2003: 120). Such as in this research, where the demography of the data sample comprises decision makers in the ITO industry, more so, this research focuses on how to provide better understanding of ITO practice especially from suppliers' perspectives.

Interpretive methods of research in IS are *"aimed at producing an understanding of the context of the information system, and the process whereby the information system influences and is influenced by the context"* (Walsham 1993, p. 4-5). Interpretive research does not predefine dependent and independent variables, but focuses on the full complexity of human sense making as the situation emerges (Kaplan & Maxwell, 1994: Healy & Perry, 2003:5).

Hence, interpretivism examines the way people think and act, and assumes that bias is removed by accurately describing the meanings and interpretations of participants (Porter & Shortall, 2008). Interpretivist thinks that: *"meaning matters in social life so much so that ignoring it would be to strip social life of precisely what constitutes its specificity"* (Wendt, 2006).

Operating within the former paradigm, the questions explored in this research are those that relate to the reasons for outsourcing decisions and the situational contexts in which these decisions are made, with the interviewer acting as a neutral observer. Questioning is used to uncover deeper meanings and underlying reasons and interpretations from multiple sources. By exploring the contexts in which the decisions are made, the research reports on why things happen rather than just giving description Porter E. (1998,120). The questions, then, are based on why or how the decision is made, in contrast to assessing the relative importance of factors leading to the individual decision, as would be reflected in positivist research.

The emergence of interpretivism in information system research is described by Walsham (1995). Walsham saw interpretivism as gaining ground at that point against a

predominantly positivist research tradition in information systems (Klein and Myers 1999). Two most important aspects of interpretivism, namely phenomenology and hermeneutics, would be discussed later.

3.7 Justification for Adopting Interpretivism

Wikipedia (2008), gave diverse meanings to interpretivism, for instance in cultural anthropology, interpretivism, the view that cultures can be understood by studying what people think about, their ideas, and the meanings that are important to them, as the meaning of interpretivism. Online encyclopedia refers interpretivism as approaches that emphasizing the meaningful nature of people's participation in social and cultural life (Encyclo, 2008). The ontologist subjects all knowledge as a matter of interpretation, and interpretivism is called interactionism in the field of sociology.

Interpretivists believe that the objective of sociological analysis should be to address how members of society understand their own actions. This includes the issue of representativeness, so whereas a positivist would spend a lot of time devising a sampling procedure, an interpretive might want to know how members of society understand the issue of representativeness.

Travers (2002) referred to observation made by Sharrock and Watson (1989) in his book *Qualitative research through case studies* that:

One does not need to conduct a survey, or spend three months sampling activities on different days of the week, to come to a judgment that something is typical or unusual in an occupational setting: it should be obvious simply from looking at the faces, and demeanour, of the people working here. If something unusual happens then people will talk about it.
p10

From interpretivist perspective, there are no need benefits in working with large data sets, since these encourage a positivist mentality towards analysing interviews. It becomes all too easy to present very short interviewees understand their activities in any depth (Travers, 2002).

3.7.1 Mode of Analysis

Although a clear distinction between data gathering and data analysis is commonly made in quantitative research, such a distinction is problematic for many qualitative researchers

(Myers and Avison, 2002). For example, from a hermeneutic perspective it is assumed that the researcher's presuppositions affect the gathering of the data the questions posed to informants largely determine what the research are going to find out. The analysis affects the data and the data affect the analysis in significant ways.

Therefore it is perhaps more accurate to speak of "modes of analysis" rather than "data analysis" in qualitative research. These modes of analysis are different approaches to gathering, analyzing and interpreting qualitative data. The common thread is that all qualitative modes of analysis are concerned primarily with textual analysis (Myers and Avison, 2002).

Although there are many different modes of analysis in qualitative research, such as hermeneutics, semiotics, and approaches which focus on narrative. Due to philosophical grounding of hermeneutics for interpretivism, as a mode of analysis, the term interpretivism is often used for hermeneutics (Eriksson & Kovalainen, 2008).

According to Eriksson and Kovalainen, (2008) hermeneutics and interpretivism have given resonance to later epistemological developments in asserting that there is a fundamental difference between natural science and social science subject matter, and that human intentions are crucially moulding and changing the reality. Due to this, understanding of human intentions is needed in any qualitative research, because qualitative research is usually focused on human actions and understanding (Alverson & Willmott, 2003). This research adopts hermeneutic as mode of its analysis.

3.7.2 Hermeneutics

Eriksson and Kovalainen (2008) traced the origin of hermeneutics term to Friedrich Schleiermacher (1768-1834). Hermeneutics refers to the necessary condition of interpretation and understanding as part of the research process, inescapable action of interpretation taking place in all research. Hermeneutics is primarily concerned with the meaning of a text or text-analogue. The basic question in hermeneutics is what is the meaning of this text? (Radnitzky 1970, p. 20). Ricoeur (1974) in Taylor (2009) said that:

Interpretation, in the sense relevant to hermeneutics, is an attempt to make clear, to make sense of an object of study. This object must, therefore, be a text, or a text-analogue, which in some way is confused, incomplete,

cloudy, seemingly contradictory - in one way or another, unclear. The interpretation aims to bring to light an underlying coherence or sense

If hermeneutic analysis is used in an information systems study, the object of the interpretive effort becomes one of attempting to make sense of the organization as a text-analogue (Myers & Newman, 2007). In an organization, people (e.g. different stakeholders) can have confused, incomplete, cloudy and contradictory views on many issues. The aim of the hermeneutic analysis becomes one of trying to make sense of the whole, and the relationship between people, the organization, and information technology outsourcing as in the case of this research. Besides this research and several other IT/IS researches have used hermeneutics, an overview of this was done earlier by Myers (2004).

On the last note, Paul Ricoeur, a leading French philosopher interested in the relationship of phenomenology and hermeneutics suggests that "*Interpretation is the work of thought which consists in deciphering the hidden meaning in the apparent meaning, in unfolding the levels of meaning implied in the literal meaning*" (Ricoeur 1974).

3.8 Consideration for Case Study Design

The approach used in this research is case study which means in-depth investigation of a contemporary phenomenon within its real-life context (Yin, 2003). The case study approach lends itself to a concentrated focus on the topic and allows a combination of multiple sources of evidence which enables the researcher to capture and place the complex reality under scrutiny (Saunders et al., 2003; Yin, 2003). Despite its ability to explore the complexity of an issue, however, case study approach does have its limitation in the generalization of results. This is mainly because case studies are usually based on small samples for in-depth study. Inherent to most interview surveys, variations in position, knowledge level, experience, etc. of the participants in structured interviews also render generalization of survey result difficult.

According to Kwok and Jianmei (2006), case study research is a commonly adopted strategy in the study of outsourcing decision (Fill & Visser, 2000; Bolumole, 2001; Mclvor, 2003). The use of case study approach in this study ensures an in-depth

exploration of the research question and enables the researchers to gain an insight into the real motivations behind the companies engaged in outsourcing, the obstacles and problems in the outsourcing process, and their impacts on the organization performance. In order to make the findings representative, companies chosen for this study were selected across a wide range of industries and from those which are currently involved in outsourcing.

Yin (2003, 5-27) classified case studies into six different types based on a 2 x 3 matrix. He said: "First, case study research can be based on single- or multiple-case studies: second, whether single or multiple, the case study can be exploratory, descriptive, or explanatory (casual)" p 5. However, this research is using multiple case studies which are exploratory in nature, and interpretive approach is adopted in the analysis of this research.

Dalcher (2004) identified the complications associated with capturing actions, reactions, and perspectives in collecting data using interview method. Thereafter, he called the attention of IT researcher to what he called "*the main tool of forensic IT research*" that is case study. The term case study is an umbrella term used in different contexts to mean different things, which include a wide range of evidence capture and analysis procedures.

In the abstract of an article titled, '*a case study strategy as part of an Information Systems (IS) research methodology: a critique*' by Irani, Ezingard, Grieve and Race (1999), they declare case study as a; unique scientific approach that is gaining an increasing popularity in the area of IS, and at the same time providing a legitimate alternative to the more traditional lines of enquiry.

Baroudi & Orlikowski (1989) claimed that case study research is the most common qualitative method used in information systems. However, in the Yin (2003) explanation of what the scope of case study research, he submits thus;

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used.

In the same light with the above Yin's submission, this research intends to investigate outsourcing practices, which is a contemporary phenomenon in the global economic. However, this research makes use of an oil organisation as its unit of analysis.

According to Yin (2003), case study research is appropriate in situations where the research question involves a "how", "why", or exploratory "what" question. The investigator has no control over actual behavioural events and the focus is on contemporary as opposed to historical phenomenon.

Butler and Fitzgerald (2001) used a single case study method to investigate "*the relationship that exists between user participation in systems development and the issue of organisational change surrounding the development and implementation of information systems*". In their research, a specific situation was investigated using case study method.

Case studies are most appropriate for exploratory and explanatory research, since they are able to capture a greater depth and breadth of detail on the subject's activities. They are particularly powerful techniques to answer "how" and "why" questions. (Khalfan, 2003: 6).

Benbasat (1984: 49), says that: "the object of information technology discipline in the study of organisation have been shifted from technical to organisational interest and that case study research is particularly well suited for information system research.". Since the object of IS discipline is the study of information systems in organisations, where interest has shifted to organisational rather than technical issues.

Case studies are multi-perspectival analyses as called by Feagin and Sjoberg (1991), which means that the researcher considers not just the voice and perspective of the actors, but also of the relevant groups of actors and the interaction between them (Feagin & Sjoberg, 1991). It seems to be appropriate for this research because several actors in this research were not confidently ready to discuss some parts of the subject as they, classified some of them as confidential to the organisations involved.

According to Denzin and Lincoln (2008) case study "is not a methodological choice but a choice of what is to be studied". Stake (2005) emphasized that "*case study is defined by interest in an individual case, not by the method of enquiry used*", this opinion is adopted in this research, although, case study is mostly in qualitative enquiry.

Kazdin (2003), acknowledged that case studies had made at least four substantial contributions to science: firstly, case studies have served as a source of research ideas and hypotheses; secondly, they have helped to developed therapeutic techniques; thirdly, they have enabled scientists to study extremely rare and low-base-rate phenomena, including rare disorders and one-time events, and lastly, case studies can described and detail instances that contradict universally accepted beliefs and assumptions, thereby serving to plant seeds of doubt and spur new experimental research to validate or invalidate the accepted beliefs.

By using case studies for this research the researcher is of the opinion that several issues might emerge during the interview section with the potential contacts. This, researcher believes that beside voice and actions of the interviewees, certain responses will give clues to other matters that might not be ready for formal disclosure and probably point to some other players in the Malaysia ITO environment.

Apart from all the above expressed views of the researcher on applicability of case study on this research, Dalcher (2004, p.313) gave other list of advantages of using case studies as follow;

- Ability to identify and focus on issues. Richness of detail.
- Multiple perspectives
- Multiple explanation
- cross-disciplinary remit
- ability to recognise and minimise inherent complexity
- ability to handle conflict, disparity, and disagreement
- ability to show interactions
- ability to observe emerging patterns
- encompasses original problem context
- ability to deal with interpretations
- it can be accumulated to form an archive of cases and
- it can extend the boundaries to include aspects of wider system environment”

Lastly, this research will follow the recommendation of Yin (1994) and Yin, (2002) that proposed four stages by; designing the case study, conduct the case study, analyse the case study evidence and develop the conclusions, recommendations and

implications. Appendix A and B have taken care of the first stage that is designing the case study, while field interview and other data collection represents the second stage (conduct the case study).

Case study questions are posed to the investigator, and must serve to remind that person of the data to be collected and its possible sources. The guide for the case study report is often neglected, but case studies do not have the uniform outline, as do other research reports. It is essential to plan this report as the case develops, to avoid problems at the end (Ryan & Bernard, (2000). Stake (1995), and Yin (2003) identified at least six sources of evidence in case studies, such as; documents, archival records, interviews direct observation, participant-observation and physical artifacts. Though not an ordered list but reflects the research of both Yin (2003) and Stake (1995).

3.9 Single Case versus Multiple Case Design

Case studies can be single or multiple-case designs (Shanks and Parr, 2003), where a multiple design must follow a replication rather than sampling logic (Tellis, 1997). When no other cases are available for replication, the researcher is limited to single-case designs. Yin (2003) pointed out that generalization of results, from either single or multiple designs, is made to theory and not to populations. Multiple cases strengthen the results by replicating the pattern-matching, thus increasing confidence in the robustness of the theory. Applications of case study methodology have been carried out in High-Risk Youth Programs (Yin, 1993) by several researchers. Similarly, Lee and Baskerville (2003) have argued:

Where the study of a single setting (e.g. the setting of the Fox in their reservation in Iowa) is an interpretive researcher's objective, generalizing within a setting is not better or worse than, but simply different from, generalizing across settings for a positivist researcher." P 231

Yin (1993) presented Giddens' view that considered case methodology "microscopic" because it "lacked a sufficient number" of cases. Hamel, Dufour, and Fortin (1993) and Yin (1994) forcefully argued that *"the relative size of the sample whether 2, 10, or 100 cases are used, does not transform a multiple case into a*

macroscopic study". And that the goal of the study should establish the parameters, and then should be applied to all research. In this way, even a single case could be considered acceptable, provided it met the established objective.

3.9.1 Justification for Multiple Case Studies

Much case study research focuses on a single case, often chosen because of its unique characteristics. The multiple-case studies design allows the researcher to explore the phenomena under study through the use of a replication strategy (Zachs, 2006). Yin (2003) compares the use of the replication strategy to conducting a number of separate experiments on related topics. Replication is carried out in two stages a literal replication stage, in which cases are selected to obtain similar results, and a theoretical replication stage, where cases are selected to explore and confirm or disprove the patterns identified in the initial cases. According to this model, if all or most of the cases provide similar results, there can be substantial support for the development of a preliminary theory that describes the phenomena (Eisenhardt, 1989).

In the multiple-case studies design, there are no hard-and-fast rules about how many cases are required to satisfy the requirements of the replication strategy--Yin suggests that six to ten cases, if the results turn out as predicted, are sufficient to *"provide compelling support for the initial set of propositions"* (1994, p. 46). Yin goes on to say that, since the multiple-case studies approach does not rely on the type of representative sampling logic used in survey research, *"the typical criteria regarding sample size are irrelevant"* (p. 50). Instead, sample size is determined by the number of cases required to reach saturation, that is, data collection until no significant new findings are revealed. The sample participants should be selected explicitly to encompass instances in which the phenomena under study are likely to be found. This approach to sample design is consistent with the strategy of homogeneous sampling, in which the desired outcome is the description of some particular subgroup in depth (Patton, 1990).

The case study method, and in particular the multi-case studies design, provides IT researchers with a proven tool for achieving a deep understanding of a specific phenomenon for example, the information technology outsourcing perception of a particular user group. The strength of the multiple-case studies design lies not only in its

ability to demonstrate consistent patterns of behavior but also, and perhaps more importantly, in its ability to uncover new and/or divergent themes. These emerging themes can be explored through the replication process. This process allows the researcher to probe beneath the surface of the situation and to focus on the "why" of individual behaviors (Zach, 2006).

Although case studies do present problems to the researcher in terms of access, study effect, and potential sources of bias, these issues can all be addressed by the application of rigorous data collection and analysis techniques. As has been demonstrated by numerous studies over the past twenty years, the case study method can be used not only for exploratory research but also for theory development. The case study method and the rich context that it offers often provide the reader of the research with a much more vivid experience than do other, more analytical methods.

3.10 Computer Assisted Qualitative Data Analysis Software (CAQDAS)

The features provided by qualitative software reflect prevailing approaches to the analysis of qualitative data. Typological boundaries between groups of CAQDAS become increasingly blurred as software packages have increasingly provided features that would not be practical without a computer (Silver and Fielding, 2008). This development had made selecting and deploying appropriate software daunting tasks. CAQDAS packages include tools for organizing, exploring, integrating and interpreting qualitative data which can be used according to the methodological and practical needs of the project and the researcher (Silver and Fielding, 2008).

In order to achieve the third stage (data analysis), several methods and some available software were tried out, such as *QSR N5* which is also known as *NUDIST* this software is for accurate description of non-numerical unstructured data indexing, searching and theorizing (QSR, 2000: 2). Initially *NUDIST* entered the qualitative analysis tools as a Macintosh program, but soon developing a PC Window version (Silverman, 2005). In recent year the *NUDIST*'s developers created NVivo. According to Silverman (2005) documentation with *NUDIST* and Nvivo is less explicit for the novice, and things that are quite simple in ethnography, such as printing out the results of a

search, are made more complex in *NUDIST*. Apart from *NUDIST* this research also explored *Nvivo*.

NVivo is a very flexible tool, allowing pictures and sound files to be associated with a project as well as raw text. Beside some specific improvements in NVivo such as coding text which is similar to highlighting text in a word processor and a built-in modeler that allows the user to map out ideas in visual display whose nodes are linked to underlying data associated with them. *NUDIST* and *Nvivo* follow almost same methods and steps for data analysis.

Besides *NUDIST* and NVivo, another qualitative analysis too that was explore is *ATLAS.ti 5.0* developed by Thomas (2004). Maietta (2006), an *ATLAS.ti* user and president of *ResearchTalk Inc.* said that the software (*ATLAS.ti*) was “designed to accommodate quick turn-around projects and/or deeper, more abstract explorations of data”. *ATLAS.ti* was explicitly developed to enable a grounded theory approach (Silverman, 2005), resulting in a program of considerable sophistication.

Guidry (2001: 101) expressed similar view on the older version of *ATLAS.ti* after using *ATLAS.ti* to analyse a qualitative research on implementing for *LibQUAL+™*, he said *ATLAS.ti* “... is not an artificial intelligence that shifts through data to discover themes, rather, *Atlasti* provides a tool for researcher to organize and document themes within his or her data”. This makes *ATLAS.ti* inappropriate for this research, since the research is adopting interpretism approach and not based on grounded theory.

Due to several complexities with these software (Barry, 1998: 3) and at the same time, being a first time user and the time restriction on the research, the use of computer assisted qualitative data analysis software (CAQDAS) is still encounter with hopes and fears as Barry (1998: 3) puts it; “*the growing literature on computer assisted qualitative data analysis software (CAQDAS) expresses both hopes and fears*”. This development has made many researchers to commit to manual methods (Silver and Fielding, 2008). Lewins and Silver (2007) however cautioned thus;

Researchers should not feel guilty or behind-the-times about not using software or pressured into using it. Similarly, if researchers do decide to use software, they need not refrain from conducting some analytical tasks outside of the software and away from the computer, using print-outs and high-lighter pens in traditional way

However, instead of this research using only of computer assisted qualitative data analysis software (CAQDAS), which has proven to be complicated (Barry, 1998; Seidel, 1991; Weitzman, & Miles, 1995), the researcher explores some text-based methods, that were suggested by Miles and Huberman, (1994), Mayring, (2000: 1-10), Schiffman, Reynolds & Young (1981), Catherine, Sue & Nicholas (2000: 114-116), Dixon, Rickard & Robson, (2002: 5-9) and Silverman (2005). The computer program utilized in this research is MAXQDA 2007-2.

This research does not advocate the use of one computer program over another and acknowledges that there are many excellent programs out there, including N-vivo, Atlas.ti, and Ethnograph among others. While this researcher happen to use MAXQDA, the research use MAXQDA because it does in a very clear and well-organised way what this research wants a computer program to do and it is relatively easy to learn and use.

This research will therefore adopt the use of newly improved qualitative analyses tool MAXQDA 2007-2 and constant comparative analysis, projected by (Thorne, 2000: 69; Dye, Schatz, Rosenberg & Coleman, 2000: 21).

3.11 Constant Comparative Analysis

An approach called constant comparative analysis is generally relying on qualitative analytic strategies (Thorne, 2000: 68). This method was originally developed for use in the grounded theory methodology developed by (Glaser & Strauss, 1967; Strauss, 1987; Glaser, 1992).

This approach evolved out of the sociological theory of symbolic *interactionism* which involves taking one piece of data (one interview, one statement, one theme) and comparing it with all others that may be similar or different in order to develop conceptualisations of the possible relations between various pieces of data (Thorne, 2000:68; Throne, 2008a). Thorne gave example of two different people who had a similar experience by comparing their accounts, this process continues with the comparison of each new interview or account until all have been compared with each other. Tesch (1990: 96) gives the underlying principle of constant comparative analysis thus:

The main intellectual tool is comparison. The method of comparing and contrasting is used for practically all intellectual tasks during analysis: forming categories, establishing the boundaries of the categories,

assigning the segments to categories, summarizing the content of each category, finding negative evidence, etc. The goal is to discern conceptual similarities, to refine the discriminative power of categories, and to discover patterns.

In the analysis given by Boeije (2002: 393), he says that: *“by comparing, the researcher is able to do what is necessary to develop a theory more or less inductively, namely categorizing, coding, delineating categories and connecting them”*. The analysis given above by Boeije (2002) serves as torch-bearer for this research and in doing the comparison in this research, each issue raised by the research will be discussed by comparing the divergent views that emanated from interviews carried out for this research. And / or by through direct comparisons of data collected from selected IT vendors and other substantive areas in the literature, though Glaser and Strauss (1967: 2) opined that it is risky and often leads to logical-deductive thinking.

According to Gasson (2004: 84), he said that *“constant comparison requires continual research into the meaning of the developing categories or issues by further data collection and analysis”*, he said further that the researcher may interview new respondents, study the situation in a different group of people, or observe the same group over a different period of time.

In following Gasson’s method this research conducted interview with different people on a certain issues, all the major respondents on this research were interviewed at least twice at different time in order to confirm and reaffirm some of their earlier stand on certain issues. Some recent works that have used constant comparative analysis to carry out their research are; Hewitt (2001: 39-42), who described the application of constant comparative analysis, as one of the methods that can be used to analyse qualitative data. In his article, he highlights the need for data analysis to be congruent with the overall research design. Neil, (2006: 354), sees constant comparative analysis as having the ability to expose researcher effects on the data. The analysis he presented suggests that *“the impact of the researcher at this [analysis] stage of a project needs to become part of the research record (data) to ensure that its impact can be explored through constant comparative analysis”*.

Apart from medical research, which widely implements constant comparative analysis method in their research, banking and finance researchers find this method of

analysis suitable for analyzing their findings Crouhy, Galai, and Mark (2000). In the field of information systems, Teorey and Pinkerton (1972) employed comparative analysis in research while trying to compare the different disk scheduling policies, Dongwon & Wesley (2000), used comparative means to analyze schema languages. Abrahamsson, Warsta, Siponen, and Ronkainen, (2003) used comparative analysis to identify new directions on agile computing methods.

Uday, et al. (1997) used comparative analysis method to provide new empirical evidence by comparing; USA, Japan and Finland, on the types of functions being commonly outsourced, the extent to which these functions are outsourced, views of Chief Information Officers (CIOs) on the desired cost savings and the comparative ratings of the advantages and disadvantages of IS outsourcing. Also compared are the roles played by different executives in making outsourcing decisions.

The third and last stage are the analysis of the case study evidence, and develop the conclusions, recommendations and implications shall be covered in chapter four and five of this research respectively.

In summary, case studies are ideal for exploring interactions between people and their understanding of a situation. The richness of the data obtained by multiple means from multiple perspectives provides a real insight into the main issues at play. The time dimensions (sequencing) is critical to understanding interactions and identifying their impacts. Actions (and reactions) can only be understood in context, and case studies create the context of understanding them.

3.12 Interview

Interview is one of the most powerful and widely used tools of the qualitative researcher (Eatough & Smith, 2008). A thorough interview is a form of self-report that Marczyk et al. (2005) described as “a relatively simple approach to data collection that can produce wealth of information”. Seale (2007) in his overview of qualitative interviewing identifies the two major traditions on which the analysis of interviews has centred. The first one is interview data as a resource while the second is interview data as a topic. According to Seal (2007), interview-data-as-resources, “the interview data collected is seen as (more or less) reflecting the interviewees’ reality outside the interview”. However, in interview-

data-as-topic, the interview data collected is seen as (more or less) reflecting a reality jointly constructed by the interviewee and interviewer.

The former approach has undergone considerable critique from those working in constructionist traditions (Arksey and Knight, 1999). Seal (2007) claimed that, much of this critique stems from highlighting that interviews are what Seal called *inherently interactional events*, where both speakers mutually monitor each other's talk and gestures, and the talk is locally and collaboratively produced. The critique also centres on the idea that 'data-as-resource' researchers often incorrectly assume that interview-talk is only about the official topic of the interview. The talk in an interview may be as much about the person producing themselves as an adequate interviewee or as specific type of person in relation to this specific topic.

In this sense, interview data may be more a reflection of the social encounter between the interviewer and the interviewee than it is about the actual topic itself. As Dingwal (1997: 56) notes:

The interview is an artifact, a joint accomplishment of interviewer and respondent. As such, its relationship to any real experience is not merely unknown but in some senses unknowable

This leads to considerable analytical attention to view interview-talk as the joint production of accounts or versions of experiences, emotions, identities, knowledge, opinion, truth, etc. A focus on interview-talk as locally and collaboratively produced does not deny that the talk is reflexively situated in the wider cultural arena (Seal 2007). In this sense, interview-talk speaks to and emerges from contemporary ways of understanding, experiencing and talking about that specific interview topic. However, these ways of understanding, experiencing and talking about that specific interview topic are contingent on the specific local interactional context and should be analysed, at least initially, form circumstances of their production.

According Rapley (2004) defined qualitative interview as a term that sees "to be a useful gloss for disparate descriptions of the practices of this version of interviewing". Oxford dictionary 2007 edition defines interview as a conversation between two or more people where questions are asked to obtain information from the interviewee. According to Marshall and Rossman (2006:101) several researchers rely quite extensively on in-

depth interviewing, such as Kahn and Cannell (1957); Wengraf, (2001) and Patton (2002). Patton in his submission categorized interviews into three: the informal, conversational interview: the general interview guide approach; and the standardized, open-ended interview. (2002: 341-347). While Eatough and Smith (2008) grouped interview styles into three; structured, semi-structured and unstructured. However, as with much else in qualitative research, there is considerable variability in how these groupings work in practice. Interviews are particularly useful for getting the story behind a participant's experiences. The interviewer can pursue in-depth information around the topic. Interviews may be useful as follow-up to certain respondents to questionnaires e.g., to further investigate their responses (McNamara, 1999).

Valenzuela and Shrivastava (2006) justified interview in the qualitative research because it is a far more personal form of research than questionnaires; in the personal interview, the interviewer works directly with the respondent, unlike with mail surveys; the interviewer has the opportunity to probe or ask follow up questions as been done in this research. Beside this interviews are generally easier for respondent, especially if what are sought are opinions or impressions though interviews are time consuming and they are resource intensive but the interviewer is considered as part of the measurement instrument, this allows the interviewer to train himself on how to respond to any contingency.

However, a qualitative research interview seeks to cover both a factual and a meaning level, Kvale (1996), though Kvale acknowledges that it is usually more difficult to interview on a meaning level. The qualitative research interview seeks to describe and the meanings of central themes in the life world of the subjects. The main task in interviewing is to understand the meaning of what the interviewees say (Kvale, 1996).

In other word, interviews are particularly useful for getting the story behind a participant's experiences. Whereby, an interviewer can pursue in-depth information around the topic. Interviews may be useful as follow-up to certain respondents to questionnaires, e.g., to further investigate their responses (McNamara, 1999).

As mentioned earlier in this chapter, there are different means of conducting interview such as open-ended, focused interview, structured interview. The focused interview is used in a situation where the respondent is interviewed for a short period of

time, usually answering set questions. This technique is often used to confirm data collected from another source. The structured interview is similar to a survey, and is used to gather data in cases such as neighborhood studies. The questions are detailed and developed in advance, much as they are in a survey. Structured interviews might find in a survey or some other study that prioritizes reliability-as-uniformity over flexible, detailed explanation (Soos, 2006). Also called fixed-format interview, structured interviews are implicitly at least cast as the shallow counterpart in this usage because they forbid researchers from digging in areas that emerge as promising during the course of an interview (Soos, 2006).

In relating this research choice of interpretive approach to interview, there is need to understand the uses and limits of interviews research, in doing this, one must first clarify what is meant by interpretive vis-a-vis interview method. Interpretive has less to do with one's techniques than with the logic of one's inquiry (Soss, 2006). Waltz (1979) explains "*once a methodology is adopted, the choice of methods becomes merely tactical*"

3.12.1 Semi-structured Interview Method

It has been presented earlier that interview technique is one of the most powerful tools available for qualitative researchers (Eatough & Smith, 2008). Easterby-Smith et al. (2008) classified interview method into level of structure and type of interview. These classifications are represented in table below.

According to Silverman (2000), the use of interview methods, particularly semi-structured interview in various fields of qualitative research is noticeably wide spread. In the area of health research, for example Silverman found that seventy-one per cent (71%) of the researches have used open-ended qualitative interviews indicating its preference over other methods.

Table 3.12 Types of Interview
(Easterby-Smith, 2008)

Level of Structure	Type of interview
Highly structured	Market research interview
Semi-structured	Guided open interview

In a semi-structured interview, key respondents are asked to comment about certain events. They may propose solutions or provide insight into events. They may also corroborate evidence obtained from other sources. The researcher must avoid becoming dependent on a single informant, and seek the same data from other sources to verify its authenticity.

Consequently, this led the researcher to conduct in-depth interview, as this is synonymous to semi-structured or unstructured interview. Soos (2006) when referring to Lane (1962) description of what made in-depth and what made them such a good match for interpretive goals, Lane says;

The conversations were discursive, the responses of the men rambled, followed their own trains of thought, gave scope to anecdote and argument, moral comment and rationalization. This had several advantages: it offered insight into connotative meanings of words and phrases, it permitted one to follow the course of associative thinking, it illuminated the mechanisms of argument and evasion employed in dealing with sensitive political material The conversations were also dialectical, that is conversational. There was opportunity for extended probing, for pushing further into the personal meaning of clichés and conventional phrases, for testing whether or not the first impression gained was the correct one, for reflecting back the sense of what was said to clarify the men's own thinking.

In this research, multiple research as applied by Avery and Baker (2002) is use to collect data, where each of the major person were interviewed at least twice or telephoned to verify certain grey areas in the earlier interview, in some cases email was sent for verification purposes this gives the researcher the opportunity to verify and clarify some ambiguities regarding some earlier asked questions. This also provides room to compare any similarities or contrasts in their responses. All the interviews sessions were tape-recorded using some structured questions and at the same time tapping on any raised issues to acquire deep information. With the aid of IC recorder which converts all audio to MP3 format, therefore making it easily transfer to computer and imported for transcribing without gulping up the computer memory.

InqScribe, a transcribing tool was used for the first two months; this tool gives room for backward playing without need for external pedals as in the case of several of

transcribing tools. Instead, tab button is used for pause while tab/ctrl buttons were used for play back the recorded voice. But later after the expiration of this tool, f4 which comes with *MAXQDA* was finally used for transcribing. This tool (f4) made use of f functions buttons to play, pause rewind and play forward. It also auto convert the transcribed file to rtf format.

3.13 Assumptions

- The first assumption in this research was that the targeted people would be willing to be interview more than one time.
- The specific organisations would cooperate with the researcher and assist the researcher morally, by giving access to information that were relevant to this research.
- Another assumption was that the order of the interview questions would not influence the responses. Despite the fact that the questions were set up in an arbitrary manner, more so, the method is explorative.
- The last assumption is this research was that some questions might encourage interviewees to be more specific and less flexible. However, the explorative nature of the research would assist in diving more into any ambiguous questions or responses.

3.14 The Unit of Analysis and Choice of Research Site

The unit of analysis is a critical factor in the case study and it is the entity about which data will be gathered (Mahmood, 2001). Yin (1994) suggests that the unit of analysis defines the 'case' in a case study. He suggests five possible units of analysis:

- Individuals
- Decisions
- Programmes
- Implementation processes
- Organisational change

According to Yin (2003), the choice of the unit of analysis in a study is related to the way the questions and propositions are defined, whether as a line of words in messages or a group of people. In this research, the main unit of analysis was the individuals who represented their organisations, in information technology outsourcing process carried out in their respective organisations. These individuals had experience of several years and understand what IT outsourcing is all about.

The twenty-five (26) final sample group included one CEO of an IT organisation (1), five chief information officers (5), eight deputy chief information officers (8), eight senior IT officers (8) and four director of IT (4). This sample comprised experienced practitioners in their fields: the average number of years in the field was twenty one years. All the interviewees have at least first degree qualification and one-quarter of them possess Master degrees. In this analysis all these sets of interviewees shall be referred to as information technology outsourcing (ITO) administrators except where there is need for specification; firstly in order to smoothening the analysis process and to differentiate between IT or system administrators.

Access to the sample group was gained through personal contacts and with the aid of letter of intent from my school (University Technology PETRONAS). All the administrators contacted expressed an initial reservation to participate in the study out of twenty five ITO vendors initially contacted five of them were gave this research green light after persuasion and assurance of non-disclosure of their identity. Eventually, one of them could not provide necessary information for this research sitting the CEO disagreement with disclosing the organisation fairing in outsourcing deals.

ITO administrators were contacted first because of the researcher's prior work relationship with some of these individuals. ITO administrators were selected (as far as possible) to fulfil the literal replication phase of the multiple-case studies design; the ITO administrators were selected to explore and confirm or disprove the patterns identified in the initial interviews (theoretical replication).

ITO administrators were identified by the assistance of former president of International Association of Outsourcing Professional (IOAP) Malaysian Chapter, or through the researcher's personal contacts. Ultimately, the specific participants were selected based on their availability at the time of data collection. This approach is

consistent with the concept of open sampling, in which the selection of specific interviewees or observational sites within a target group can be indiscriminate since the purpose is to collect as much data as possible to guide the early phases of theory development (Strauss & Corbin, 1998).

For the purpose of this study, each "case" was defined as a single, in-depth interview with number ITO administrators that were able to assess from each IT vendor. The individuals who were relevant for the researcher in this study ranged from CEO of an IT outsourcing vendor/supplier to senior officers in IT or business unit of an ITO vendor/supplier organisation and Chief Information Officers (CIOs) of the selected companies. The reason for choosing this group was that they had sizeable experience in IT outsourcing from organisation perspective and at the same time they were exposed to information technology outsourcing trend globally and in Malaysia specifically.

Failing to meet those criteria would not have made this an interpretive case study, but rather a field study, as context or situation in case study is paramount. This would allow for a deeper investigation and for them to share their valuable personal experience on how they value and feel about the ITO in Malaysia. Although, this may not be exclusive to the selected IT vendors in Malaysia, practical issues and researcher constraints, including access to the individuals in these organisations were also taken into account. More importantly, to get another case that can fulfil the technical definition of a case study (Yin 2003) contemporary event where the boundaries between phenomenon and context are not clearly evident is not a straightforward task.

The phenomenon may be the same but not the context, and vice versa. It would be different if it were an experiment, where phenomenon and context are completely divorced, or a survey, where the number of variables are known and limited (Yin, 2003), but that would not meet the aims and objectives of this study.

Data were collected from the twelve IT administrators over a five-month period using a pre-tested interview protocol that included twenty-four questions focusing on; organisation history, information technology outsourcing in Malaysia, mutual trust, information technology outsourcing models, and government. A month was used for networking, contacting and conducting interview with the government IT agency based

on the outcome of interview conducted with the first two ITO organisations in related to government policy.

Ten interview questions were asked during the interview with government agency, and several other question from the research general question were also asked in attempt to seek another opinion from different perspective. Apart from the interview with the government agency, which was centered on government policy, each question was mapped to one or more of the main research questions. After the interview sessions with the first set ITO administrators were conducted, the results were transcribed and analyzed before the next group of interviews was scheduled.

The next two sets interviews with ITO administrators were conducted within three month period due to bureaucracy involved in these organisations, despite being given green light in the first instance; one of these interviews provided results quite different from the other two. The fifth interview conducted with an ITO administrator, however, was consistent with the aims of literal replication, that is, the interview substantially confirmed information collected in three of the four earlier interviews.

The next group of three interviews, which were also with ITO administrators from organisations I had earlier interviewed, was used both to investigate if there is any discrepancy between the present interview and earlier ones. The remaining three interviews (one in each ITO organisation) were used to explore and/or contrast the patterns identified in the earlier interviews. The final two interviews did not produce any new concepts; they did provide the opportunity to explore specific concepts in more depth and to deepen the understanding of the phenomena. After completion of the fifth interview with ITO administrators, it was determined that no new information had been obtained. Data collection was therefore discontinued.

During the course of the first five interviews with ITO administrators, several slight revisions were made to the interview protocol to adjust or reorder questions that seemed confusing or unproductive. After completing the preliminary analysis of the first set of interviews, two new questions were added to the protocol that allowed the researcher to explore certain new concepts during the theoretical replication phase.

The ability to adjust the data collection as a result of insights obtained during the early phases of the research process highlights one of the key advantages of the multiple-

case studies design. The research questions used to guide this research concentrated on the "how" of the ITO administrators' views on; problem IT outsourcing in Malaysia, concept of mutual trust and need for new ITO model. After the initial set of interviews were completed and used to define the norm, data collection during the theoretical replication phase could focus on the "why" these kinds of problems in IT outsourcing environment in Malaysia, "Why" organisation has being focusing on mutual trust and "why" these ITO vendors objected to new ITO model. This allowed the researcher to explore the reasons for these perceived differences and to build explanations for them based on responses to an expanded set of questions.

The multiple-case studies design provides a rigorous approach for collecting and analyzing data. The replication strategy which allows the researcher to identify possible patterns in the data and explore them by returning to the field for more data was adopted. The goal of this research is neither for literal nor theoretical replication, rather the cases were chosen for exploratory or illustrative reasons.

Conscientious application of these techniques ensures that explanations for the phenomena under study developed from the data are verified during the course of the research process. This iterative process of data collection, analysis, comparison, and revision during the entire study is referred to as the "constant-comparative" method (Strauss & Corbin, 1998).

This research adopted a multiple case studies approach with the aim of providing in-depth investigation and rich insights about the learners and organisation as a whole. Multiple case studies may also provide an adequate research strategy for addressing the potential impact of IT outsourcing on Malaysia and IT vendor organizations (Kompier, Cooper & Geurts, 2000).

As argued by Darke and Broadbent (1998), both single and multiple case design can be adopted for exploratory research (Darke and Broadbent 1998). Though, the conduct of a multiple-case study, as Yin (2003) has argued, can require extensive resources and time beyond the means of a single student or independent research investigator, nevertheless the researcher adopted the multiple case studies due to interpretive approach which required less number of interviewees but quality and in-depth.

3.14 Selected Organisations for Research and Justification

This research identified four specific IT outsourcing vendors based on criteria highlighted in the letter of intent sent to several companies qualified IT organisations. At the end of the day only four out of fifteen ITO vendors initially marked for this research were able to access after several calls and countless emails. Three of these organisations were fully ITO vendor, while the remaining one is IT outsourcing consulting firm, that represents potential clients when dealing with vendor and at the same time this firm works as an agent between ITO vendors that intend to merge or buy-over one another.

Apart from these organisations, this research also interviewed Malaysia Development Corporation (MDeC), in its attempts to seek clarification on certain part of the questionnaire which relate to government policy. More so, the selected ITO vendors considered questions on government policy to be sensitive and they mostly avoid given any vivid answer. Several efforts were made to get the Outsourcing Malaysia interviewed, but none was fruitful till the completion of this research.

This development compelled this research to seek further information on MDeC in addition to the pieces of information provided earlier in chapter three of this research. In doing this, four personnel from shared services and outsourcing unit of MDeC were interviewed and relevant reference data was given. These interviewed sessions were followed by several telephone callings to seek further clarification and update.

However, the pieces of information below are solely relevant to the outcome of series of interview sessions with the selected ITO vendors which resulted in the coming up with another set questions for MDeC. Out of five organisations assessed, only MDeC agreed with this research to disclose their identities, fearing the breach of contract (non disclosure of contract) with their clients and possibility of their competitors to duplicate their 'strategy', although adequate and necessary data were shared with this researcher. Henceforth these organisations will be referred to as *Case 1 to Case 5* in the data analysis and this research will try as much as possible avoid to reveal the identity of these IT outsourcing vendor organisations.

3.14.1 Multimedia Development Corporation (MDeC)

Malaysia is today a world leader in the Shared Services and Outsourcing (SSO) industry. With its unique blend of qualities, world-class ICT capabilities and one of the most politically and economically-stable countries in the world, MSC Malaysia is a hot favorite with some of the world's biggest companies (MSC, 2008).

Its location at the heart of Asia Pacific provides a perfect launch pad for organisations global aspirations. A fact that hasn't gone unnoticed as many of the world's biggest companies has made MSC their choice.

MSC Malaysia is a national initiative spearheaded by Malaysian Government to promote both the national ICT industry and provide a test-bed for the global ICT industry (MSC, 2007). It provides a conducive enabling environment which is designed to facilitate companies to harness the full potential of ICT and multimedia technologies. With this ideal business environment coupled with availability of talent resources, the MSC Malaysia has attracted participation from major global ICT companies to develop and host their leading-edge technologies in the designated MSC Malaysia Cybercities (MSC, 2007).

MSC Malaysia is the gateway to growing profits in Asia's booming information and communications technology (ICT) markets. Modeled after Silicon Valley, it gives the best of first-world knowledge and infrastructure, at developing-nation costs (MSC, 2008).

MDeC has been given the mandate by the Malaysian Government for the coordination, promotion and development of the information technology (IT) industry and selected services in MSC Malaysia

Incorporated under Companies Act of Malaysia, owned and funded by the Government, Mdec advises the government on IT legislation and policies, develops MSC Malaysia-specific practices and set world-class standards for MSC Malaysia information infrastructure and urban development.

In addition, MDeC accelerates the growth of MSC Malaysia as a global IT hub by attracting world class companies and nurturing Malaysia's SME's, globally markets MSC Malaysia and works with the governments entities and private organisations to ensure that MSC Malaysia continues to be the nucleus for innovation in the region for the creation of outstanding IT products, solutions and services.

As a performance-oriented, client-focused agency, MDeC facilitates applications MSC Malaysia Status. MDeC also assists in expediting permit and license approvals, and introduces companies to financiers and high value business partners. In high potential markets, MDeC has set up overseas offices such as in Dalian, Beijing and Shanghai, China and Bangalore, India.

The recently announced Global Services 2008 list finds five Malaysian companies awarded the highly coveted accolade, next to prominent names such as IBM, Accenture and Tata. The companies are eaCap, KOMPAKAR, Scicom, Vantage Point Consulting and SnT Global (MSC, 2008). One of these companies is selected in this research while the remaining three selected organisation are also aspiring to feature in the global services rating.

Lastly, MDeC attributes its success in the ITO drive to three major factors. The first one is 'People', it claimed that among the Kuala Lumpur dwellers 87% speak English, while about 50,000 Malaysians educated overseas every year coupled with 5.5% wage inflation, 5% attrition and low cost of high value workers. The second factor is 'Cost', in the Malaysia case; infrastructure costs are low and at the same time no hidden costs. Companies can also start up at relatively low cost and enjoy low inflation rates. The third and the last MDeC success factors is 'Environment', Malaysia is not prone to natural disasters, and the government is relatively stable while the economic is claimed to be robust and cost of living versus quality of life is considered excellent (MSC, 2008).

3.14.1.1 MSC Malaysia Status

MSC Malaysia status is awarded to eligible local and foreign companies that develop or use multimedia technologies to produce or enhance their products and services and for process development. These companies enjoy a set of incentives and benefits from the Malaysian Government backed by the ten Bill of Guarantees. Successful applicants must observe the conditions attached to the MSC Malaysia status recognition. MSC sets criteria and for MSC-status eligibility. It also provides bill of guarantees for all MSC status companies

3.14.2 CASE1

Case1 is an e-Business Specialist that unleashes business potential and transforms e-business ideas into business results by effectively developing and implementing integral e-business infrastructure, solutions and services. Its core business includes Internet Data Centre operations, web applications and e-business consultancy.

Case1 has more than 100 specialists managing major business projects that translate into lower total cost of ownership, increases customers' competitiveness and maximizes customers' business potential. A Multimedia Super Corridor (MSC) status company, Case1 is one of the most trusted brands in the region with strong presence in ASEAN and Middle East countries.

Case1 firmly believes in going the distance to ensure the success of our partners, customers and communities. More importantly, it wants to transform clients' vision and strategies into business results. With this in mind, it works hand in hand with all parties to create a mutually enriching business ecosystem. Its ultimate objective is to bring higher financial returns that enhance the value of business growth.

Case1 views e-Business in a simplicit manner. e-Business is just a strategic initiative of an organisation to achieve its business objectives by leveraging information and communication technology (ICT). The key issue is not what technology use but how could it is use technology to help grow company.

Case1 focuses on three main segments in a typical e-business value chain namely web infrastructure, software applications and services. Case1's services are divided into 3 main divisions namely:

- e-Business Infrastructure
- e-Business Solutions
- e-Business Services

3.14.3 CASE2

Having gained new shores in IT outsourcing, Case2 is now helping it clients ride the waves of increased efficiency and productivity with leading edge solutions and services. Its in-depth experience in outsourcing combined with international expertise and

knowledge, have created a momentum that has enabled it to deliver results that make a difference to information technology industry, customers, shareholders and employees.

Established in 1971, Case2 is focused on providing leading-edge technology and end-to-end integrated IT services and solutions.

3.14.4 CASE3

This organisation is a specialist in managed services and business continuity solutions. It was established in 1989, offering a variety of services that span across the information availability continuum. Its mission is to enable businesses maintain continual access to their critical information by providing end-to-end Managed Services and Business Continuity Solutions that encompass the enterprise IT systems, networks, business infrastructure facilities and support services. It provides managed services and support multiple platform systems and business application housed in secured and state-of-the-art 24 x 7 operating data centre and business work area facilities supporting various industries. With MS ISO 9001: 2000 certification since January 2003, its services continue to maintain and sustain conformity with the required global standards expected by customers.

3.14.5 CASE4

Today's fast-paced and ever-changing business environments call for increased dexterity, flexibility and an uncanny ability to drive change. Gone are the days when change was considered to be an internal corporate initiative, undertaken in a discrete manner with very short-term local goals. Today change occurs suddenly, and unexpectedly. Not only does it restrict predictability, but it also takes on a nonlinear shape, thereby turning long-standing business beliefs and "*it was always done this way*" approaches on their heads. A consistent focus and an exponential ability to "learn" and "unlearn" is what drives success criteria in the current era of globalization. Case4 assists corporations and governments enable change in an insurgent manner through co-creating viable and sustainable solutions by leverage global knowledge and competencies.

3.15 Thematic Representation

The interview data gathered were categorized into theme; six themes (6) were identified at the initial stage with thirty-one (31) sub-themes. These sub-themes were later re-categorized into thirteen (13) for ease interpretation and avoidance of repetition and overlapping analysis.

3.16 Summary

This chapter is about study of methods adopted in this research, justification for adopting those methods and the research sample. Researcher adopted qualitative approach to this research due to the nature and objective of this research which requires availability of in-depth information. Pragmatically, this objective cannot be achieved through the use of any other research method beside qualitative. The nature of this is research is exploratory, this allows the researcher to be able to come across several unprecedented pieces of information that were justifiably used throughout the research period. Meanwhile, the interpretive nature of this research enables the researcher to address how members of ITO industry in Malaysia including the government understand: cost of service, mutual trust, ITO policies and ITO model.

However, the selection of interpretive description from an array of methodological options for this research is because this research purposes call for it, and not simply because the researcher want to use it, because researcher thinks it easier to use than classical methods, or, like self-described grounded theorists or phenomenologists whose identity derives from these methods, and not ultimately to become “*interpretive describers*” (Thorne, 2008). Multiple case study approach was used in this research in order to give room for cross interpretation of the actions and response of the interviewees.

Lastly, this chapter briefly looked into the practices and potentials of the organisations used for this research, starting from MDeC which is a government agency for IT practices and development in Malaysia. The remaining four organisations were private with long time history in the IT outsourcing industry.

CHAPTER FOUR

DATA COLLECTION AND ANALYSIS

4.0 Introduction

Preliminary patterns describing the factors that influence information technology outsourcing practices were developed based on concepts identified during the literature review. These patterns were augmented by concepts that came out of the first group of interviews. The first and second interview sessions from each Case were source of new concepts for this study. During interviews with a CIO in Case3, he expressed a completely unexpected opinion. In response to this CIO's strongly held position, the researcher included a new question in the interview protocol on the use of the organizational mission in the information technology outsourcing process. During the theoretical replication phase, the researcher found confirming evidence for the phenomenon of mission alignment as a factor influencing the decision to seek information, although only two other interviewees exhibited the same extreme position.

As the interview process continued, predictable patterns began to emerge, allowing the researcher to form an early interpretation of the nature of the information technology outsourcing process used by Information Technology Outsourcing (ITO) vendors Chief Information Officers (CIO) and senior officers in IT vendor organisation as different case might applied. To the extent that the patterns found in the data from each additional interview matched the early interpretation of the process that had been developed, the internal validity of that interpretation was strengthened.

During the pattern-matching process, the data collected were organized to support plausible explanations about the nature of information technology outsourcing and stopping behavior among CIO and senior IT staff. During the explanation building process, some individual situations were identified that did not appear to fit into this research such pieces of information were not referred to in this research. For these cases, it was necessary to review the data and discover what intervening conditions, if any, might exist that could explain specific differences in response.

The main approach to data analysis involved a detailed analysis of the interview transcripts. As the first step in this sequential process, notes from each interview, made both during the interview and immediately after it, were reviewed; highlights or new concepts were identified. Next, the transcript from each interview was reviewed and coded.

At least five officers were interviewed from each organisations, some interviewees' sessions were not used in the research analysis because some of the interview sessions are just repetition of the first contact in the same organisation also the interviewees in such cases were not willing to be interviewed, therefore making information gathered from them in piece-meal and in some cases incoherent. In order to avoid data redundancy and protect quality of data used, this research considered such interview session as supporting evidence, thereby not included in the data coding and analysis. This research realized from the pattern marching of the interviewees from same organisation that, information needed by this research were not with junior staff instead, senior staff were the custodian of information related to this research focus. The total of twenty-six (26) IT personnel were interviewed, less than half of these people were willing to divulge information while majority were reluctant to entertain questions. As the process continued, each new interview was compared to the previous ones for confirming or disconfirming evidence; earlier interviews were reanalyzed in the light of new concepts identified in later interviews. Table 4.1 below presents interviewees' distribution of this research

Table 4.1 Number of Interviewees

Case	Number of personnel
Case1	Five (5)
Case2	Five (5)
Case3	Five (5)
Case4	Five (5)
Case5	Six (6)
Total	Twenty-Six (26)

Because the multiple-case studies design encourages the researcher to analyze the data from earlier interviews before scheduling and conducting the later ones, the analytic process itself influences the emphasis placed on certain questions during the later part of the process.

Meanwhile, since this research is analysed from interpretivist perspective, there are no need or little benefits in working with large data sets, because these encourage a positivist mentality towards analyzing interviews (Troost, 2002). Therefore, vital interviewees were selected based on informative nature of each interview session. As mentioned earlier, more than half of the interviewees were neither comfortable to be interviewed nor ready to give any researchable responds. This development might arise out of several factors, such as level of knowledge, disposition of some interviewees to ITO practices and probably organisation's fear factor. More so, this research needs individual that understands their organisation's activities in-depth.

Six main themes and thirty one sub-themes were identified in this research at the end of the interview sessions; challenges facing ITO in Malaysia with four sub-themes (4), effect of government policy on ITO with seven sub-themes (7), need for a new ITO model with four sub-themes (4), high cost of ITO services with five sub-themes (6), mutual trust in ITO has four sub-themes (4) and ITO vendor justification with seven sub-themes (7). The second Theme (Government Policies) has the highest sub-themes due to initial attitude of the interviewees, which eventually leads this research to set another set of interview questions for MDeC (See Appendix 2) last theme has the second highest number of sub-themes because it justifies the selection of IT vendor selected for this research. The data will be presented case by case, and comparison among the cases will follow wherever it is necessary.

This research realized the importance of confidentiality when doing interviews and later when writing. Corbin and Strauss (2008) referred to Lofland et al. (2006) where they stated that:

One central obligations that field researchers have with respect to those they study is the guarantee of anonymity via the 'assurance of confidentiality' – the promise that the real names of the persons, places, and so forth will not be used in the research report or will be substituted by pseudonyms.

This is in line with the non-disclosure agreement made with those organisations before this research was given a green light to interview the organisations. Though the second reason is with exclusion of MDeC, however, for the purpose of uniformity and ease of analysis the above reference method is adopted. Henceforth, for the purpose of

easy referencing, [1.1] [1.2], [2.1], etc is used to refer to Interviewee [1.2], Interviewee [1.2], Interviewee [2.1], etc respectively.

MAXQDA (a qualitative analysis tool) allows user to define each coded segment, an individual score indicating the relevance of the segment to your research question. These scores are called Weight Scores or Relevance Scores. According to this research each coded segment is considered highly relevant to this research, therefore unique weight of 100 is given to the entire coded segment.

Code System	Interview 1-1	Interview 1-2	Interview 2-1	Interview 2-2	Interview 3-1	Interview 3-2	Interview 4-1	Interview 4-2	Interview 5-1	Interview 5-2
Challenges facing ITO in Mal...										
ITO Challenges in Malaysia	4	4	5	4	3	3	7	3	5	3
Provisions for MSC Status O...				1					6	5
Local ITO organisation going...				1					2	1
Positioning Msiia ITO	2			1			5	5	4	1
Effect of Government Policy...										
ITO incentives from Gov...									8	4
Budget									2	
Types of Government Policy			1		1				7	3
Need for Government to...	1		3	1	1	1	3		2	1
Need for Government St...	2		2		1	1	1		1	2
Effectiveness of Govern...	1						4			2
Obstacles emanated fro...	2		1	2	1		2	1	3	4
Government requirement...	2			1			1		3	
Need for New ITO Model	3						1			
Need for a Customised T...	7		3	3	2	3	1			1
Suitable ITO Model for ...	3			1		1	1			1
Why ITO models face pr...	2		1		4		1		1	
ITO Model in place	1		2		1	2		1		
High Cost of ITO services	16				2	1			2	
High service cost	11	1	1	1	2	1			2	1
Big versus SMEs	3	1	2	4	3	2	1			1
Duration of contracts	1	1	1	1	1	1	1	1	1	
Methods of Charging	5	1	4	1		2				
steps to reduce ITO cost	4	1	1	3	1	2			1	1
local service cost	3	2			1	1			1	
Mutual Trust in ITO										
Establishing Trust	3	1	3	1	3	7		1		
Building Trust	3		2		4	3		2		
How do you manage mu...	1		1	3	1	3		1		
Is Mutual trust constit...	1		1	1	2	2				
ITO Vendor Justification										
Vendor Criteria	11		4	10	4	4		1	1	
MSC Status for Local ITO	1			1	1	1			5	4
ITO Vendor Strategy	1			5		1				
ITO Vendor Goal	1	1		3	2	2		1		
ITO Vendor market strategy	3			1	1					
Capability to Handle ITO...	2		1	1	5	1				
Demography of Personnel	1	1	2	1	1	1		1	1	1

Figure 4.1 Code Matrix Browser

In Figure 4.1 the corresponding matrix numbers of each code is identified based on the number of coded words or phrases that appear in the transcript. This is further represented into interview-based MAXMaps in the Figure 4.2.

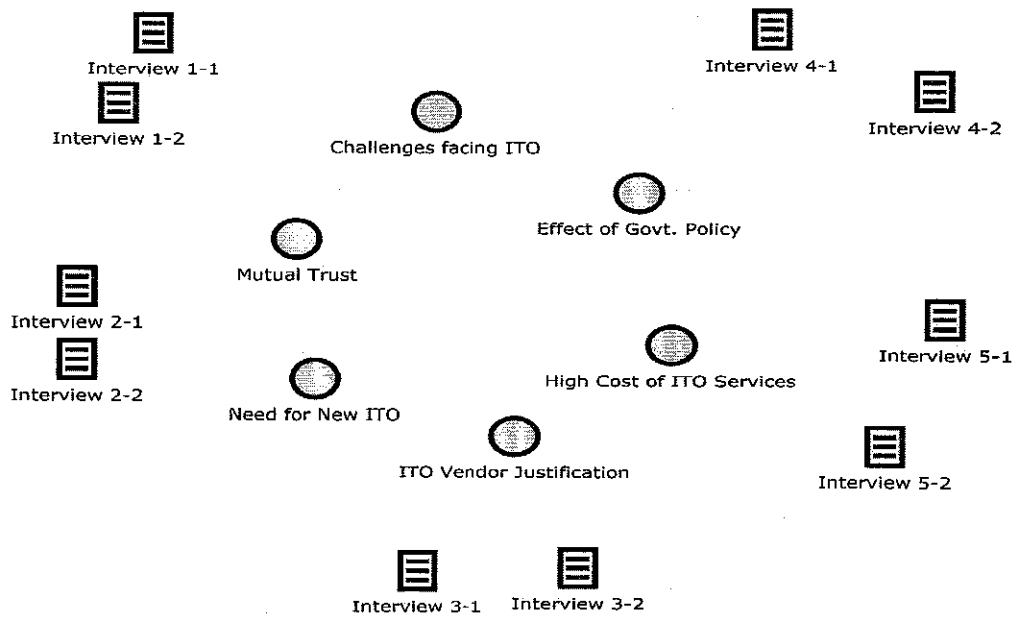


Figure 4.2 MAXMaps First Stage

Since this research analysis is Case based, Figure 4.2 is further classified into Case-based MAXMaps shown in Figure 4.3.

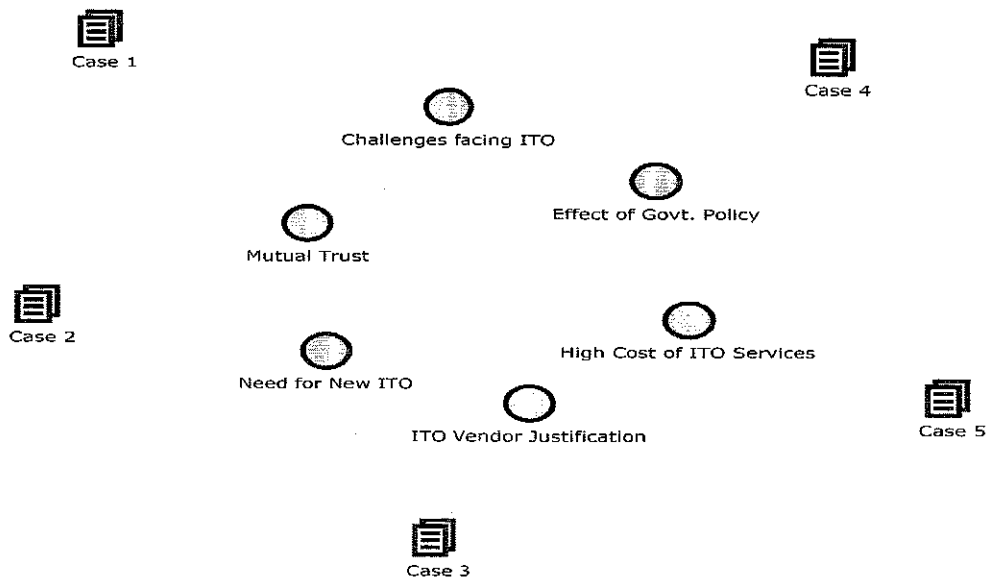


Figure 4.3 MAXMaps Second Stage

Figure 4.4 shows that Cases were formed based on the Interviewees and that themes were formed in the context of Cases. In order to draw connections between objects using MAXQDA three different link types in the toolbar are used:

- — A simple connection between two objects (no directional arrow).
- → ← A directional connection (a directional arrow).
- ↔ A mutual connection (bi-directional arrows).

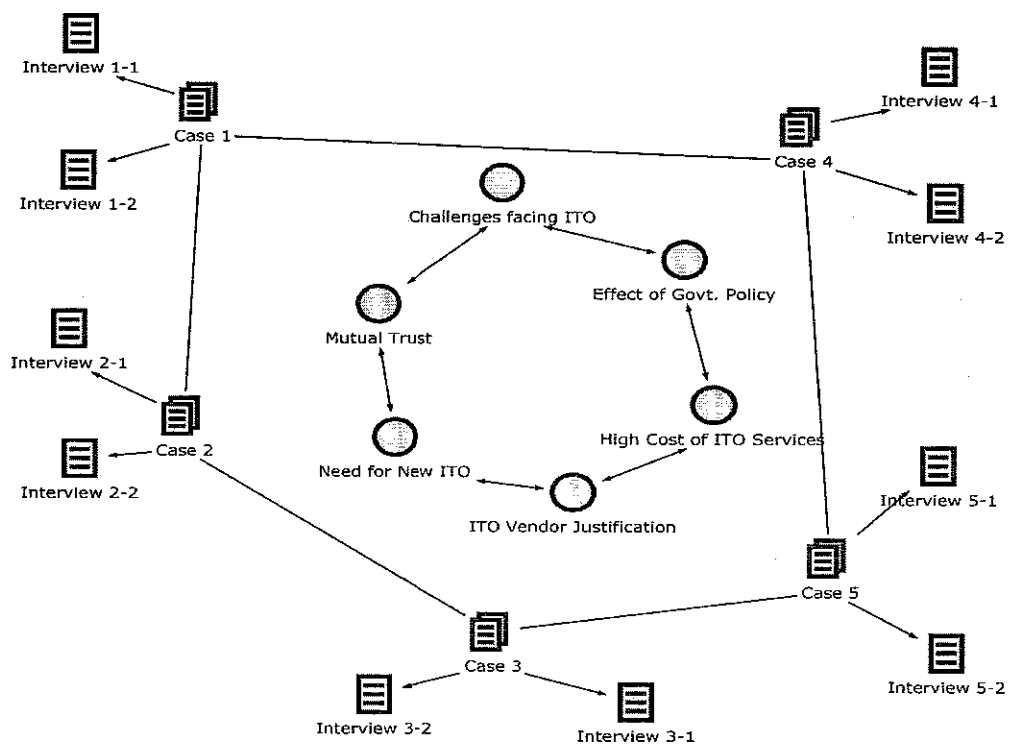


Figure 4.4 MAXMaps Third Stage

4.1 Theme 1 Code 1: ITO Vendor Justification

4.1.0 Introduction to Theme 1

In selecting organisations and interviewees for this research certain criteria were used, initially seven criteria were identified but later adjusted to five which were deployed to address this theme, they are:

- 1- Vendor selection criteria
- 2- MSC status for ITO
- 3- ITO vendor strategy and goal
- 4- Capability to handle project and
- 5- Demography of personnel

Though basic criteria set at the beginning of this research were that; the organisation must be an IT vendor operating in Malaysia and it should be recognized by multimedia super corridor corporation that is by being a MSC status organization. However, other criteria came up during a research interview session with a MSC status organisation that was able to provide necessary information for the research.

These set of criteria were used to justify the sources of information and data used in this research. The method of analysis would be different in some cases under this theme, Case1, to Case4 would be introduced where necessary. Case1 in this research means the first IT vendor organisation to conduct interview with in this research, similar interpretation goes with Case2, case3 and Case4. Figure 4.1.0 below shows that all the Cases met the above five criteria used in analyzing this theme and that there are indirect relationships between data content among all the Cases.

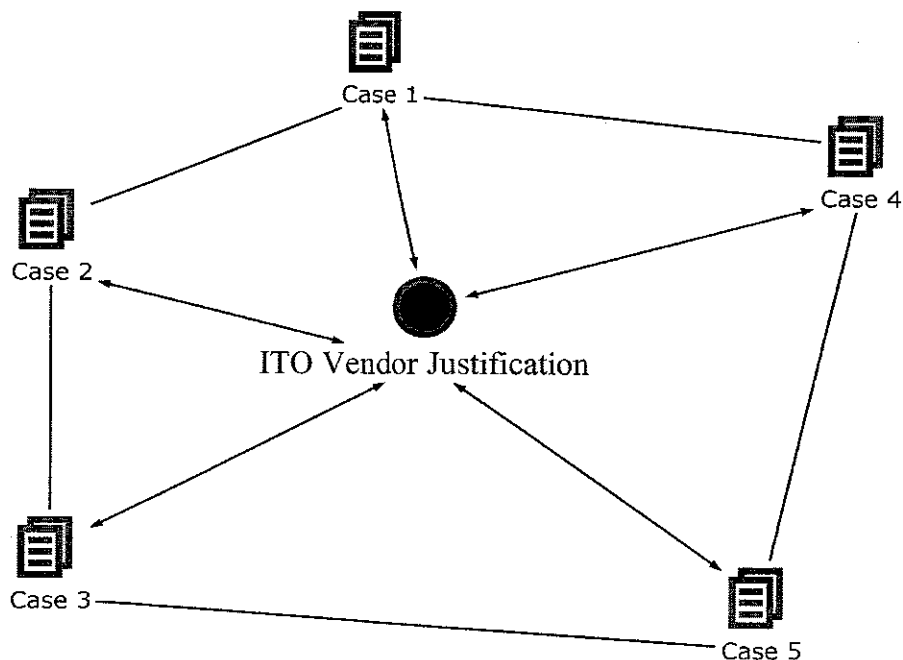


Figure 4.1.0 ITO Vendor Justification

4.1.1 Theme 1 Code I: Vendor Criteria

The first criteria is that the organisation must be an IT vendor based in Malaysia, this criterion was met by all organisation used in this data, beside been available in Malaysia some of these IT vendors had branches outside this country, and all the selected IT vendors have customers and certain operations if not in other continent but at least in this region. Though customers from outside Malaysia to one of these IT vendors are not more than 5% of total customers as [1-1] precisely put: *“not yet all are local, though we do have in term of IDC but very minimal less than 5%”*.

Years in ITO industry: also considered in the criteria were number of years in operation, all these IT vendor organisations showed that they had been established in Malaysia for over ten years, this gave them opportunity to have some experience to share with this research. For instance Case1 was formed in 1994, Case2 has been active for 41 years, Case3 is almost two decades into IT outsourcing business and *“next year we are going to celebrate our 20years golden jubilee”*. Case4 is a seventeen (17) years old firm with headquarter in Kuala Lumpur, Malaysia.

Value of contracts: virtually all the IT vendors selected for this research has contracts that value more than a million ringgit, which this research considered as a yardstick to assess the capital base of an organisation and relevance of an IT vendor in this country. [1-1] could not give the precise amount but he estimate more than 100million ringgits worth of contracts executed. [2-2] RM1.3 Billion Maybank 10 years contract which is already in its third year. While [3-1] disclosed that there number of contracts is close to a hundred (big and small included).

Types of service: MDeC assessed IT outsourcing by looking directly into organisation's infrastructure, how services such as help desks, contact center, technical support were manning. Based on this assessment, this research analysed the selected IT vendors and realized that all the vendors were qualify to consider as IT outsourcing vendor. However Figure 4.1.1 below gives graphical interpretation of these criteria, which shows that the entire data sample (ITO Supplier Organisations) of this research met those criteria.

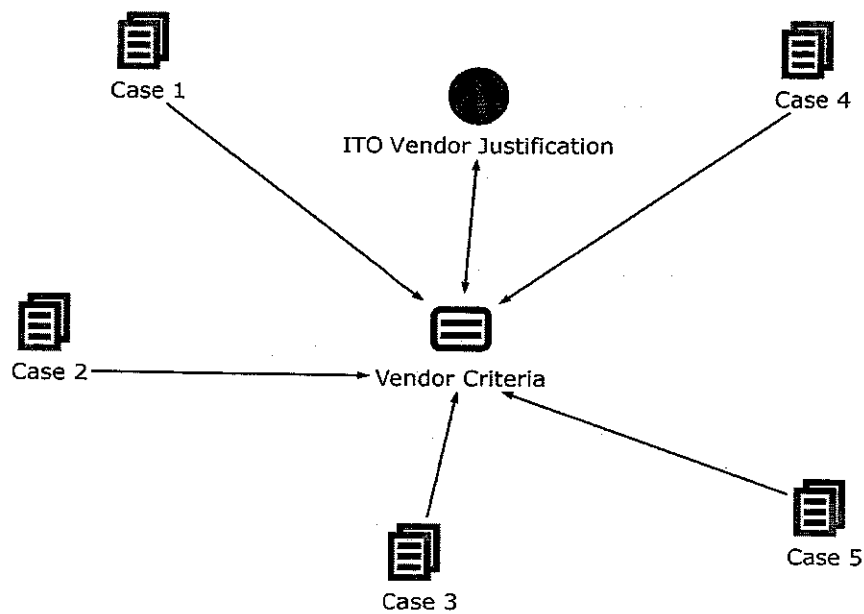


Figure 4.1.1 Vendor Criteria

4.1.2 Theme 1 Code II: MSC Status for Local ITO

Becoming a MSC-status organisation is handled by multimedia super-corridor corporation. There are two different criteria one for local and one for foreigners to become an MSC-status organisation. Some of these criteria were listed in Appendix four. In the first instance, this research got the list of possible organisations directly from MSC during the World IT Conference held in Kuala Lumpur and further confirmation was made about these selected organisations through the website of Outsourcing Malaysia. Figure 4.1.2 below shows that all the ITO Vendor organisations used as data sample of this research were MSC status and that this status is integral part of justification for selecting those organisations for this research.

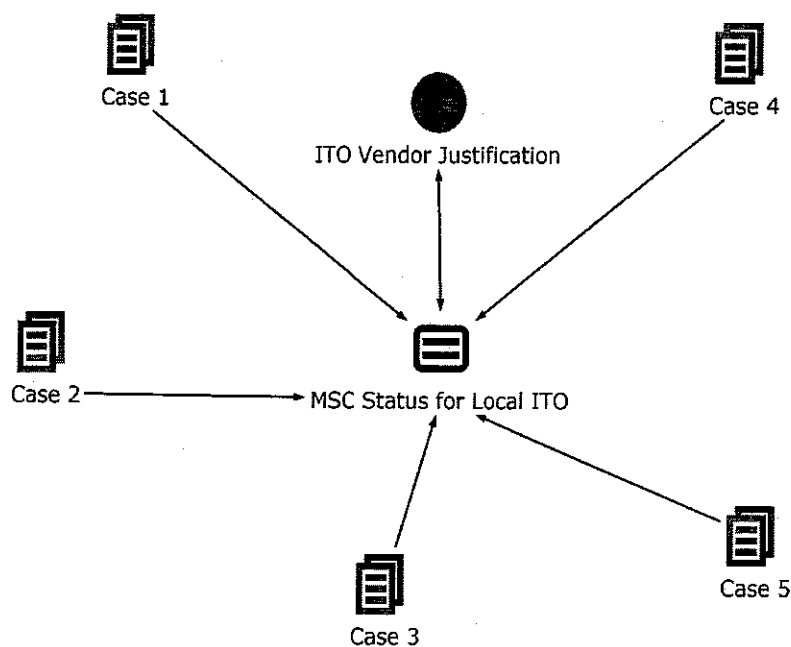


Figure 4.1.2 MSC Status for Local ITO

4.1.3 Theme 1 Code III: ITO Vendor Strategy and Goal

Every vendor had defined its own organisation's strategy and goal to keep the organisation relevant, active and at the same time focused in ITO industry. [1-1] for instance believed in satisfying local environment first and later focus its tentacles on developing countries, he said:

And we always we do local first, have a success story, and built our experience here, and then we go global. In fact, we are targeting the developing countries rather than developed countries in our global quest

Besides Case1 had realized that it might be practically impossible for small IT vendor organisations to compete with multinational IT vendors directly, there is need for creativity even in the competition, in order to win, for an IT vendor to keep afloat, it must be creative, [1-1] said *"the word here is business is about 'Creativity' ...creativity arise from deep understanding of your business (SWOT of your business)"*.

[2-2] found their outsourcing strategy from the caliber of people working with the organisation and the service delivery management (SDM) put in place. This is because Case2 opined that, the kind of expatriates an IT vendor can boast of might influence it

future its ITO capability and adventure. Despite agreed that Case2 had adequate human resources, he still aspires to buffer it capability, he said thus:

We have proper outsourcing resources to manage this thing. We need to have buffer, pool of people that's why I say most important is people. Sometimes we buy time depends. Times sometime it a bit risky, the longer the more cost incurred, very high cost, is not that easy.

In implementing SDM at Case2 is considered as part of organisation's strategies in satisfying their clients by making sure that before any service is delivered to clients, certain levels of monitory and assessment were done internally before a project is finally hand to clients.

Case3 is aiming towards becoming the best in their specialisations through their managed services that enabled organisations to outsource the provision, setup, management and operation of data centre as well as business applications to Case3 to ensure high level of performance, security.

Case4 instead identified the general aim of all stakeholders in the information technology outsourcing industry as:

MDeC and all of us in the industry is that we want to target 2.5% of the outsourcing demand that's 2.5% of a trillion dollar, that's our focus in term of service export by 2010. So we want to grow industry to about \$2.5 billion worth of service export

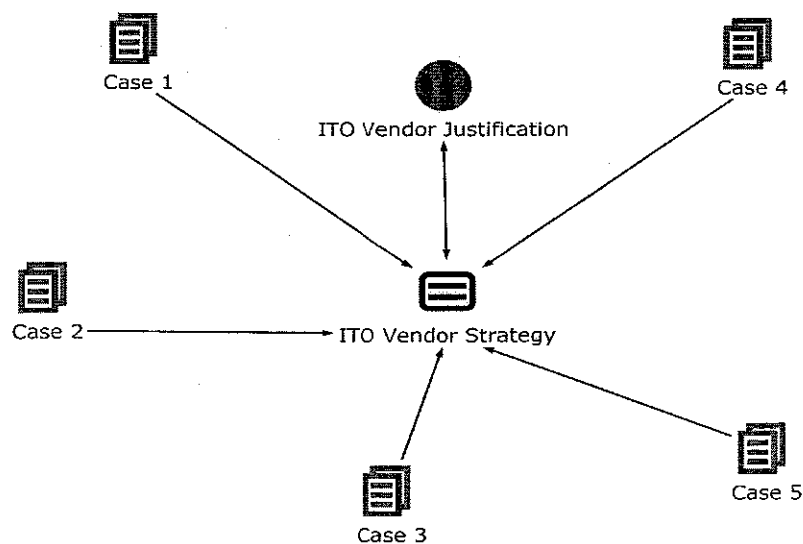


Figure 4.1.3 ITO Vendor Strategy and Goal

4.1.4 Theme 1 Code IV: Capability to Handle ITO project

This research used the track records of selected IT vendors in their capability to successfully handle projects as one of justifications for eventually using the vendors for this research this was used to measure reliability of the organisation. However, due to non-disclosure agreement with clients, certain information could not be share with me. All these organisations gave affirmative response, when questioned about their capability. For instance [1-1] said: *“Yes we do, why because we have infrastructure, we have the process and we have the people and on top of that we have the experience”*. [2-2] responded that: *“Our achievements speak for us, we do not go out looking for clients anymore, and most of the clients come to us themselves after reading or witnessing our success story”*. In the Case3, [3-2] simply referred to the achievements recorded by his organisation saying that; *“...is the first ICT Company in Malaysia too join the world league with the Capability Maturity Model Integration (CMMI) Level 5 rating”*

In addition to the claims made by IT-vendor, this research also rightly deduced from years of operation, number of staff and numerous activities currently involving these selected IT vendors, that these IT vendors possess certain level of capability, otherwise their operation would have been collapsed more so, most of these vendors had being in operation before economic crisis of 90s.

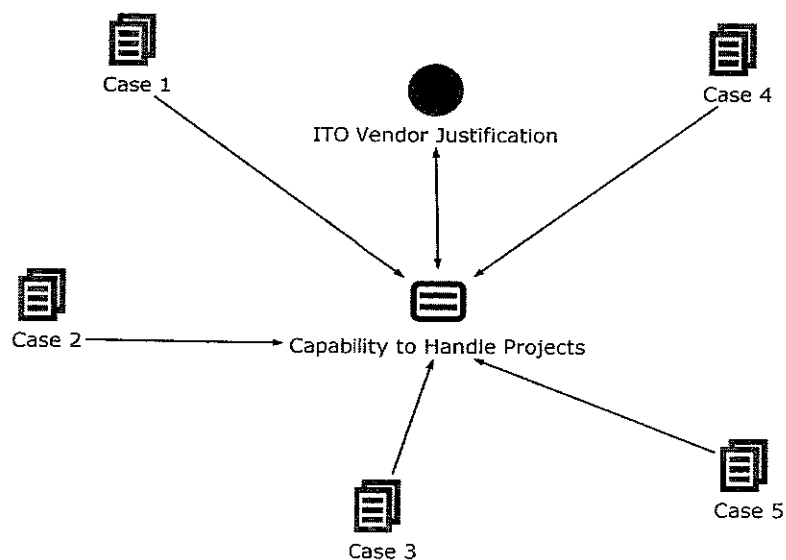


Figure 4.1.4 Capability to Handle ITO project

4.1.5 Theme 1 Code V: Demography of Personnel

The Table 5.5.5 below represents demography of personnel this research was able to interview for the course of this study. Most of the IT vendor organisations selected for this research has their topmost management in Malaysia except one, which had the higher management team in United State because it involved American and Australian companies. Despite that, this research was managed to interview certain head of some units in this organisation, likewise some senior managers and senior staff of the entire selected interview organisation.

To a large extend, data and information gathered from these individuals were reliable as some hard data were shared with the interviewer during the series of the interview sessions. Figure 4.1.5 below shows that five [5] personnel each were interviewed from four [4] ITO Vendor Organisations, while six personnel were interviewed from fifth organisation (MDeC). Refer to Table 4.1.0

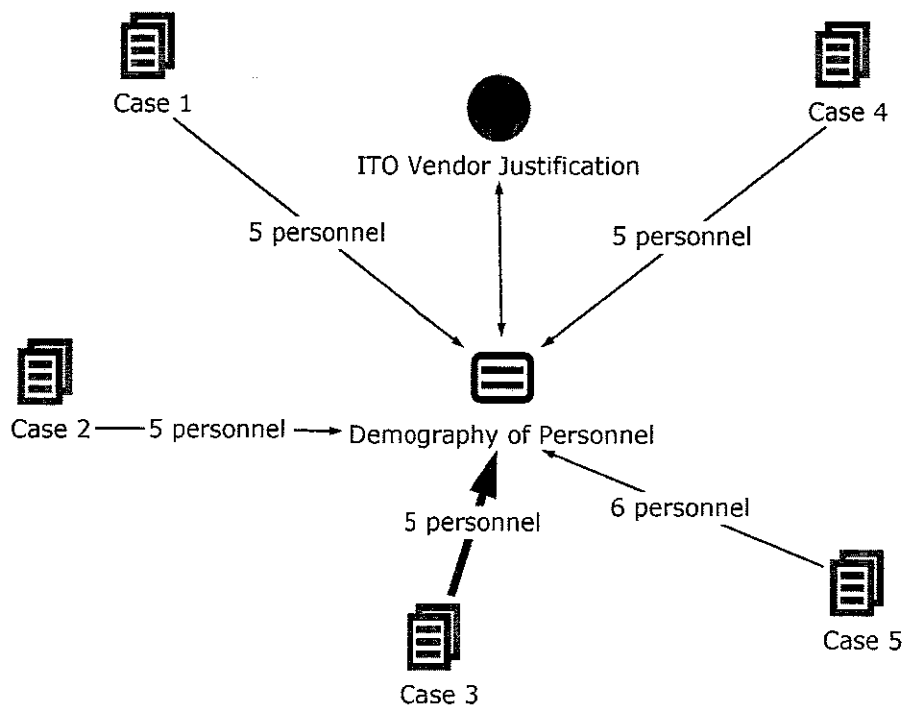


Figure 4.1.5 Demography of Personnel

4.2 ITO in Malaysia

4.2.0 Introduction to Theme 2

The first theme of this research analysis represents introductory to general problem facing Malaysia ITO environment, while the next four (two, three, four and five) thematic representations of research data were done along specific problems identified at the beginning of this research while the last two were out of emerging issues that came up in the course of several interview sessions. This development was in conformity with the nature of this research which is exploratory in approach. Twelve out of twenty-six interview sessions done by this research could be considered in-depth, the remaining fourteen interviewee sessions were either tried to avoid most of the questions asked during the interview sessions or simply repeating what others had provided. Therefore the thematic formulations of this analysis were based on the twelve interviewees.

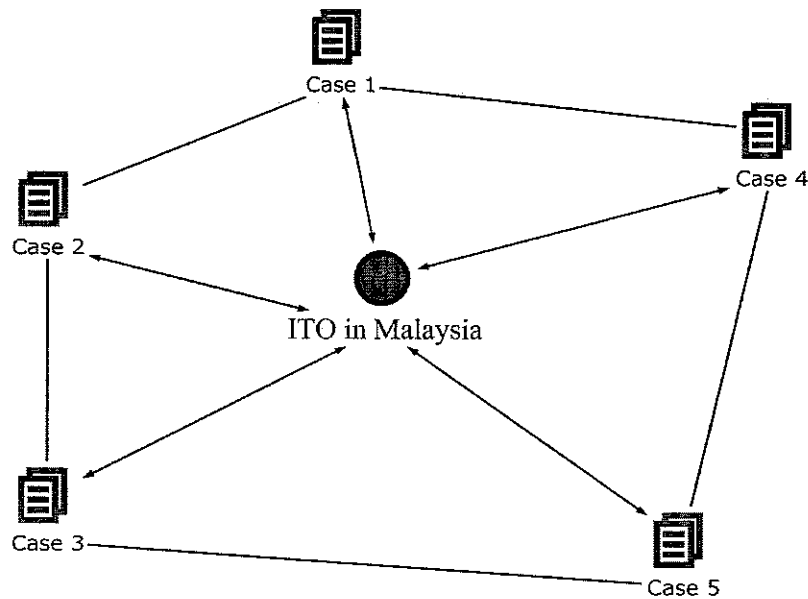


Figure 4.2.0 ITO in Malaysia

The first theme was discussed here while the remaining themes were discussed as introductory part of each relevant section. Under the first theme ‘challenges facing ITO in Malaysia’, four questions were generated at the height of interview sessions. The four questions were; what are the ITO challenges in Malaysia, what are the provisions for

MSC status organisations, are there any local ITO organisation emerged at global arena and lastly how can Malaysia ITO be positioned at global environment. Figure 4.2.0 above shows that all the interviewees/Cases agreed that there were problems facing ITO in Malaysia. It also shows that most problems mentioned by the Interviewees/Cases were similar.

4.2.1 Theme 2 Code 1: ITO Challenges in Malaysia

Several factors were raised and identified as challenges facing information technology outsourcing in Malaysia, inadequate talent pool, or lack of human resource or human capital is the leading factor associated with ITO challenges in Malaysia, out of all the interviewees only [2.1] gave opposing opinion about the inadequate talent pool he said, *“No, we never have any problem expertise are very well available, staffing is very easy”* when responding to question on whether they faced problem with lack of employees in their organisation. However, [2.2] from the same organisation agreed with the rest of interviewee that *“there is no enough local manpower that commensurate with ITO need, as you know ITO is becoming a global business strategy”*.

Interviewee [2.1] further elaborated his dissenting opinion that: *“Definitely, this country definitely can produce enough manpower and talents needed for ITO”* contrary to the data available with MDeC and opinion of other interviewees. MDeC [5.1] established that:

The number one challenge is human resources, Malaysia does not have enough people, and population is 27millions and in the last 12 months we created under MSC companies at least 15,000 to 16,000 jobs

In confirmation with [5.1], [5.2] said that: *“In 2005 ICT industry employs 365,000, another 50,000 work force in 2007 and it was projected that by the year 2010 ICT industry will employ 497,000. Out of current supply of 20,000 ICT graduates a year, only 10-15% is ready to be employed”*. This might mean that [2.1] opinion could be considered isolated or an attempt to protect certain unclear interest, probably due to the personality of interviewer or lack of enough knowledge on how ITO is operating in Malaysia. The [2.1] believes that maintaining 99% locals [Malaysian] workforce in his organisation is part of MDeC government policy for MSC status companies.

Apart from lack of talent pools other identified factors affecting ITO in Malaysia are: fear of external control [1.1], lack of education and awareness in regards to IT outsourcing [1.1, 1.2, and 4.1], lack of communication skills [1.2], job preference [1.2] due to job reward [2.1], bureaucracy process [2.2] which led to low rate of ITO concept adoption among organisation [3.2] and eventually resulted to small participation of organisations especially the SMEs [3.2, 4.1] and to make thing worse IT organisations were facing daunting tasks to acquire financial capital necessary for the smooth operation of their organisation. [4.2] lamented thus;

That's what we're trying to promote / provide in Malaysia that's only positioning, but do we have the best capabilities. In terms of real capabilities, do we have the companies? We have very small companies we don't have large companies in Malaysia most of them are small SMEs, for them to be able to grow and serve the demand of these large companies is very limited, not because of experience but because of access to capital

The above factors were identified by several organisations interviewed for this research, which are graphically represented Figure 4.1.1 below.

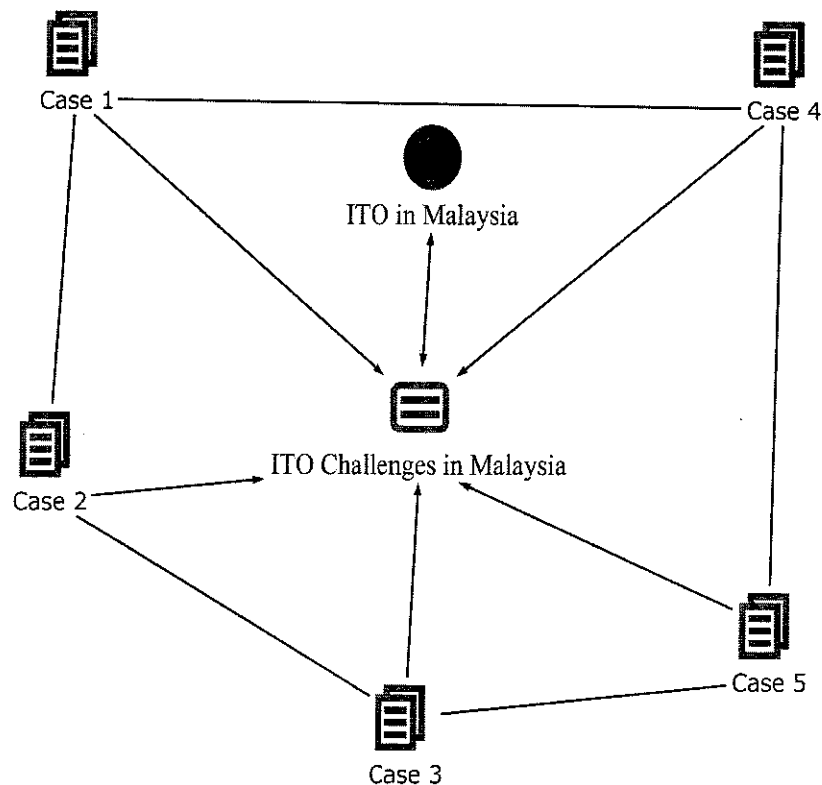


Figure 4.2.1 ITO Challenges in Malaysia

4.2.2 Theme 2 Code II: Provisions for MSC Status Organisations

Interview on this specific sub theme had shown that in order for an organisation to get MSC status, the bureaucracy involved is not too difficult and at the same time, the conditions were not discouraging rather it is very competitive and enticing, using India as the benchmark. Tax and capital movement have always been motivating factors in engaging in business countries and organisation, Malaysia ITO regulation for MSC status used these two global economic strategies that is tax and capital movement [5.1 and 5.2] in capturing and encouraging ITO organisations to establish in Malaysia.

Apart from these two factors government had tried to put in place several cyber related laws to protect intellectual property [5.1 and 5.2] and at the same time made all the process involved in becoming a MSC status company to be easily done in one place. [5.2] gave vivid explanation further thus; *“Multimedia Development Corporation (MDeC) – one stop service agency, this make it easy for any MSC status organisation to complete his or her need at one place, without unnecessary delay”*. They believed that the one-stop service policy had given Malaysia a competitive edge in this region.

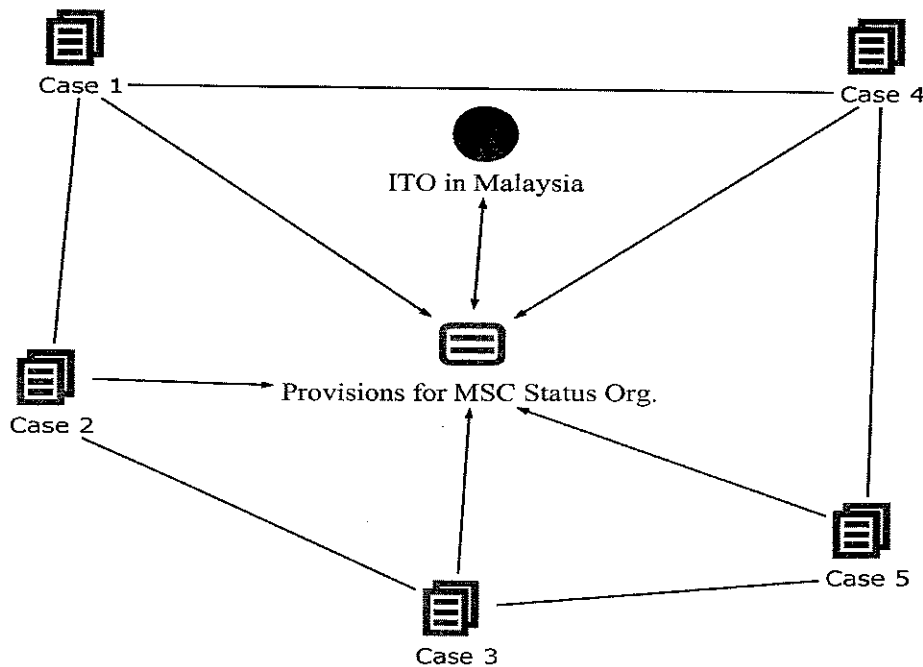


Figure 4.2.2 Provisions for MSC Status Organisations

Lastly, full ownership right for MSC status organisations without a need to involve any local citizen had encouraged several foreigners to establish their IT firms in

Malaysia, unlike other sectors that allow ownership only through partnership with local Malaysian citizens. Figure 5.2.2 above shows that the sample organisations understand the provisions for MSC status and acquainted with the MSC status procedures.

Theme 2 Code III: Local ITO Organisation becoming Global

In the attempt of this research to be able to project the ITO trend in Malaysia, question was asked on government effort to bring Malaysia ITO unto the global pedestal. The research shows that level of awareness about ITO in Malaysia is very small and that Malaysian owned ITO organisations are reluctant to venture into offshore IT business. [2.2] elaborated further thus:

Awareness is another problem in Malaysian ITO environment local organisations were not going beyond Malaysia shore, whereas there are abundant opportunities offshore, [Case2] is able to position itself globally because it is a member of Computer Sciences Corporation (CSC). No desire to go offshore.

There is a wish from the government front to place Malaysia ITO on global standard, [5.1] clearly mentioned the government desire to take Malaysian ITO into global participation. He narrated further that “Yes, I can say that part of government strategies this year and next year is to select some companies, which we have already begin [this process]. Maybe four or five Malaysian companies [were] to take global”. Unfortunately, such an aspirational and desire had not been shown from local organisations, so far very few Malaysian owned organisations such as PETRONAS eLearning Solution Shd Bhd has able to go offshore especially on PETRONAS global business platform. Therefore, there is an urgent need to work towards making some other Malaysian based organisations operate at global standards.

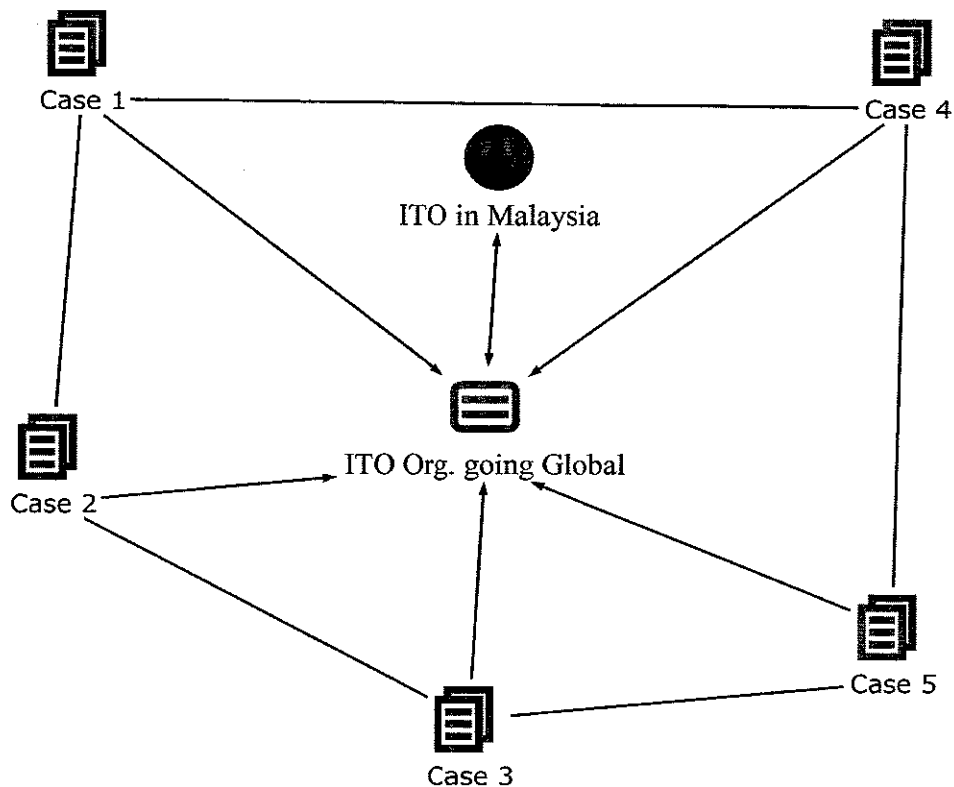


Figure 4.2.3 Local ITO Organisations becoming Global

4.2.4 Theme 2 Code IV: Positioning Malaysia ITO

Numerous pragmatic efforts had been made by several ITO stakeholders in Malaysia in their struggle to position Malaysia ITO. Starting from marketing the pool of talents available in the area of portals “...Malaysia there is pool of talents” as claimed by [1-1]. Apart from this factor, [1-1, and 4-2] also considered political stability as an integral factor in positioning Malaysia ITO. Language proximity was highlighted as one of major advantages in showcasing Malaysia ITO opportunities, [4-2] said that;

Again the thing it is useful for company model in Malaysia because of cultural proximity excluding the language, culture is very important, Chinese, Japanese, Malaysian, Singaporean, fully different culture, language is not a big barrier, for example a company in India if they want to serve company in Japan it is very difficult because culturally they are pole apart, 1- that where I guess Malaysia got one distinctive advantage with respect to language difficulty.

Although Malaysia population size is not big enough to take huge advantage of global ITO practice, however, 2.5% of a trillion US\$ is expected to be achieved by 2010 as

projected by [4.2] during the interview session with him. He said that; *“MDeC and all of us in the industry is that we want to target 2.5% of the outsourcing demand that’s 2.5% of a trillion dollar, that’s our focus in term of service export by 2010”*. Besides these few interviewees that gave possibilities of positioning Malaysia ITO, other interviewees gave different accounts such as: capability problem [4-1] he emphasized on lack of will on the side of multinational organisations to work with local vendors *“they own their own company, you won’t find many of them working with local vendors as much as they should or as much as you expect them to”*. ITO industry is dominated by multinational organisations compared with the number of local ITO vendors available, though to this researcher, this development looks positive but in actual sense, there might be some long term effect on the global positioning as envisioned by Malaysia government. The global competition is becoming fierce and every other country is trying to out-perform others and woo foreign investors, the excessive reliance on foreign organisations in the Malaysia ITO might spelt a long term doom if there are no enough numbers of local organisations that can put Malaysia on global ITO pedestal.

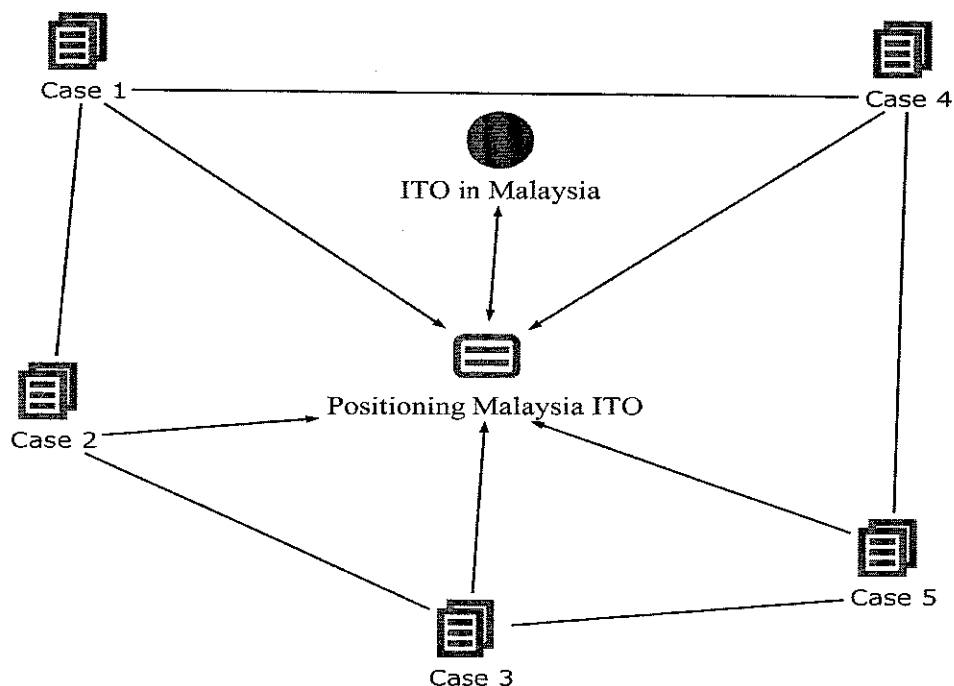


Figure 4.2.4 Positioning Malaysia ITO

[4-1] called for attitudinal change in Malaysian towards investing in ITO, he said that; *“Malaysia ITO, are not investing to create a good organisation, they are investing because the customers want it with, that is the reason why IT outsourcing industry does not grow”*. This means that Malaysia might be found wanting when it comes to research and development in the field of information technology know-how. This attitude might not be augur well for Malaysia ITO vision because it affects quality and competency level of the country workforce. Figure 4.2.4 above gave detail response of interviewees on how to position Malaysia ITO.

4.3 Theme 3: Effects of Government Policies on ITO

4.3.0 Introduction to Theme 3

On the effects of government policies on ITO, under this thematic heading, seven questions were emerged during the interview sessions with identified organisations, such as; ITO incentives from government, types of government policy, need for government to handoff ITO, need for government stake in ITO, effectiveness of government policy, obstacles emanated from government policy and government requirement for ITO. These set of questions were fashioned out, out of in-depth and explanatory nature of this research. Though, the major response came from government organisation after most of the contacted organisations declined to give any detailed response, which is in contrary to the nature of this research.

This development had forced the researcher to redirect certain set of questions to the government officers interviewed. In the Figure 4.3.0 below, it shows that there is unanimous opinion on the fact that the government policies on ITO are affecting the ITO suppliers. However, most of the interviewees/Cases were reluctant to give any further elaboration.

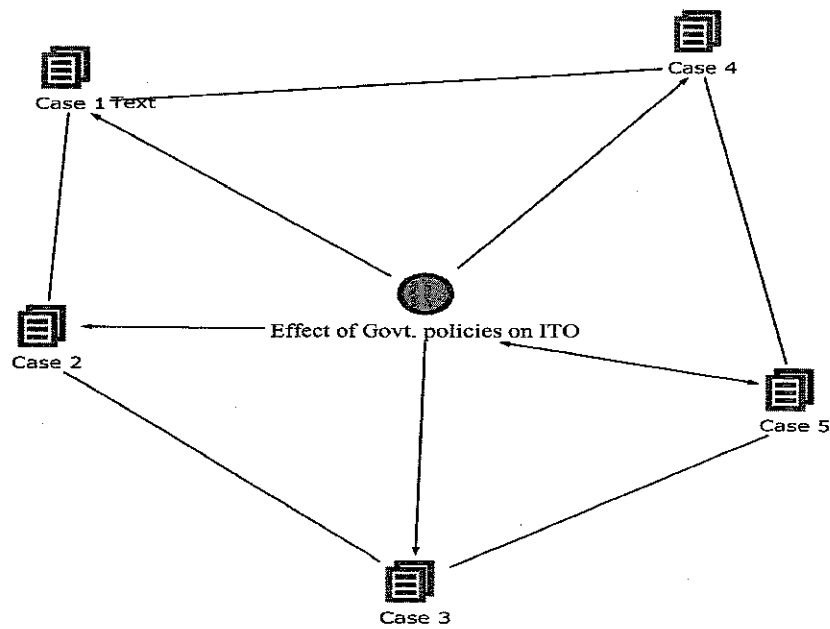


Figure 4.3.0 Effect of Government Policies on ITO

The two-headed arrow indicates that Case5 has detail information on ITO policies in Malaysia and that Case5 statement would be used in benchmarking Malaysia ITO policy with India one. Though other Cases agreed that there are problems in the policies in place, however, they did not give much information in regards to ITO policy.

4.3.1 Theme 3 Code I: ITO Incentives from Government

As pointed out early, there are several motivating factors behind multiplication of multinational IT companies establishing their regional headquarter, global center, outlet, etc in Malaysia. This research finds out that this is unconnected with incentives been provided by Malaysia government. Beside a ten year tax-free policy [5-1], ownership right and ease movement of capital among others were part of superlative incentives provided by Malaysia. The interviewees made this research believe that incentives provided by MDeC are second-to-none and irresistible to investor. [5-2] pointed out that Multimedia Development Corporation (MDeC) one stop service agency has made it easy for any MSC status organisation to complete his or her needs at one place, without unnecessary delay. Figure 4.3.1 below represents interviewees' response on information technology outsourcing incentives from government. The figure shows that only three out of five Cases responded to questions that relate to ITO incentives from government.

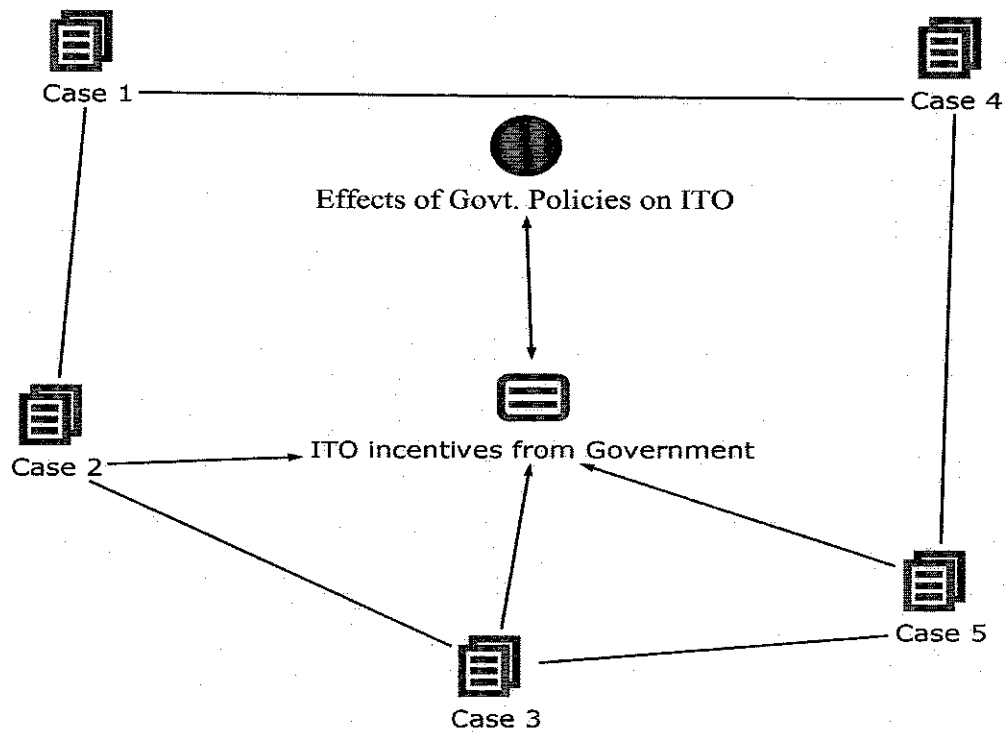


Figure 4.3.1 ITO Incentives from Government

4.3.2 Theme 3 Code II: Types of Government Policy

Government policies are mainly to protect and promote certain interests it may be economic, or social or political. In the case of ITO, at macro level the policies guiding it were mainly to improve and protect economic interests of the nation. However, due to current level of ITO in Malaysia most policies are leaning towards micro interest, or attempt to make use of the policies to promote and reposition Malaysia ITO global participation. These diverse perceptions is shown in Figure 4.3.2 relationships below, where [2-1 and 3-1] view government policies from micro perspectives only while [5-1, and 5-2] see the policies from both micro and macro outlook. Probably because these later interviewees were directly involved in formulating government policies on outsourcing. Case1 and Case4 did not make any comment probably due to lack of awareness on ITO policies put in place by government.

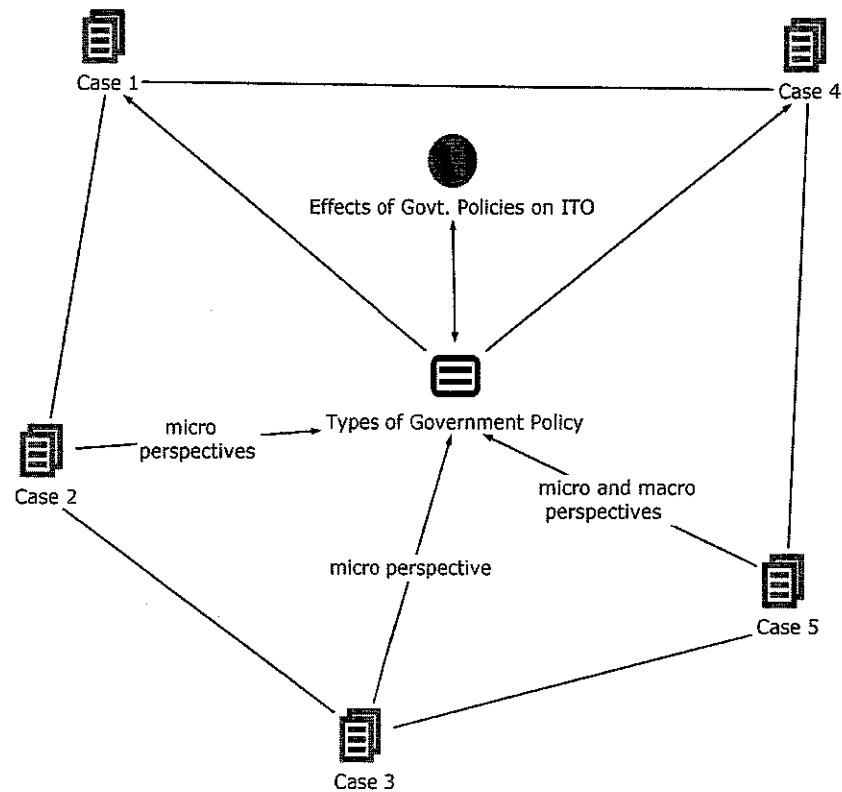


Figure 4.3.2 Types of Government Policy

4.3.3 Theme 3 Code III: Need for Government to handoff ITO

There were discord calls from some quarters the need of government to handoff day to day control of information technology outsourcing in Malaysia, though ulterior motive of such these calls could be deciphered from [4-1] statement that; *“Too much of government helping, I think the Malaysia government should step back, everybody depends on the government, every single time, every little problem they want the government to help”*. He elaborated his statement that inability of the local ITO suppliers to be independent of government has been a major obstacle in creating a viable ITO industry in Malaysia.

This research can infer from the above statements that the inability of some local IT vendors to operate without unnecessary dependence on the government is one of the major reasons why ITO industry has not been flourishing in Malaysia because this might lead to fear of unknown for these kinds of vendors when they need to venture into unprotected global environment.

However, several other interviewees believe that there is still need for the government to deep its hands in the ITO industry for reasons such as market control [2-1]

and economic interest [5-1]. Besides these two groups, other interviewees considered this question political and avoid giving any specific answer to it. This development is one of the reasons why MDeC was included in this research. This government corporation maintained that “...the government should be more involve not less involved”. MDeC believed that such government involvement will increase the number of participating organisations and help Malaysia to promote IT outsourcing through the power of number of organisations in the industry. Graphically represented in Figure 4.3.3 below are the responses on the need for government to handoff ITO. It shows that Case2, Case4 and Case5 responded to the questions on ‘need for government to hand-off ITO’ while Case1 and Case3 were equally asked but decline to make any comment. The figure equally shows that ‘need for government to hand-off ITO’ is a sub theme under the effect of government policies on ITO. Apart from Case1 and Case3, remaining Cases gave responded to the questions addressed under ‘Need for government to Hand-off ITO’.

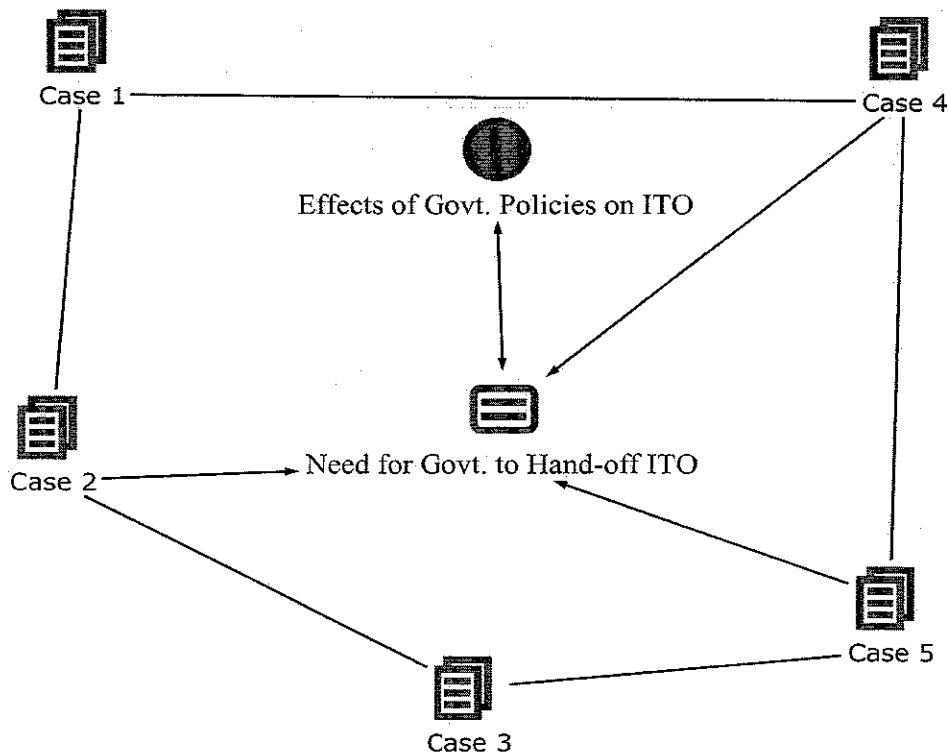


Figure 4.3.3 Need for Government to Handoff ITO

4.3.4 Theme 3 Code IV: Need for Government Stake in ITO

This code is closely related to Theme 2 code III, while the former was reviewing possibility of government to handoff from ITO. This section focuses on the need for government stake in ITO in general. There is an unanimous support for government to maintain its stake in the ITO industry. As some see it as a measure to control unnecessary monopoly that might arise and government protect economic interest which encompasses GDP. [2-1] said further thus, “...if you release it freely people can actually abuse it and start monopolizing the market, given the government hard time”. [3-2] equates outsourcing to economic development therefore, he saw the need for government to tap from the economic benefits that come with outsourcing. He submitted thus; “because outsourcing is equivalent to economic growth nowadays, therefore government should rather look into how to benefit more from outsourcing”. In the same vein, [5-2] supported the economic stance that:

...but you cannot expect the Government also to fold his arms on ITO because it's related to the economy. You know that the Malaysian outsourcing income for 2007 only was worth US\$ 300 million and is growing at CAGR of 30% year in year

He said further that:

We are working towards making IT outsourcing to generate 10% of Malaysia's GDP by 2012. You can now understand why government is having stake in ITO

In another dimension, the stake was looked at from the perspective of contribution being made by government to develop the ITO industry, starting from budget to allocation and to training, etc. [5-1] conceived this stake in term of “*financial support, we have training in certain programs, we offer guarantee on infrastructures like electricity and telecommunication*”.

Interestingly some others only see needs for the government in ITO only when it comes to protecting some sensitive information [1-1]. These arguments were considered vital to this research firstly because, global ITO participation might not be achieved if there are lapses in information security, and no organisation would compromise its information security. Secondly economic situation of a country is scrutinized before it is

considered as an outsourcing destination. Figure 4.3.4 below depicts the diversities of the interviewees/Cases on the need for government to have stake in Malaysia ITO industry. Case1 and Case2 believe that government is protecting his interest on ITO, Case3 views it from economic interest while Case5 interprets the question based on long and short term interests.

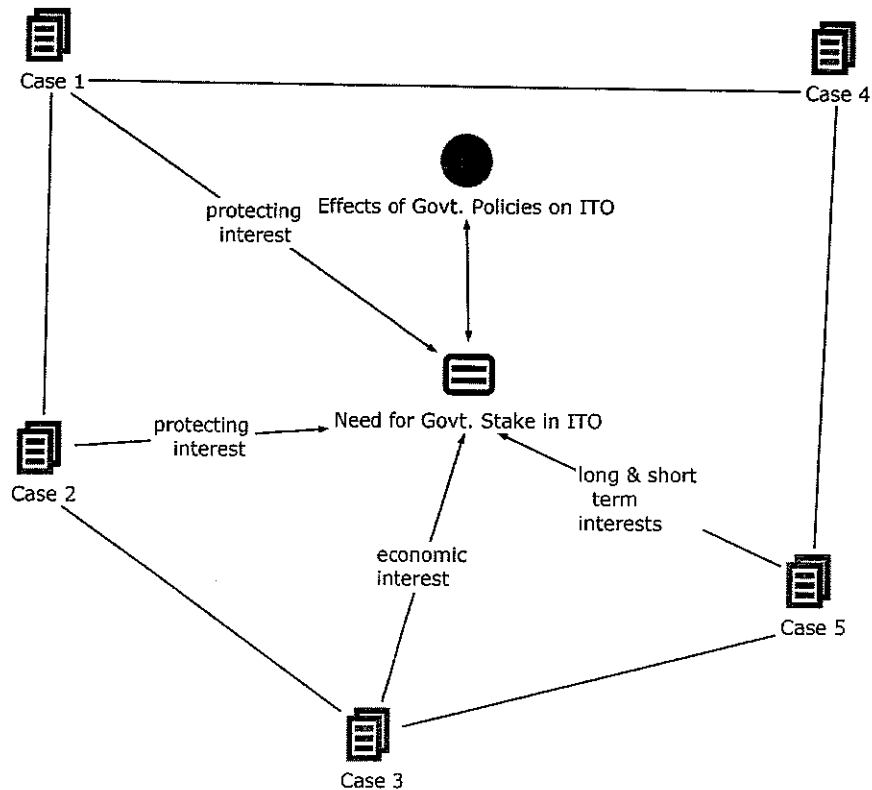


Figure 4.3.4 Need for Government Stake in ITO

4.3.5 Theme 3 Code V: Effectiveness of Government Policy

One of the essences of this research is to evaluate how effective is the government policy on ITO. In doing this, the assessment will be solely on the interviewees in this research, though their responses might not be appropriate for the purpose of generalization as the case of interpretive approach is, however, their responses should be considered as valid for the sake of ITO development in Malaysia. Because most of the interviewees considered such a question not only sensitive but also political, therefore, turning down the questions, only few of these individual braced up to divulge their opinions on this. This research assumed that it is most likely to come to same conclusion if same question is repeated among other ITO vendors in Malaysia either in similar or different situation.

Respondents are categorized into three, first category are some local employees who found it difficult to criticize any activity championed by government even if it is a constructive criticism. Second category are some foreign workers who see their future in this country and want to create an enabling environment for the ITO progress, this they believed that an improved government policy would at least help them secure their job for a longer time and at the same time favour economic future of this country. The third category are ITO consultants working under government own corporations, they do not only see any wrong things in the policies but actually promote the existing one for instance [5-2] said “*in principle we ensure no censorship of Internet*” whereas in reality internet censorship is still going on (Gatner, 2007). These mixed responses would instead of helping government to formulate or enhance its existing policies create more confusion which might end up derailing the government. Figure 4.3.5 represents interviewees’ responses on effectiveness of government policy.

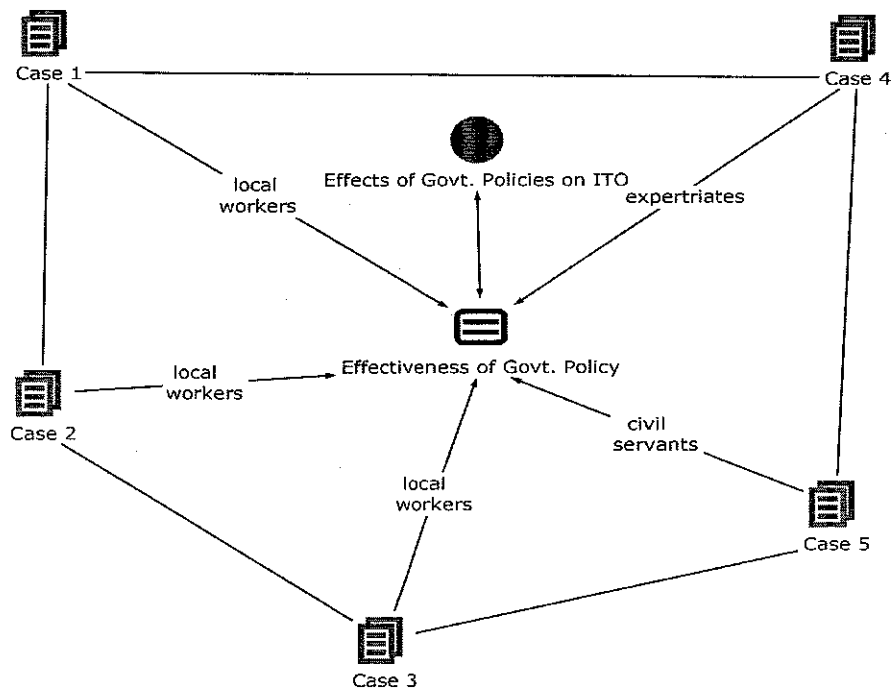


Figure 4.3.5 Effectiveness of Government Policy

4.3.6 Theme 3 Code VI: Obstacles emanated from Government Policy on ITO

There is no policy that is not confront with certain level of obstacles, although some of the hindrances may emanate either from internal or external influence or effect of the

policy. Most of the interviewed organisations declined to point out any obstacle [1-1, 2-1, 2-2, and 4-1]. Instead [2-2] outlined some problems facing ITO policy vis-a-vis organisation's but not as government policy. His lamentation was that *"outsourcing is not so easy because we are thinking we would be having manpower, labour law , industrial law, local laws, before we talk about outsourcing itself, salary scale policy, the working environment"*. In actual sense, all these identified policy related problems were directly related to government, though this organisation tried to present the problems from looking general instead of government-policy-related-problems. [4-1] related these problems to situation of ITO industry, where learning culture has been absent, he said; *"I don't think there is anything else the government can do without the change in the situation of industry. It is the industry that has to go and learn what the problem is, which they don't do"*.

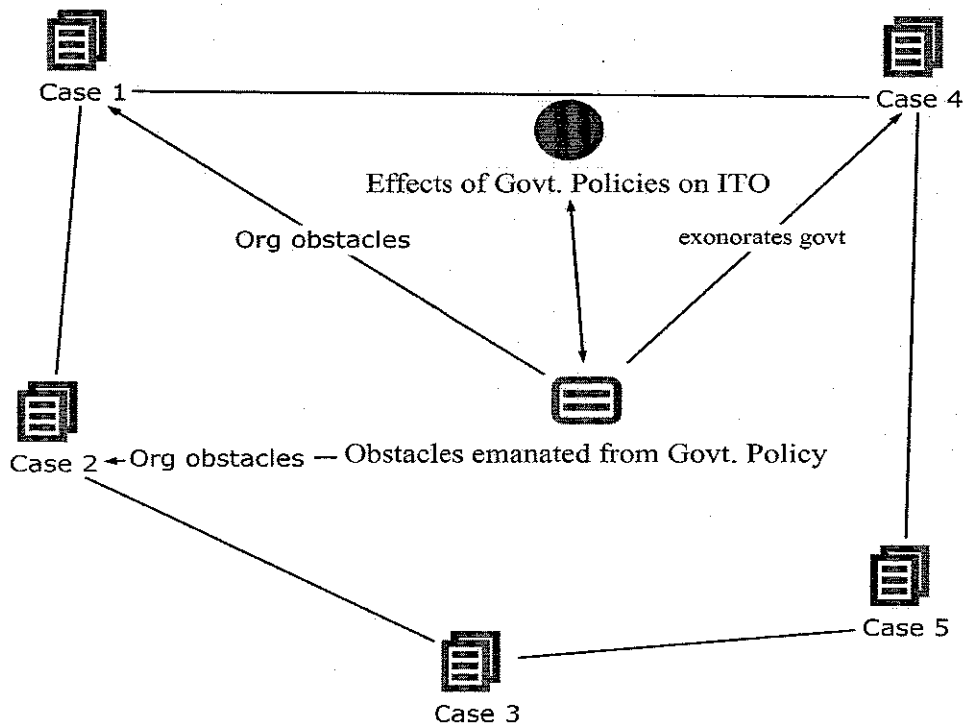


Figure 4.3.6 Obstacles emanated from Government Policy on ITO

4.3.7 Theme 3 Code VII: Government requirements for ITO

The interview sessions revealed that some of the IT vendor organisations in Malaysia are not willing to share any information related to government with third party, this notion

was apparent from responds got from [2-2] who considered question on government's requirement as political. He said, "...*though I considered this question has being somehow political therefore, I may not be able to give accurate answer...*"

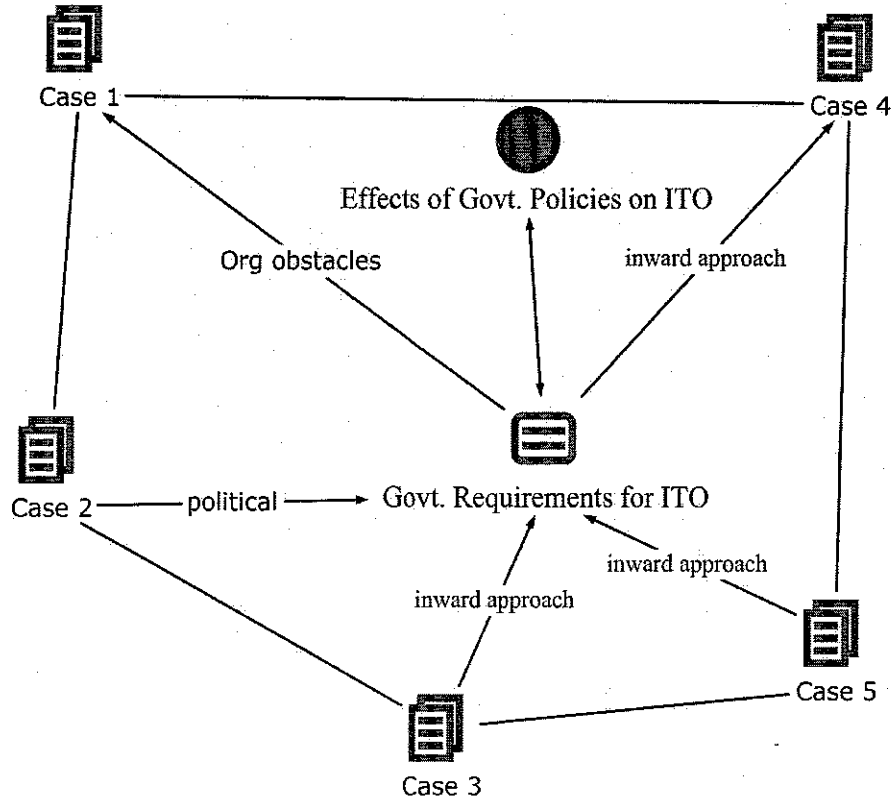


Figure 4.3.7 Government Requirements for ITO

Some organisations gave an inward look at the government requirements for ITO they assumed that basic ITO requirements revolved around; level of security and standard of facility provided by vendor. However, the government requirements as enumerated by MDeC were similar to India IT development provision which this research used to benchmark Malaysia IT provisions. Graphical representation of the interviewees/Cases on government requirements for ITO is shown in Figure 4.3.7 above.

4.4 Theme 4: Need for New ITO Model

4.4.0 Introduction to Theme 4

This theme addressed one of the issues raised in this research's question, whether there is need for developing new ITO model for vendors' organisation. The following questions

were asked: need for customised ITO model, suitable ITO model for Malaysia, why ITO models are facing problems and what kind of ITO model already in place. Most of these questions were generated during the course of the interview. Emergence of such questions were not preplanned, however the first set of interview sessions gave some bearing and shed some light on the pattern and shapes of these questions. Figure 4.4.0 below gives some insight into the opinion expressed by interviewees/Cases on this theme. This figure shows the initial perceptions harbor by these interviewees. Though most principally agree to a new model while Case4 initially disagreed with others Cases at the initial stage. That is reason why Case4 is disconnected from other Cases as represented below.

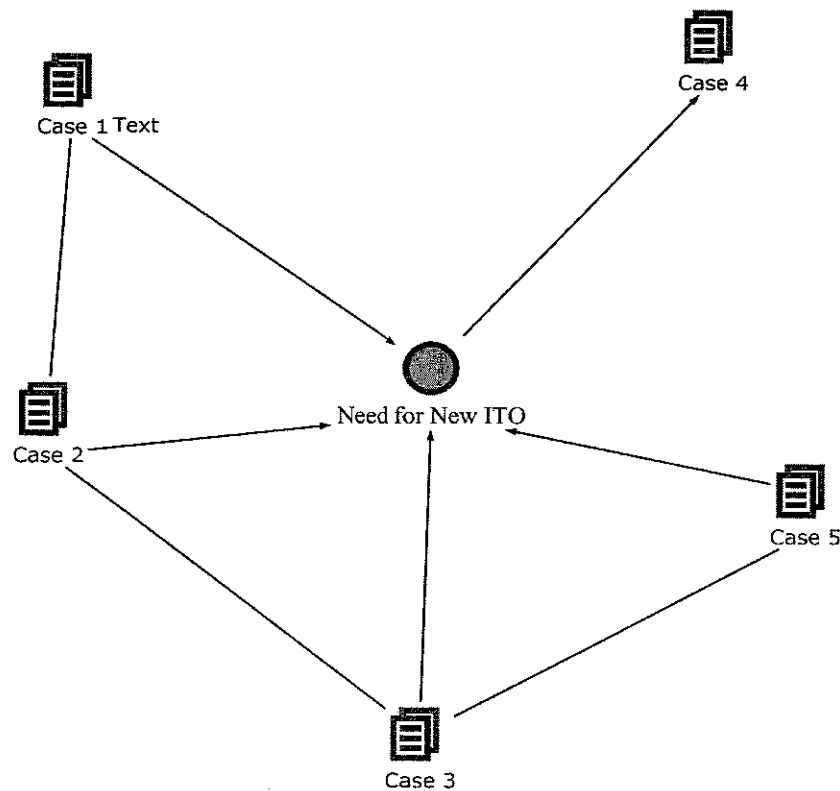


Figure 4.4.0 Need for New ITO Model

4.4.1 Theme 4 Code I: Need for a Customised ITO Model

There were diverse opinions whether there is need for customizing model or not. Some organisations acknowledged the need while some saw no reason for it as long as the existing models are not fully utilized or implemented. Most of the interviewees felt

contended with the model currently used in their organisations. Organisations were used to service level agreement (SLA) model [1-1, 2-1, 2-2] for instance [2-2] said that; *“SLA is so far ok with us, that has been part of our global practices, though it goes down with certain specification depending on the nature of contract”* small IT vendors believe in flexible arrangement with clients in order to keep them, *“it more of flexibility in your business offerings, because these established companies are very rigid, why they are rigid probably they are targeting more value”*. At the same time it was established by [2-2] that detailed definition of contract is not an easy task, even at request for proposal (RFP) level of the contracts. In this sense, the parties have to detail every request (RFProposal, RFQuestion, RFInformation), such a daunting process might not be easily realizable unless the parties try to customize their model.

This means that it is an established phenomenon among big organisations most of them does not give room for any kind of flexible arrangement, *“we target big organisations therefore there is no need for us to customize our model. We have an established standard across the globe. Those big organisations come to us because of our known standard”* said [2-1]. However, some of these big organisations also realize the need to relate with small clients. In this regards [2-2] claimed that, the named outsourcing arrangement with small client as out-tasking, he submitted thus; *“... at small aspect, they don't call it outsourcing, we called it 'out tasking'”*. The big organisations believe is that outsourcing the entire IT infrastructures pass over where the clients focused on their business and IT vendor focused theirs too.

In the light of these two broad opinions, numerous models were proposed by some of these organisations as way out of problems emanating from strict adherence to certain model and irreplicable models that were derived from organisation's flexibility moves. Performance based pricing and result/outcome pricing models were proposed by almost all the organisations. Some of these organisations proposed either of these two models at the initial stage of the interview while others consented to this idea at the later stage of the interview. For instance [3-2] submitted thus:

Our organisation are being longing for this model to be develop, with hope that it will assist the ITO industry in the long run. Besides that, result/outcome pricing model as suggested will force the vendor to focus on the outcome work as it will be determinant for the price

He believed that though this model is not being applied yet in Malaysia, he expressed optimism on this model, elaborated further that:

Yes, I also agree with moving towards performance and result/outcome based pricing model. Though such model is not fully tested yet as pointed out by CEO [he shared your interview session with me]. This step will assist the IT outsourcing industry is to move from a tactical sourcing model to a strategic sourcing model. The latter model should generate more values to the relationship between the vendor and clients, where the vendor will get involve directly in the business strategic issues with the clients.

Therefore, this research suggests a theoretical model that will be based on suggestions from several ITO stakeholders in Malaysia at the end of this research.

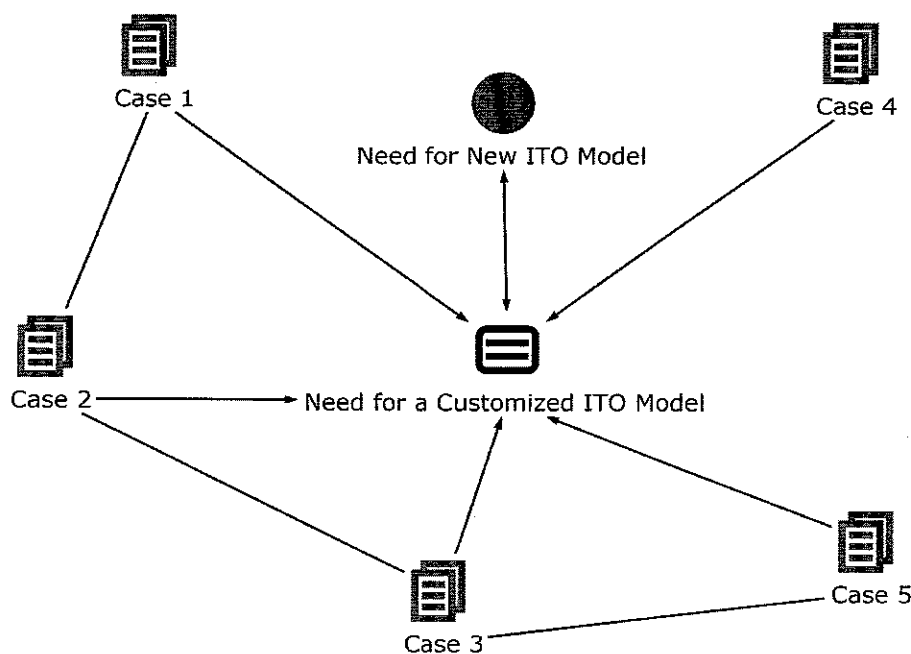


Figure 4.4.1 Need for a Customised ITO Model

4.4.2 Theme 4 Code II: Suitable ITO Model for Malaysia

Based on the above suggestion that performance or outcome based pricing models should be put in place for Malaysia ITO operation; there were calls for a proper governance model which must be put in place by both vendor and client to manage the disparity. This research would consider theoretical the model to be developed and as a kind of governance ITO model for Malaysia environment in particular. Though, there was

sentiment that big ITO vendors might not welcome such development because “*they might be afraid that their standards will be compromised and in actual sense it won't*” [3-2]. This development was taken care of by actively involving certain identified big ITO organisations to give their suggestions in making this theoretical proposition implementable.

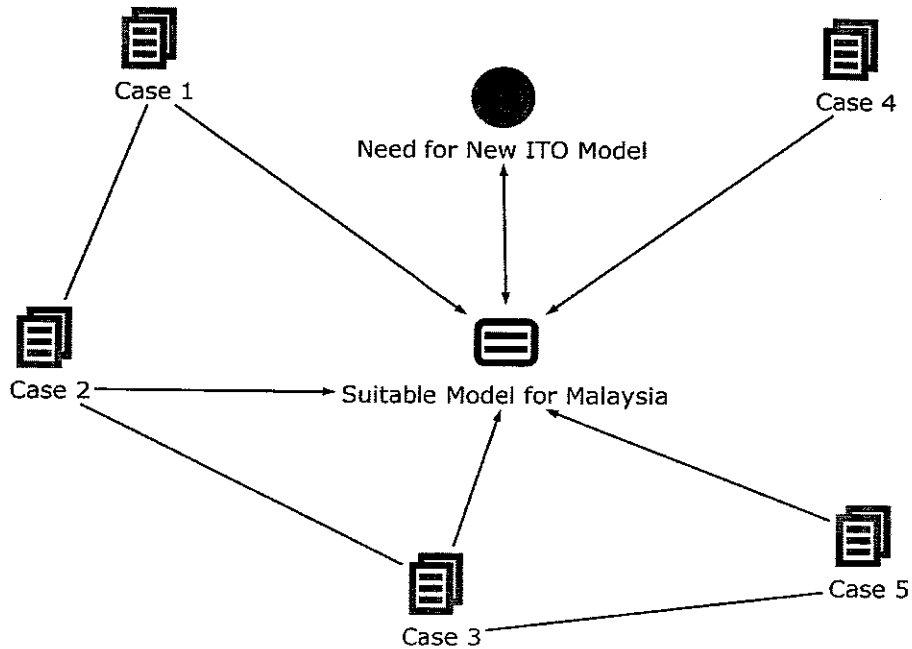


Figure 4.4.2 Suitable ITO Model for Malaysia

4.4.3 Theme 4 Code III: Why ITO Models face Problem

Diverse reasons were said to be responsible for why ITO models were facing problem, [1-1] identified three factors such as: slow in responding to clients' distress; inaccurate diagnose of problems which eventually led to inaccurate solutions and the last one is lack of courtesy, some organisations failed to understand that in the pursuit of organisation's standard, courtesy needs to be embedded in order to be able to implement any model successfully. Another factor identified by [2-1] professional laxity and organisation approach in rectifying such problem. The interviewee said that;

Monitoring is handled by operation managers. In my department SLA is mainly for backup, backup SLA should be monitored by the operation managers and if their SLA are not met there is a weekly update direct to the client and the client will questioning why SLA is not met. So we have to go

by SLA module and depending, if you meet the SLA there is no charges but if you missed the SLA there is charges because there is an impact to the business

This clearly showed that, activeness and pro-activeness of the management contribute immensely to the success of failure of any ITO model deployed within the organisation. Another interviewee [3-1] believed that failures recorded in ITO “...could be due to a disparity in expectation between client and vendor”. Therefore the parties should spelt out all the contractual terms in order to avoid any unwarranted ambiguities. In supporting this believe [3-2] said that “inability of IT vendors to identify these needs [detailed contract explanation] lead to several contract failures”

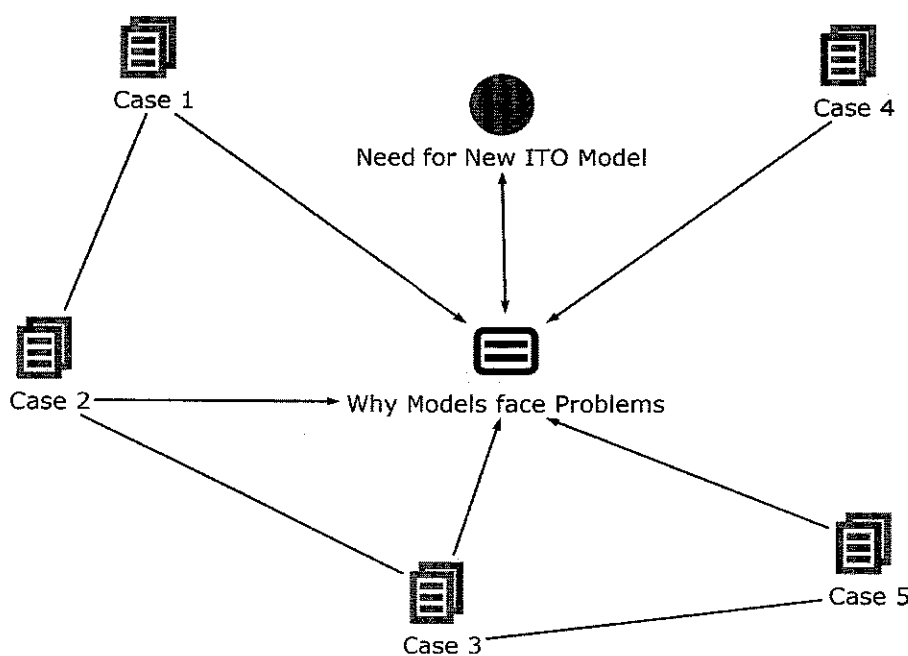


Figure 4.4.3 Why ITO Models Face Problem

4.4.4 Theme 4 Code IV: ITO Model in Place

Organisations identified several ITO models implemented in their respective firm. [1-1] saw ITO model as a process model which refers to organisation operation process in term of setup, problem solving, crisis management and clients' servicing. Service level agreement (SLA) happened to be rampant model among organisations [2-1, 3-2], while some organisations adjust their model based on additional variable cost on innovation and

enhancement meaning that such organisation do not necessarily follow any particular model.

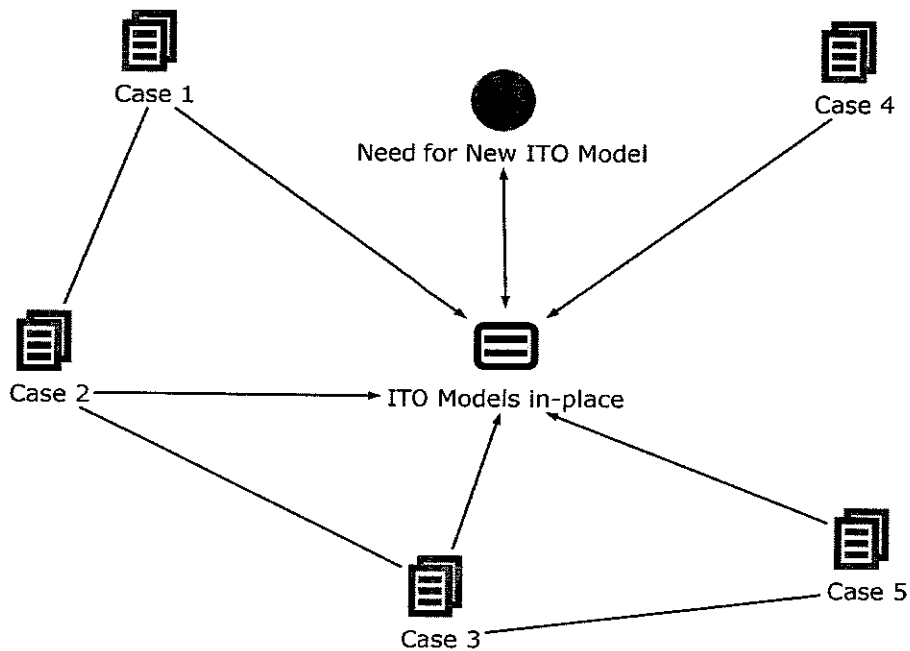


Figure 4.4.4 ITO Model In-Place

4.5 Theme 5 Code 1: High Cost of ITO Services

4.5.0 Introduction to Theme 5

Under this theme issues such as high service cost, big organisations versus SMEs, duration of contract, methods of charging, steps to reduce ITO cost and local service cost were questioned and raised during interview sessions. The set of questions asked and generated in the course of several interview sessions were towards providing identifying the reasons and rationale behind high cost of ITO services and at the same time understand the perception of ITO vendors.

These questions addressed under this theme is to provide possible answer or answers one of the problem identified by this research which is on high cost of ITO service in Malaysia, as a one of the challenges of ITO service. Figure 5.5.0 below shows that all the interviewees/Cases in this research agreed in principle that the cost of ITO

service is relatively high but not too enormous. Though there are diverse opinions regarding this claim, this Theme will be addressing high cost of ITO services in detail.

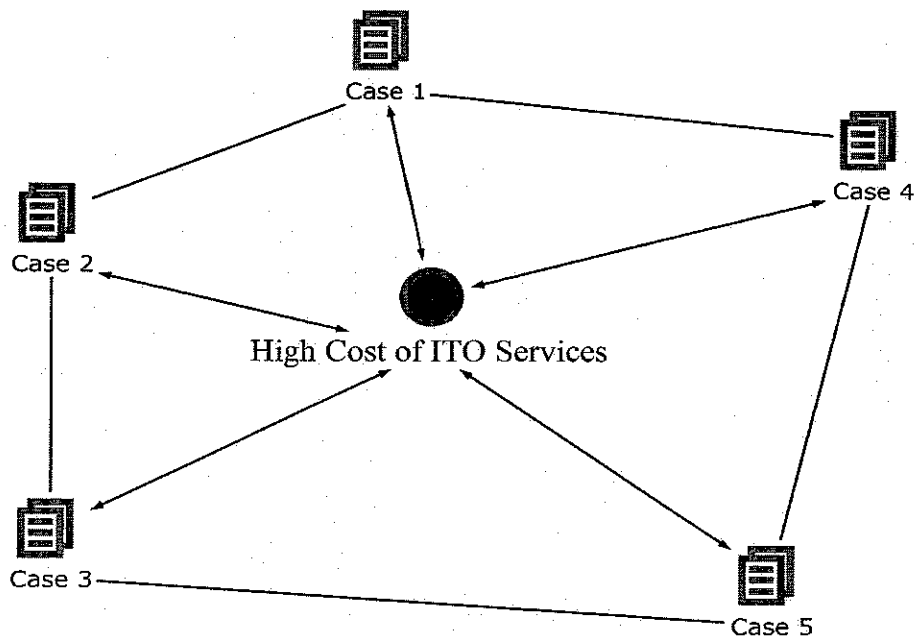


Figure 4.5.0 High Cost of ITO Services

4.5.1 Theme 5 Code I: High Service Cost

Most vendors' organisations interviewed agreed with the fact the cost of ITO is not too enormous, however, they claimed that only small scale enterprises (SMEs) thought that the ITO vendors' charges are too expensive [1-1, 1-2, 2-2, 3-2 and 5-1]. Some attributed this 'misconception' to lack of awareness, misplacement of priority and education on the side of SMEs as major factors that led to outrageous cost concept. [1-1] believed that SMEs do not have the knowledge, which is why they say IT service charges are expensive. Besides that, in setting up SMEs, information technology facilities are always the last agenda, "those who understand the dot of IT will not make this kind of acquisition" because [3-1] outsourcing services business drivers are lower cost, ride on talents and proven processes. This indicates long term and immediate benefits to derive from outsourcing IT functions, however, only futuristic organisations would look beyond money and realized the abundant benefits of outsourcing information technology. This can be done by patronizing small but reliable IT vendors instead of big names that go with big money. Clearer insight could be inferred from [2-1] statement that:

Basically, the company as big as [Case 2], their concern is about big contract, so the smaller companies who cannot afford to pay that much, there is many smaller IT outsourcing companies that can render their services depending on the fees paid how much they can afford. So [Case 2], get more concern with big money they don't really care much for small businesses.

Another possible step to assist local and SMEs is by sourcing their potential clients through a local organisation called Outsourcing Malaysia as suggested by [5-1]. He said that;

...definitely, we can't control the price, however, what we do is to help an association which is called Outsourcing Malaysia, there, [client can] source for local Outsourcing companies ...whereby it can reduce its costs.

This measure creates access to all local IT organisations that provide the service needed by clients, besides this, it would also give room for a healthy competitive environment. Figure 4.5.1 below gives a diagrammatic representation of interviewees/Cases opinions on high service cost of ITO.

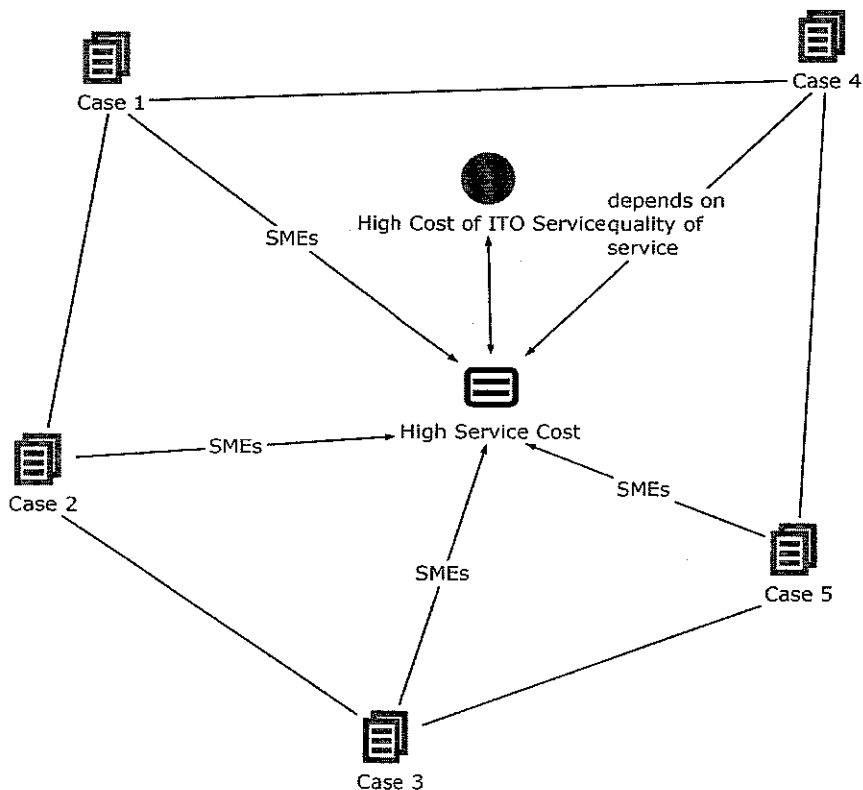


Figure 4.5.1 High Service Cost

4.5.2 Theme 5 Code II: Big versus SMEs

Certain characteristics of big and small non IT organisations were explored in this section based on the interview conducted by this research. Most interviewees believe that it is only SMEs that could complain about the price of ITO services, due to the fact that, majority of SMEs are not aware of IT services tailored for them by several IT vendors. This might be due to poor consultation and/or lack of basic knowledge on importance of information technology services.

Another characteristic pointed out by the interviewees is lack of quality awareness among SMEs compared to big organisations. This factor was identified from the rate at which big ITO vendor organisations were struggling to achieve world standards and global ISO certifications. Some big ITO vendors refer their dealings with small organisations as *out-tasking* instead of outsourcing, because outsourcing according to them has to do with passing over the entire IT infrastructure to an IT vendor, thereby making their clients focused on their core business. To these big IT vendor organisations this arrangement can also be called partnership [2-2]. Figure 4.5.2 below gave graphical representation of interviewees' opinions on how ITO vendors relate with big organisations and small and medium-scale enterprises.

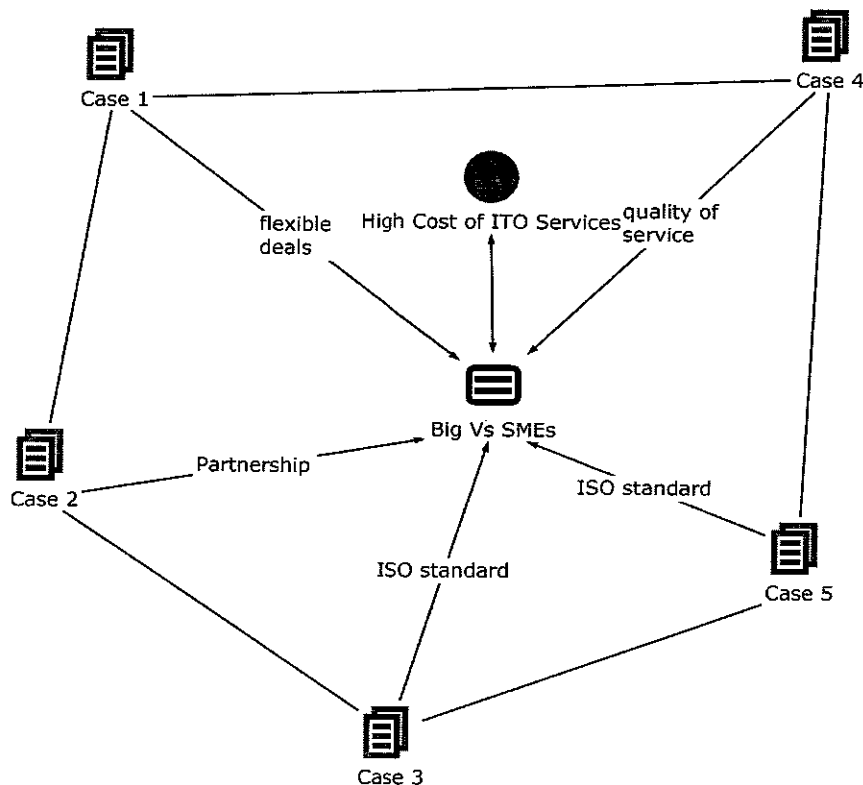


Figure 4.5.2 Big versus SMEs

4.5.3 Theme 5 Code III: Duration of Contracts

Contracts duration varies from one organisation to other, however most ITO vendors agreed upon minimum one year duration for a project [1-1, 1-2, 2-1, 2-2, 3-2, and 5-1], one of the interviewees said that:

...any contract less than a year is not an effective contract. It means you are not ready to assist your clients and your organisation as well. SLA assessment is quarterly-based it will be difficult to measure development if the period is less than a year

Although some of ITO vendor organisations pointed out that, one year is not enough for most outsourcing contracts since they (the ITO vendors) consider outsourcing as part of organisation strategies. Some believe that duration of any IT outsourcing contract should be determined by the complexities entailed in such a contract and that a big scale contract should be at least up to five year while the small scale project should be at least one year [4-2].

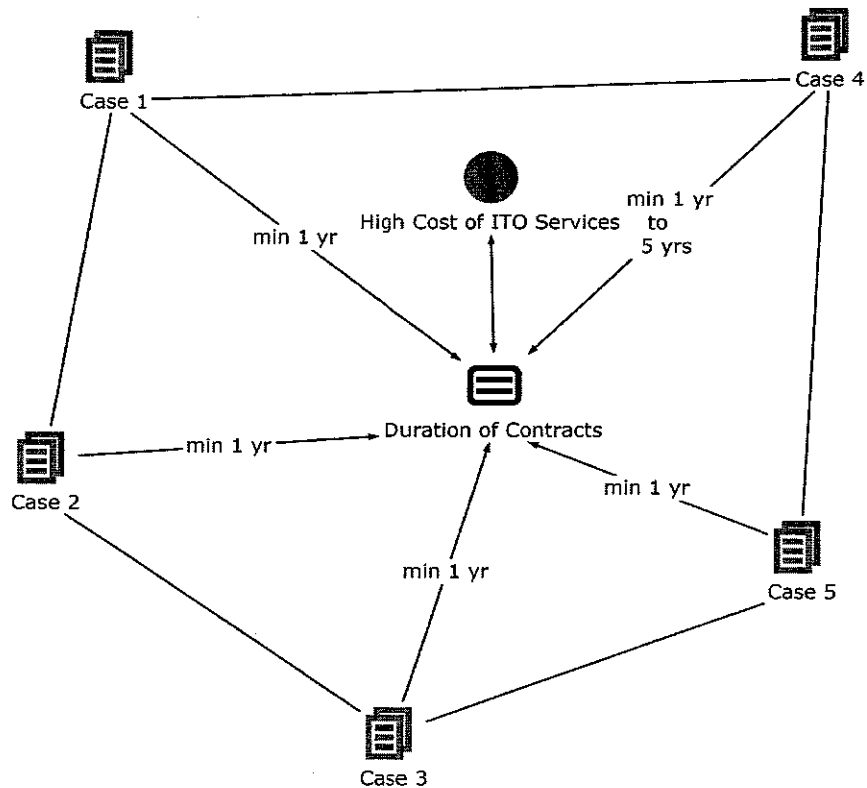


Figure 4.5.3 Duration of Contracts

4.5.4 Theme 5 Code IV: Methods of Charging

Organisation differs in their charging approaches based on type of services rendered. Internet service providers mostly based their service charges on three pivots; space, bandwidth and response time [1-1], with different levels of flexibility. Apart from the standard service cost some organisations purposefully give their clients access to bigger bandwidth size, beside what was initially agreed upon. Firstly to establish client's loyalty to the service or application provider and secondly to create a sense of belonging for the clients, though such clients would be informed of the extra bandwidth usage and appropriately advised to increase to bigger size. Any client that wants higher level of service should be ready to bear higher service cost.

There are standards for example if you pay certain amount you will get this kind of response [within] four hour... but if you want to have less than one hour you should pay extra. These are the variables ...

Another interviewee said that;

We charge base on SLA, we have some identified measure that we agreed upon, though we have our standard to maintain. Duration of contract period is also a factor in charging clients, because we have discount method or some kind of flexibility mode of charging. For data centre, it has to do with space per cubic, plus associated charges.

In the case of application service providers, most of their service charges are based on service level agreement (SLA) has agreed with the clients in the contract. This research noticed that some individual in some organisations do not possess adequate knowledge on ITO processes related to their organisations, for instance a senior manager claimed ignorance of module charging clients by claiming that that was not his area of specialisation, he submitted that *“I am not in the right position to answer that, I am in a very specialized area I wouldn't know what it actually going on in the finance and promotions unit”*.

This development in organisations might not augur well for the proper development of organisation in particular and ITO in general. This is because, organisation's openness on the contracts, is one of the criteria to assess organisation's readiness to partake in the ITO global economic market. In that case Malaysia's aspiration to compete evenly with other global ITO players might be jeopardized if this trend is continued. Figure 4.5.4 represented numerous methods of service charging adopted by ITO vendors, vis-a-vis big and small and medium-scale enterprises.

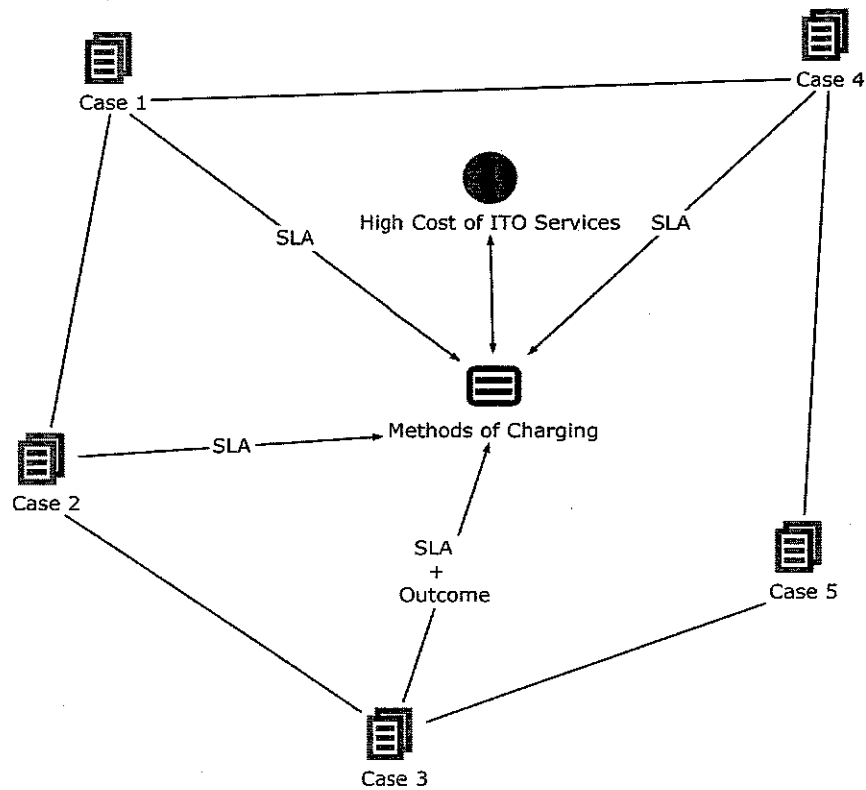


Figure 4.5.4 Methods of Charging

4.5.5 Theme 5 Code V: Steps to Reduce ITO Cost

In the light of Figure 5.4.4 above, this research realized that there should an approach to reduce service cost being charged by ITO vendors. This vision led to the questions that relate to measures and possible steps towards reducing the service cost, which happened to be one of the aims of this research. Figure 5.5.5 gave some organizational view and response to this motion. Some organisations believe that this can be done only by identifying goal of vendors' organisations, whether the IT vendor is after volume or value. [1-1] expressed his opinion thus;

...either you want volume or you want value. If you want value you charge high and you go for premium clients, if you want volume then you can just spread your cost. This means we have to set some infrastructure. It is what we call value versus volume

He also expressed the possibility of having *demarcated services*, which according to him is a combination of both volume and value. Some vendors believed that, the steps to reduce ITO cost had been taken into consideration while mapping out strategies for

their organisations. This concept made them to operate *global model* that allows them to “provide low budget website design and web base application solutions in a very efficient and quality manner, enabling businesses to go online fast and at reduced costs”.

Other vendors expressed their reservation to the move, claiming that such an option will not only affect their standard practice but the reputation of the organisation may also put at stake.

Maybe ITO vendors should establish a kind of flexible costing for small and medium scale enterprises, as I said it is very difficult because it might backfire and no organisation wants to put its name on the line for such kind of a step.

They advised that instead of small IT clients (SMEs) patronizing big vendors they “better do their IT outsourcing with small IT vendors if they see price offer by big IT vendors to be too high” [2-2]. Despite these two dissenting opinions, the two groups also expressed their optimism in creating a leeway for cost reduced services especially for SMEs. One interviewee advised further:

Most ITO vendors should build leverage on cost over a few customers. They will also leverage on the skills already developed to deliver the services. That’s how vendors make their margin and at the same time should offer lower cost to their customers. But if the clients are looking at innovation and re-engineering of their business processes, then there is value for the vendor to charge more. In any case, the additional cost should be cheaper and innovation can be achieved at much quicker time. But please bear in mind that not all outsourcing projects take cost cutting as the main criteria.

Another interviewee realized that in other to build a formidable ITO in Malaysia, SMEs need to be carried along, “if we really want to improve the ITO practices in Malaysia we would have to consider the SMEs along”.

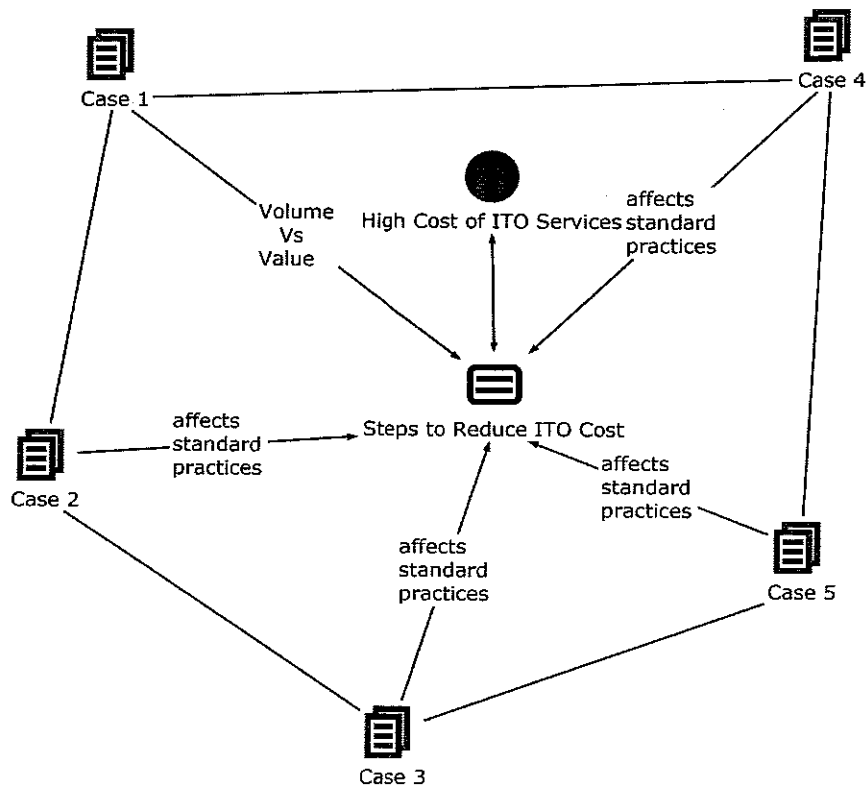


Figure 4.5.5 Steps to Reduce ITO Cost

4.5.6 Theme 5 Code VI: Local Service Cost

In any attempt to reduce ITO service costs this research took into consideration the ranges of local factors that might assist or hinder the actualization of cost reduction agenda. It started from government policy/policies such as budget, to some local and foreign organisations available in Malaysia. Therefore, several factors were indentified from the interviewees as presented in the Figure 5.5.6 below: The first factor that is contributing to the scheme of vendors' charges is culture [1-1], for instance the global culture in outsourcing practices had made it possible for several multinational organisations to practice in Malaysia without any hitch, most of these foreign organisations were not actually for Malaysian markets therefore, the practices have been towards their global outreach.

In contrast, most local ITO vendors used local factors as basis of their operations this made them to benchmark their services with local economic reality not with global practices compared to multinational ITO vendors present in Malaysia. And this had helped them in creating a niche market for not only Malaysian but the region as well.

A lot of outsourcing company talks about call centers for example DELL they outsource call center, we don't do that. DELL have foreign company, they open up an Internet Data Center here offering services, but our value is always there because we are local to locals, so we understand culture so we go on that strength.

Some of these local ITO vendors claimed that they deliver services at reasonably low cost, [1-2] believe that his organisation “*deliver high quality web-based solutions and IT enabled services at low and reasonable costs*” this believe may be come up out of certain comparative analysis done with some global ITO vendors. It was also easy for local ITO vendors to input some personal touch for their clients, this may also create a competitive edge for local ITO vendors.

You know client like to have personal touch, that s the key word. for example Case1 we do offer personal because our clients are all long time clients they can call us anytime, so the main reason why they want to be with you is because of personalized services offered rather than customized

Language also gave local vendors another edge over foreign vendors. These advantages over foreign vendors should make ITO services become cheaper as pointed out by [3-1] “*IT outsourcing services should be cheaper considering some local factors that give local ITO some competitive edge, such as language*”.

However, going by reality on ground it shows that patronage from local organisations is very minimal probably because of awareness and lack of standardized price. In the light of this [5-1] suggested that “*local companies would have standardized pricing on Malaysia and probably would have more competitive pricing than the multinational companies*”.

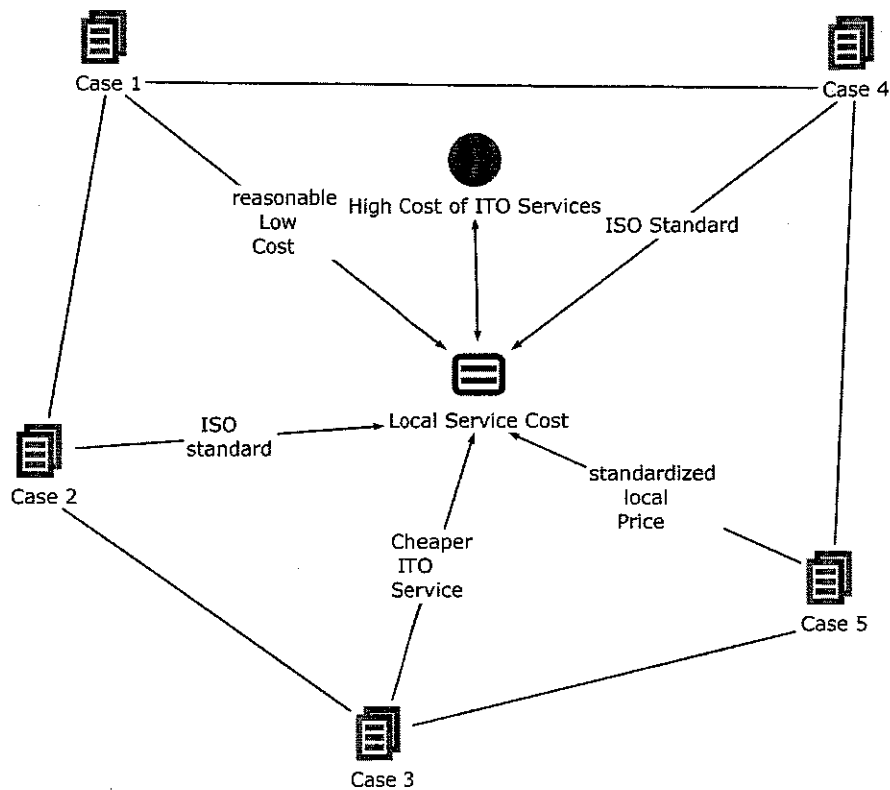


Figure 4.5.6 Local Service Cost

4.6.0 Theme 6 Code 1: Mutual Trust in ITO

4.6.0 Introduction to Theme 6

In this theme, the questions were categorized into four namely; how IT vendor organisations establish trust with their clients, how they build trust, how they manage trust between parties and lastly how they ascertain whether trust constitutes problem or not. This is also one of the questions which this research tried to find answer and solution to. The interviewees on this particular theme were limited to ITO vendors' organisations only, because MSC only represents government interest in developing information technology industry, it does not directly involve in outsourcing contracts. More so, the interviews on trust were based on contractual experience of the IT vendors, in relating with their clients. Figure 4.6.0 below indicates that all the interviewees/Cases (data sample) in this research agreed that mutual trust is a fundamental problem in ITO practices

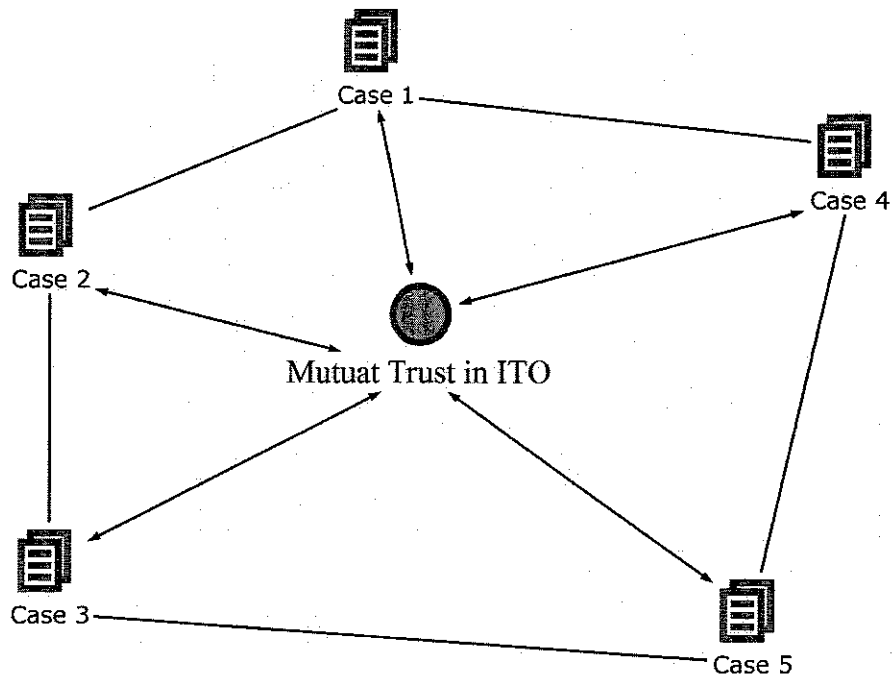


Figure 4.6.0 Mutual Trust in ITO

4.6.1 Theme 6 Code I: Establishing Trust

ITO vendors' organisations agreed that it is not an easy task to convince a client to remain loyal but for an organisation to exit, it needs to have some trusted clients that would always patronize it. This is done by establishing certain level of trust with clients by deploying various process and means.

We have established a process it always goes back to the three element infrastructure, process and people. It is not easy it has to be over time and experience. Just like when the foreigner comes here (Oracle, Microsoft, etc) what do they tell you 'this is used by...' so it gives you confidence

Trust is established with old clients, based on curtained identified process or through certain level of services or global standard attained by organsiation. [3-1] pointed to his organisation achievement of Capability Maturity Model Integration (CMMI) Level 5 rating, and being the first IT Company in South East Asia to be certified ISO 20000 for service management as major factors in establishing and building trust. [1-2] saw his organisation's service as a means of wining customers' trust and confidence, he said further:

Our redundant systems, Internet connections, network infrastructure and most importantly experienced systems specialist, continue to win

customers' trust and confidence

Some organisations simply believe that since none of our dealings leads to legal battle or terminated due to poor performance, that is enough for them as a way of establishing trust with their clients.

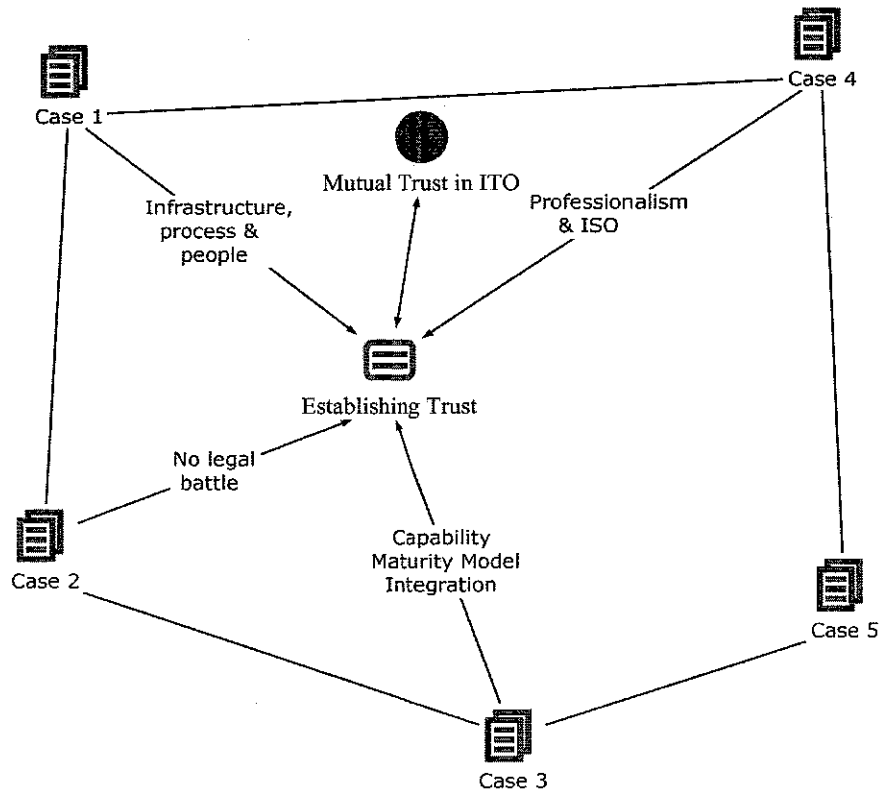


Figure 4.6.1 Establishing Trust

4.6.2 Theme 6 Code II: Building Trust

Building trust with new clients could be pretty difficult has mentioned by [3-2] “...especially if it is a first time dealing with such client”, and ability to build such a trust can be attributed to; organisation’s reputation, years in operation, caliber of clients etc. [1-1] believed that organisations need to build their own mark of success that means their reputation in other to establish trust with new clients. Reputation can be built either through mentioning caliber of clients that patronize the vendor’s organisation. This concept is believed by several interviewees [1-1] for instance said that:

Trust is an issue you need to build your mark, you have good clients. This [is] why when you want to put money, usually you pick your bank either it is Bank X or Y you have to know which one you trust.

While some saw no reason for using their clients as bait for attracting others, they argued that IT vendors have to develop certain level of confidence in their capabilities

We don't usually use the names of our clients to support of claims, in most cases our clients advocate for us, because they want other to know how serious they are in term of IT functional aspect of their organisation

An interviewee went further to identify factors that can lead to dismantling the trust been built by clients in their IT vendors, he summed up those factors thus:

Several factors could lead to mistrust, economic situation, change in personnel. Global economic situation might increase fear in people and that might lead to mistrust or a kind of doubt between client and vendor. Another reason is when there is acquisition or buy over of organisation existing clients tend to develop kind of distrust and mistrust because it took several years to build a solid trust relationship between two parties.

In the light of the above [3-2]'s statement and other, there is need for understanding the intensity of problems that lack of trust constitutes in outsourcing business relationship and how to manage trust between parties, this assertion led this research to the series of questions raised during the interview sessions on these two issues. The former set of questions were titled 'Problem Constituted by Mutual Trust in ITO' while the later questions were collectively titled 'Managing Mutual Trust' discussed in Figure 4.6.3 and Figure 4.6.4 respectively.

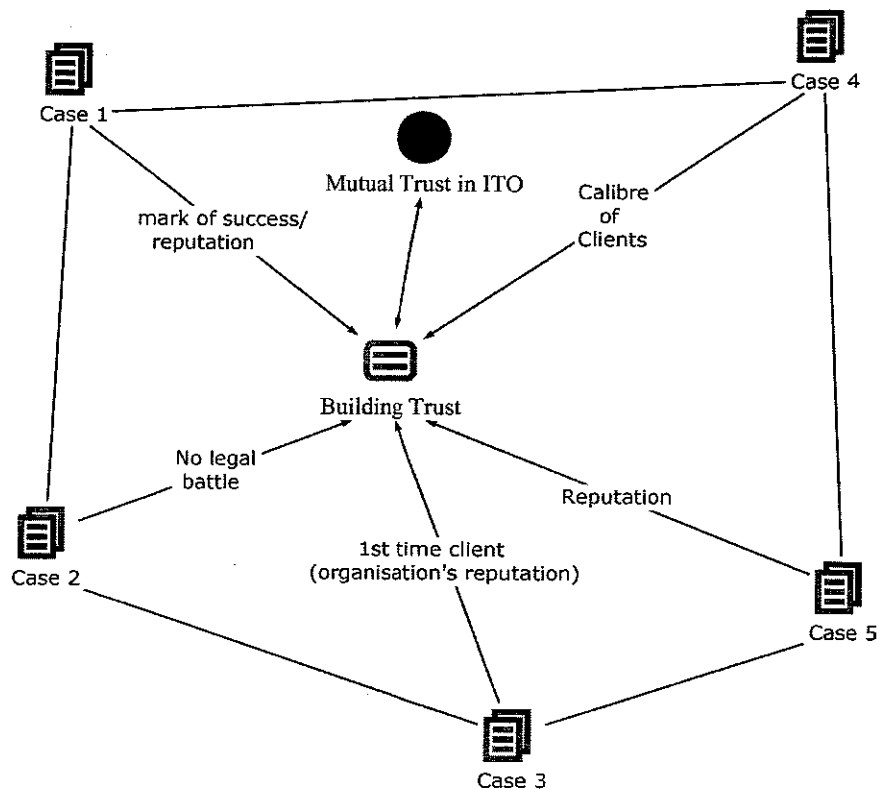


Figure 4.6.2 Building Trust

4.6.3 Theme 6 Code III: Problem Constituted by Mutual Trust in ITO

All the interviewees unanimously agreed that mutual trust could be a fatal problem in managing IT client/vendor relationship, [2-1] said that; *“there is always a problem with trust, that’s why we always try to have evidence, proving that you have done your work”*. [2-2] admitted that getting mutual trust is a big headache for any organisation. Trust is always an issue firstly, because some believe it could be born-out of problem emanating from control. For instance if there is no adequate provision for data and information control in the contract, client could be afraid of releasing certain vital information to his IT vendor which might eventually lead to non-performance of the IT vendor.

Second identified problem that led to lack of mutual trust is change in personnel because new people may not honour old commitment and goodwill enjoyed by clients from the vendor. This problem is imminent where another company buys-off the IT vendor or the IT vendor becomes part of a conglomerate, or dissolved to form another partnership.

Organisations see mutual trust problem as normal in any business dealings, however, the important thing is how to manage misunderstanding in business, [3-2] said.

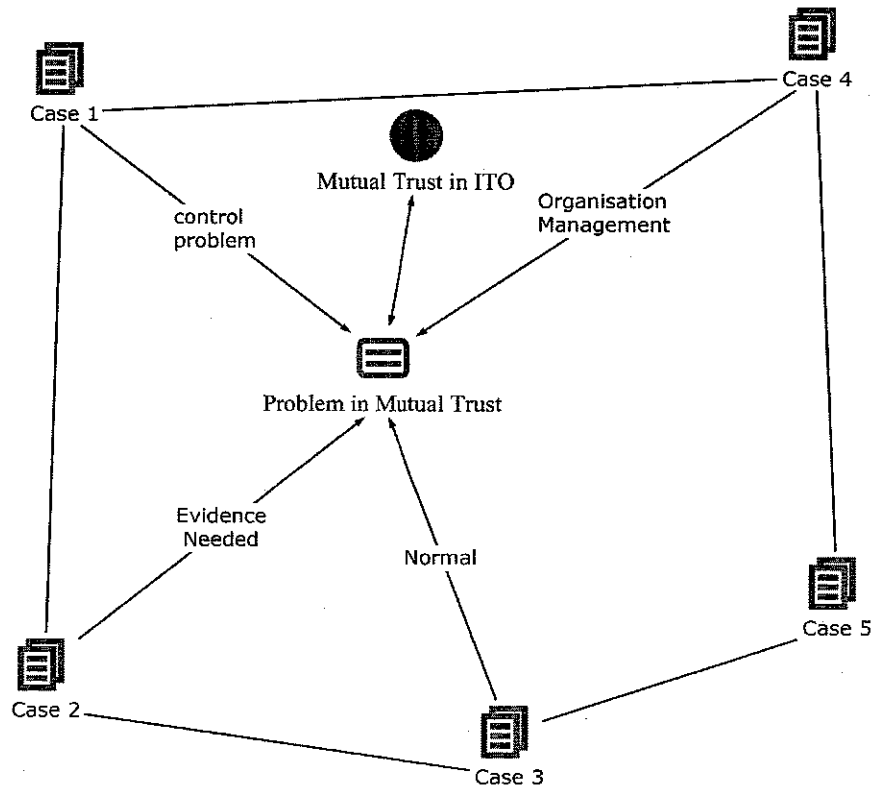


Figure 4.6.3 Problem Constituted by Mutual Trust in ITO

4.6.4 Theme 6 Code IV: Managing Mutual Trust

A properly managed business relationship develops a lasting mutual trust between the parties. That was reason why most organisations allow their top management hierarchy to handle client/vendor relationships. [2-1] confessed that despite being a senior IT staff with the organisation, he did not know how client/vendor relationship matters were handled by top management this might be an attempt to avoid any kind of mistrust that might arouse from misinformation.

Major step towards managing mutual trust is through parties' adherence to all sorts of agreements agreed upon in their contracts, such as commitment to non-disclosure agreement where parties would not disclose whatever information gets from the customers' side. [2-2] considered this as one of the things among others that contracting parties should not disclose.

Apart from several non disclosure clauses in the contract that the parties should be abiding by, maximum level of clarity should also be adopted at the onset of the contract to avoid any backlash later when the contract matured. [3-1] pointed out that; *“lack of clarity in scope and differences in expectation, usually at the initial stage of the engagement”*. Figure 4.6.4 below shows differs perspectives in which Case1,2,3 and 4 staged in managing ‘Mutual Trust’, while Case5 did not give any response to questions under managing trust.

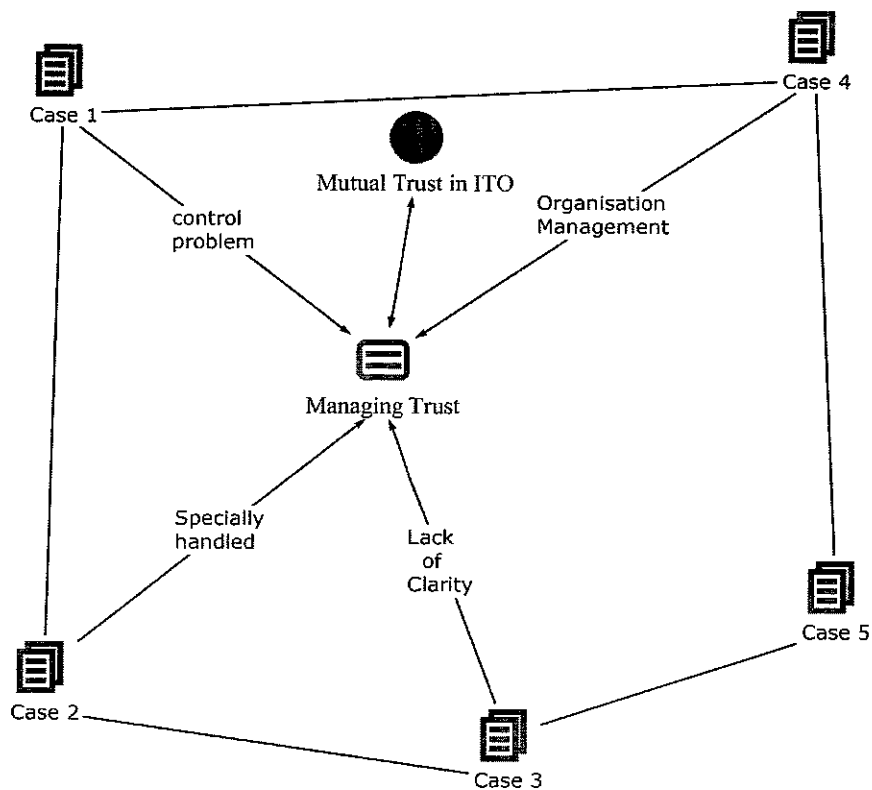


Figure 4.6.4 Managing Mutual Trust

4.7 Summary

This chapter looked into data collection and analysis, MAXQDA was used as analysis tool, this tool was used to create themes for the collected data. The data was divided into six main themes namely; challenges facing ITO in Malaysia, effect of government policy on ITO, need for new ITO model, high cost of ITO services, mutual trust in ITO and vendor justification. At the beginning of each theme discussion, an introduction is made to highlight what constitute each theme. Four of the themes were identified at the beginning of this research while two themes were part of emerging issues that came up in

the cause of interview and what the research realized that they were important for the credibility and reliability of the research's data. This is based on the validation process with some identified ITO/SSO specialists. One of those who validate this research data is from academic while the second is from ITO industry.

Lastly, this research attempted to make sure that despite been an interpretive research, results are not completely bound to a time, place and situation, though the interpretation is (Lee & Lings, 2008).

CHAPTER FIVE

DISCUSSION OF CASES AND RESEARCH FINDINGS

5.0 Introduction

Previous chapter has shown the analysis based on the interview sessions, and the figures generated using MAXQDA. This chapter discussed several issues raised on case-by-case-basis and later comparison was made among the cases in thematic form using comparative analysis approach, thereby, a particular Case is used as anchor-case in comparing other Cases. The selection of an anchor-case will be based on level of information provided by particular Case on specific theme and sub-theme.

5.1 Theme 1 ITO Vendor Justification

Initially seven criteria were identified but later adjusted to five which were deployed to address this theme in chapter five, however further categorization reviewed these questions to two and they are:

- 1- Demography of personnel
- 2- Criteria for selecting IT vendor (MSC status, ITO vendor strategy and goal)

5.1.1 Demography of Personnel

As mentioned earlier under the unit of analysis and selection of research site, the specific participants were selected based on their availability at the time of data collection. This approach is consistent with the concept of open sampling, in which the selection of specific interviewees or observational sites within a target group can be indiscriminate since the purpose is to collect as much data as possible to guide the early phases of theory development (Strauss & Corbin, 1998). The individuals who were relevant for the researcher in this study ranged from CEO of an IT outsourcing vendor/supplier to senior officers in IT or business unit of an ITO vendor/supplier organisation and Chief Information Officers (CIOs) of the selected companies. The reason for choosing this group was that they had sizeable experience in IT outsourcing from organisation

perspective and at the same time they were exposed to information technology outsourcing trend globally and in Malaysia specifically.

Fortunately, this research was able to achieved its target demographically by its ability to get the following sets of individual interviewed in the sample organisations; Case1 Operation Head Data Centre and Chief Information Officer were interviewed, while Head of Technical Support and Head of IT Business were interviewed in Case2. Case3 proved to be the biggest achievement as Chief Executive Officer and Chief Information Officer were tracked down for interview sessions. In Case4, Chief Information Officer and Senior Staff IT Operation were interviewed, while Senior Executive SSO Unit and Head SSO Unit were interviewed at Case5. These top officers were among others staff that were interviewed at each IT vendor organisation.

5.1.2 Criteria for Selecting IT Vendor

Under this heading, issues such as; MSC-Status, years of establishment and operations, types of operations and functions and capability to handle projects were used in examining and selecting samples that were eventually used for this research. These criteria were used across all the IT vendors selected.

5.1.2.1 MSC-Status

Base on the intent letter sent to several IT vendor organisations at the beginning of the field work for this research, part of conditions stated to qualify an IT organisation for this research is the MSC-Status of such an organisation. Therefore, all the ITO vendors used as sample for this research were MSC-Status compliant. As a matter of fact, the status of these ITO vendors was also verified with MDeC. Coincidentally MDeC is also one of the samples used for in this research due to unwillingness of interviewees to respond to question that border on government policy on IT outsourcing.

5.1.2.2 Years of Establishment and Operations

This research considered the number of years of experience of selected IT vendors not only in the IT industry but also in IT outsourcing practices. This is to ascertain the involvement of the selected IT organisations in the outsourcing trend and developments

in Malaysia. The newest among the samples for this research is Case4 which is 17years old IT Company.

17years old firm, headquarter in Malaysia, but basically serves customers in the US and Canada, Outsourcing this operation here is offshore delivery centre, we deploy standard global delivery model that most large [big] companies deployed customers are in one country but delivery is from offshore, using telecommunication network offshore

The next to this company is Case1, which was established in 1994, it is a local IT organisation that initially focuses on internet data center (IDC) and portal management, “Case1 was formed in 1994”. This makes Case4 and Case1 to be considered relatively new by this research, because they have less than 20years of existence.

Besides the two IT vendors mentioned above, there is Case2 which is a global IT outsourcing organisation with local presence in Malaysia under the name Case2a (not the real name). The organisation’s record shows that it started its operations in Malaysia in 1971. This organization has been active for 41 years and basically it focused on global outsourcing.

Recently, the conglomerate body which Case3 is a member organisation celebrate its twenty-five (25) years golden jubilee in 2008. Six years later Case3 was established in 1989 to specialize in Data Centre Management Services and Business Continuity Solutions. According to Case3, *IT outsourcing services is not new to the [organisation]. As it started business in 1989, it provides software development services to the ICT industry in Malaysia.*

5.1.2.3 Types of Operations and Functions

MDeC outlined services to be rendered by an IT vendor organisation in order to qualify for MSC-Status. Apart from MDeC specifications, this research also looked into specific IT functions that IT clients would need to outsource to an IT vendor. Therefore, the research identified portal management and development, provision of internet data center, development of multimedia content, call center, computer networking and management, database management, software and application development, and project management as the common IT services rendered by the selected IT-vendors.

5.1.2.4 Capability to Handle Projects

Before any organisation could be considered as sample for IT outsourcing research, such an organisation should have proven success records in handling IT project (Mol, 2007). All the selected samples for this research had shown at least not less than five (5) successfully implemented projects with their contract cost ranging from RM100000 to RM5 Million. However, due to non disclosure agreement, this research would not be able to disclose list of projects executed by these IT vendors. However an example of such contracts is a USD1.6 million Motorola Global Outsourcing deal currently under one of the IT vendors used in this research, since 2003. The said organisation had signed a 10 year global information technology infrastructure outsourcing agreement with Motorola. It also has to manage helpdesk and data centre operations for Motorola in more than 13 Asia pacific countries.

5.2 Theme 2 Challenges facing ITO in Malaysia

There are four issues that were generated at the height of interview sessions on this theme but later recaptured under three codes:

- I. ITO challenges in Malaysia
- II. Provisions for MSC status organisations
- III. Malaysian ITO at global level

5.2.1 ITO Challenges in Malaysia

In Table 5.2.1 below Case4 represents the anchor-case due to in-depth information provided, and beside this Case4 despite being an IT vendor it also functions as consulting firm that represents clients in IT outsourcing contracts. First problem identified by Case4 is that most IT vendor organisations in Malaysia are small, which it referred to as “the biggest problem” facing ITO in Malaysia. This Case1 realized that there were very small companies on the supply side and that they are not that great companies. Case3 also supported Case4 in identifying lack of many big IT vendors as a problem in Malaysia ITO. Case3 said that “*most vendors are small and may not have proven processes and governance models to manage the outsourcing engagements.*” Other Cases did not consider lack of big IT vendor as problem because the small IT vendors among them can

only focus on challenges facing their growing firms while the big one could at the same time capitalize on less number of big ITO vendors as an advantage to them not a challenge to their operations.

Table 5.2.1 ITO Challenges in Malaysia

Case	Summary of Views
Case1	Control freak, talent pool, graduate preference, communication skills, level of education,
Case2	financial remunerations, talents and man power, expertise, bureaucracy
Case3	lack of experience, low rate of adoption, small vendors, SMEs problem
Case4	small companies, Discipline problem, talent pool, lack of knowledge, competent managers, training period, access to capital
Case5	human resources, talent pool, foreign workers, Cost as a challenge, Employability, Brain drain

Case4 also identified lack of discipline in the Malaysia ITO industry, according to Case4 Malaysia *“ITO is not discipline oriented industry yet a lot needs to be done in term of structure, in terms of program governance, they don't follow any of the best practices”*. It concluded that ITO is not great yet in Malaysia. Other Cases did not make any comment regarding indiscipline as one of the challenges facing ITO.

Talent pool happened to be a common problem identified by all the Cases, except Case3, this might be because it is a big firm in ITO; therefore it can source for its staff within the Asean region and leverage on its presence in other countries to garner working force. Case4 concluded thus: one is to have the right people and second is to groom them continuously because it takes 2-3yrs to develop individual to achieve expertise. From this submission the training period identified as ITO problem by Case4 could also be related to lack of talent pool for ITO industry. All these factors were in cognizance with Abraham et al. (2006)'s claims that: there is drop in the management information systems and computer science courses enrollment.

Lack of education is another problem pointed out by Case4. Case1 directly acknowledged that level of education had been a problem battling with ITO industry. Case4 did not only stop at entry level of the IT industry it claimed that interest in learning had been dwindling even up to managerial level, lamented thus:

learning in the industry is very little, at the CEO level nobody is investing enough time in what the industry is all about what should, [how] they

should be driving the company, they are not interested they are busy saying we are unique caller center. Call centers are all the same there is nothing unique about the call center, and it is small and low stuff. So is data entry transaction processing, so is data maintenance, they are all sort of highly commoditise so is a price work never a capability work, all of these put together creates a very unattractive industry so far.

This submission actually addressed the salient reasons why ITO is plagued with problems. These problems can indirectly related to employability (Case5), financial remunerations (Case2), low rate of adoption (Case3) and graduate preference (Case1). This is because if at CEO level, no creativity and capacity building is encouraged, there would not be opportunity to create new markets, that can attract new graduates, and number of clients adopting IT outsourcing option will continue to drop. This is in agreement with Beulen and Ribbers (2002) that IT suppliers in Asia are relatively inexperienced with the management.

Access to capital was uniquely identified by Case4 as one of ITO challenges in Malaysia, the lending system in Malaysia had prevented small IT vendors to grow bigger because assets in IT industry are not necessarily physical, such as information and data available on vendors' servers.

for small SMEs to be able to grow and serve the demand of these large companies is very limited, not because of experience but because of access to capital, they have no access to capital, bank institutions don't lend, Malaysia lending protocol has always being the standard British collateral base, for instance for an IT vendor... collateral is vague (Case4)

Apart from all the above mentioned ITO challenges, Case1 related challenges facing ITO in Malaysia to information control. It is the only one among other cases that identified control of information as a major challenge facing ITO, this might show that some of its clients were paranoid about IT outsourcing unlike others who did not see information control as a problem. It also pointed to Communication skills among graduates as the grave problem encountering not only the IT industry but also the entire nation. For that reason, other ITO vendors did not see communication skills as a peculiar problem in IT outsourcing industry.

5.2.2 Provisions for MSC Status Organisation

As mentioned earlier, analyzing provisions and policies guiding ITO was done by benchmarking India ITO. There were several reasons for this, one is because India ITO had achieved remarkable success as pointed out by several IT outsourcing experts (Cook, 2007; Han, Lee & Seo, 2008; Lacity, Willcocks & Rottman, 2008) and it had also become an international reference despite been a third world country as mentioned by Goolsby (2007). At the same time several research and studies has been carried out on India IT industry and its policy. For instance Mehta et al (2006) identified managerial challenges faced by business process outsourcing firms in India. They exploited the strength, weakness, opportunity and threats (SWOT) of IT outsourcing vendors in India. Cronin and Motluk, (2007) agreed that favorable government policies have gone a long way in making India a BPO/IT hub. All these factors positioned India IT industry as a standard benchmark for Malaysia ITO drive.

In the light of all the above arguments, Case5 will be the sole information provider following the unwillingness of the other Cases to provide any information related to government policies and provisions on IT to this research. Therefore, Case5 is used for this comparison.

The India reforms have reduced licensing requirements and made foreign technology accessible. The reforms have also removed restrictions on investment and made the process of investment easier. This has tremendously helped the IT/BPO industries in India. These reforms were towards wooing more foreign investors either the direct investors or non residents to participate actively in building India IT industry. These measures are similar to the requirements set by Malaysia for organisations to become a MSC-status, these measures include: ensuring freedom of ownership, providing competitive financial incentives that include waiving payment of corporate tax or an investment tax allowance for up to ten years. Also removing duties on the import of multimedia equipments is seen by this research as means adopted by Malaysia to make foreign technology accessible.

Besides all these similarities, Malaysia MSC also allows freedom of sourcing capital globally for MSC infrastructure and freedom of borrowing funds for MSC status organisations. MSC also guarantee globally competitive telecoms tariffs for all these

organisations. In terms of process, one-stop service center at MSC made all the processes involved in fulfilling MSC status requirements efficient and eliminate bureaucracy that usually caused delay. This is because all these processes can be done under the roof of MSC to the extent that employees' visa process which is an immigration unit responsibility can also be accomplished within the premises of MSC contrary to long process that are melt out on non MSC status organisations. MSC claimed that *"If company needs a specific skill or a language skill that is not available in Malaysia, the process for approving employment pass is about five (5) days from start to finish"* this is possible due to processing aid got from MSC. Table 5.2.2 below represents some incentives provided by Malaysia (Case5) and India.

Table 5.2.2 Provisions for MSC Status Organisation

Case	Summary of Views
Case5	Tax free 10yrs, No local requirement, capital movement, foreign knowledge workers, easy employment visa process, internet censorship, financial incentives, intellectual property, telecomm tariff, One-stop service
India	reduced licensing requirements, promoting FDI and investments from NRIs (Non-Resident Indians),

5.2.3 Malaysian ITO at Global Level

Capability problem, limited presence of multinational ITO organisations and lack of awareness on ITO were identified as major stumbling blocks for Malaysia global positioning in ITO industry by Case4 and Case2. These claims were supported by Beulen and Ribbers, (2002) that:

Most IT suppliers in Asia are relatively inexperienced with the management of IT outsourcing relationships. But not only the IT suppliers are inexperienced, also the outsourcing companies do not have a track record in the management of IT-outsourcing relationships.

On a positive note, several factors were identified as aiding Malaysia's projection at global ITO, Case5 cited increase number of MSC status organisations and presence of 450 global companies as evident for Malaysia relevant at global level of ITO. Case4 and Case1 identified political stability as a contributing factor that helping Malaysia staging at global pedestal of ITO. Case1 claimed that *"Malaysia is politically stable, no war,*

economic stability and competitive price and no natural disaster” were the major factors that make Malaysia a favorable destination for IT outsourcing. These provisions and amenities had projected Malaysia image as one of the favorite destinations for IT outsourcing, as Willcocks, and Lacity (2006) identified some of these amenities and provisions as major factors in determining outsourcing destination in their book titled *Global Sourcing of Business and IT Services*.

Table 5.2.3 Malaysian ITO at Global Level

Case	Summary of Views
Case1	Popular in IDC, political stability.
Case2	ITO Awareness.
Case4	capability problem, multinational industry, investment's trend, incentive, One-stop solution, 3% of global ITO for Malaysia, quality of life, local language capability, political stability.
Case5	Global ambition, 450 global companies, 2100 MSC status companies, global pedestal.

It has been a constant effort not only on the side of IT vendors to position Malaysia IT industries in the global arena but government has taken giant stride on how to take MSC Malaysia global, one of meetings at 2007 IAP annual meeting deliberated on how to develop MSC-status local companies into global icons (Ghazali, 2007). The summary of the interviewees’ responses is captioned in Table 5.2.3 above.

5.3 Theme 3: Government Policy on ITO

Under the theme on government on ITO, seven questions emerged during the interview sessions which identified organisations, such as; ITO incentives from government, types of government policy, need for government to handoff ITO, need for government stake in ITO, effectiveness of government policy, obstacles emanated from government policy and government requirement for ITO. These questions were broadly categorized into three:

- 1- Effects of government policies on ITO (Types of policy, incentives, requirements)
- 2- Effectiveness of government policy (Impact on economy, budget)
- 3- Reactions of ITO Vendors to the Policies (handoff, government stakes)

5.3.1 Effect of Government Policies on ITO

As mentioned earlier, India success story in information technology outsourcing is also used to benchmark Malaysia in-road to IT outsourcing. Literature has shown that India and China were the leading giants in the global outsourcing development. Therefore, this research discussion on government policies uses India as yardstick for its analysis. It was also mentioned earlier that due to lack of adequate response from the interviewees on government policy matters, Case5 was the only organisation that gave detailed and satisfying responses, other interviewees were reluctant to divulge any information related to government policy. Malaysia government had expressed her long term ambition that; *"we want to grow a few local Malaysian companies into this class of companies to compete head on with all these large organisations"*

Table 5.3.1 Effects of Government Policies on ITO

Case	Views Summary
Case1	Standard of facility
Case2	Staffing versus MSC, refer to MDeC
Case3	Ease of process.
Case4	Quality of life, local language capability, political stability, economic stability,
Case5	Tax free, ownership, capital movement, foreign workers, internet censorship, telecomm tower, specialised training, financial incentives, Sponsor 25%, unrestricted employment, intellectual property protection, One-Stop MSC, Budget, global pedestal, ISO standard, Bumiputra practices, breeding local for global, 15% employees, 100 positions, 70% revenue, cyber-cities

Although it is apparent that some staff of some IT vendors were not aware of several policies put in place by the government, this development shows lack of awareness of government activities and this could be a major defect in effecting retinue of good policies that the Malaysia government puts in place.

Nevertheless, the listed incentives in the Table 5.3.1 above under Case5 indicates that Malaysia government is actively promoting foreign direct investment using free tax, free capital movement, right of ownership among others as means of wooing FDI. This move is similar to what the Indian government is doing by actively promoting FDI and investments from NRIs (Non-Resident Indians). In India FDI can be brought in through the automatic route, based on powers accorded to the Reserve Bank of India.

In pursuance of liberalization and globalization, the Malaysian government has been formulating and implementing more transparent and investment friendly policies just as the Indian government did with telecom industry which made India one of the fastest growing countries in the field of telecom.

The development of the communications and IT sector in Malaysia has kept in tandem with global trends. Malaysia began liberalization and privatization of its telecommunications sector in the mid-1980, and the enactment of the Communications and Multimedia Act in 1998, started a new era for the stimulation of the growth of the convergent communication and multimedia industry (Hassan, 2007). The most salient trends which have emerged in Malaysia and similar to India in the area of ICT in recent years are as follows:

- (1) Liberalizations and privatization has become the mainstay of the sector. This has resulted in the emergence of new players both at the national and global telecommunications arena;
- (2) Digitalization of Malaysia media stations is paving the way for the convergence of communications and broadcasting technologies and providing significant opportunities for new applications based on ICT;
- (3) In pursuance of the liberal policies, the Malaysian government like her Indian government counterpart has been continuously proposing amendments in the Malaysian Cyber law comprising the Digital Signature Act, the Computer Crimes Act, the Telemedicine Act and amendments to the Copyright Act 1987. Equally, in the Indian Evidence Act, the mechanism of digital signature has been proposed to address the issues of jurisdiction, authentication and origination. The Indian passed IT Bill in 2000 to provide a legal framework for the recognition of electronic contracts, prevention of computer crimes, electronic filing of documents, etc. In Malaysia work on the personal data protection law commenced thereafter but it was not until November 2000, that the Government, in an unprecedented move, released a draft version of a proposed bill for the protection of personal data for public comment (JMCL, 2002).

5.3.2 Effectiveness of Government Policy

On budget, Case5 gave instance of 2009 budget, where MSC is getting an additional 95million ringgit in addition to what MSC had incurred for undertaking several IT programs. Though, this amount may not necessarily be meant for ITO only, but it is a MSC budget, and it will be for IT outsourcing, for creative multimedia, for like tele-health, *Myocard*, Egovernment, there is a budget allocation for that, which is given to MSC Malaysia or *MDeC* to manage that fund. This is an indication that the government policy on IT outsourcing is not merely theoretical rather it is backed with some pragmatic financial support from the government.

However, other interviewees did not give any response on this, indicating that government spending on ICT is not being popularized among the industry or that the industry see this spending on ICT as normal development which does not call for any acknowledgement. Though this development shows a gap between government agencies and IT vendors, however, the statement made by Badlisham Ghazali, CEO of Multimedia Development Corporation (MDeC) after 2007 annual MSC IAP meeting indicates that there is a level of interaction between them;

We will have a strategy brainstorming session with IAP members aimed at obtaining their inputs, ideas and suggestions on MSC Malaysia's strategy and the way forward...We hope the IAP members will be able to provide input to assist in policy formulation and provide direction for [the country's] future of ICT.

The above statement has shown government initiatives to involve industry representatives from notable ICT companies, academicians and think-tanks in the MSC International Advisory Panel annual discussion on ICT. Going by the response of the interviewees from some organisations, it is apparent that some IT vendors have not been keeping themselves abreast of the development and policies put in place by government, therefore, making it difficult for such an organisation to give a proper assessment on IT policy.

Part of the government policy is to encourage high quality standard such as ISO standard for MSC status organisations, this approach could be considered effective for the Malaysia based industries to enable them take part actively in the global IT outsourcing market.

Table 5.3.2 Effectiveness of Government Policies on ITO

Case	Summary of Views
Case1	<i>Openness:</i> government adopts an open system thereby making it possible for foreign IT organisations to establish in Malaysia.
Case4	<p><i>Policies:</i> Most of government policies on ITO are investor centered, though there are some lapses in the implementation, nevertheless, workable policies are in place.</p> <p><i>No restriction:</i> to a large extent there is little or no restriction for any organisation that intends to establish in Malaysia rather there are incentives that were compared to none.</p> <p><i>One-stop MSC:</i> at Multimedia Super Corridor all processes of establishing an IT company in Malaysia can be done under one roof within a very short period. This eliminates burdensome and reduces organisational bureaucracy.</p>
Case5	ISO certificate, No Censorship, Budget allocation, 2100 MSC-status companies

More so, most of the local ITO vendors were aspiring to provide their services beyond Malaysia shore. Case1 and Case4 pointed out government open policy on IT outsourcing as a catalyst to IT industry development in Malaysia, besides that, Case4 also identified 'no restriction' policy to IT industry as a booster to IT outsourcing drive championed by government. Table 5.3.2 above summarized the view of each Case on effectiveness of government policies on ITO.

There was a tremendous increase in the number of MSC-status companies from 2007 to 2008, in 2007 there were 1,300 local companies granted MSC-status (Ghazali, 2007), to 2100 MSC status companies in 2008 (Case5). All these organizations which also include multinational corporations (MNCs) were allowed to receive a set of incentives and benefits from the Malaysian government when they participate in ICT initiatives.

5.3.3 Reactions of ITO Vendors to the Policies

Initial interview shows that there is little or no obstacles facing the ITO vendors emanating from government policies, while; deeper questioning revealed that some certain level of government interference which some organisations justified as government measure in 'protecting economic interest' of the nation does exist. Case2 confessed that there are some stringent policies that guide ITO practices in Malaysia, he

however broadened these policies beyond local government level to certain global practices in IT outsourcing such as certification.

Definitely, it is an open world, we have a lot of challenges, it's not that easy we won't get things by just put things up and get a contract or get to win a deal or things like that. Stringent policies and to get the things to their parts that really not only locally, we are managing globally we have a lot of constrains the local government authority, local government certification or things like that are not so easy.

These mixed reactions were coming from ITO vendors interviewed in this research. However, the bane of these disagreements was inability of ITO vendors to create a strong industry as Case4 suggested. He said that;

I don't think there is anything else the government can do without the change in the situation of industry. It is the industry that has to go and learn what the problem is, which they don't do.

This research believes that both ITO vendors and government can come together to formulate policies that will not only be beneficial to the two parties but also protect the economic integrity of the government. Table 5.3.3 below represents the summary of respondents' reactions.

Table 5.3.3 Reactions of ITO Vendors to the Policies

Case	Summary of Views
Case1	Interference, stake, professionals, no obstacle, no restriction,
Case2	Reason for control, government control, fear of monopoly, ITO not mature yet, nation based policy, not aware, government laws, stringent policies.
Case3	No need for control, economic interest,
Case4	step back, inability to create strong industry, complacent, no need for incentives, local partner,
Case5	internet censorship, control contrast, economic interest, financial support, economic contribution, GDP 10%

5.4 Theme 4: Need for New ITO Model

Need for new ITO model is one of the issues raised in this research's question, whether there is need for developing new ITO model for vendors' organisation. Questions such as; need for customised ITO model, suitable ITO model for Malaysia, why ITO models are facing problems and what kind of ITO model already in place. These questions were further categorized into two

- 1- Problems facing ITO model deployed in Malaysia
- 2- Developing new model for Malaysia ITO

6.4.1 Problems facing ITO Model deployed in Malaysia

Attitudinal problem has been identified as major problem facing ITO model implemented in Malaysia, this shows that ITO model's problems were not exclusively lie on the external factors rather both internal and external have effect on the implementation problem. For instance Case1, associated ITO model problem to three elements such as; slow in response, inaccurate diagnose of problem so they give inaccurate solution and lack of courtesy [consideration for local factors].

Case1 explained further that willingness to forgo some profit during the model crisis to cover some of clients' losses which were probably caused by vendor or some third party maybe the ultimate solution rather than adherence to some model principles. In contrast Case3, claimed that; "... *once the work is now done by external party, the expectation rises with less forgiving attitude.*" Ability to diagnose and understand problems associated with ITO business models has helped most Malaysian organisations to remain in ITO business as claimed by Case4,

...most Malaysian companies that started with domestic business are now expert...including the sustainable business model at least they did not get kick out of their own country in terms of customer based relation.

In a nutshell lack of transparency, less forgiven attitude [strict compliance to contractual terms], cultural effect, lack of adequate understanding of the ITO model adopted by operation managers and disparity in the expectation of clients and vendors have been identified as major problems facing ITO model.

Table 5.4.1 Problems facing ITO Model Deployed in Malaysia

Case	Summary of Views
Case1	Lack of transparency
Case2	Operation Managers
Case3	compliance to contractual terms, international standard for local clients, disparity in expectation between client and vendor, Cultural changes
Case4	Business model

Therefore, there is need for an adaptable business model as suggested by Case4. Table 5.4.1 identified problems raised by each Case while Table 5.4.2 above represents Case call and justification for the need to develop new ITO model for Malaysia IT industry.

5.4.2 Developing New ITO Model

Table 5.4.2 below represents the initial interview regarding need for new ITO model, another interview was later conducted by this research asking the interviewees to suggest the components of the proposed performance and result/outcome based pricing model, in order to integrate the theoretical claims and practical industrial reality into the proposed ITO model.

Table 5.4.2 Developing New Model for Malaysia ITO

Case	Summary of Views
Case1	SLA, Personal touch, flexible service package
Case2	SLA, Readiness to adopt new model
Case3	Strategic sourcing model, setting standard, performance based, longing for model
Case4	No need for new model
Case5	Outcome based model

5.5 Theme 5 High Cost of ITO services

This theme addressed questions on: high service cost, big organisations versus SMEs, duration of contract, methods of charging, steps to reduce ITO cost and local service cost. However, further classification broadly divided these questions into two:

- 1- Justification for high cost of ITO service
- 2- Steps towards cost reduction

5.5.1 Justification for High Cost of ITO Service

Several arguments were brought forward as reasons for high cost of ITO services in Malaysia, these reasons can be broadly categorized into two, first is lack of knowledge on

the side of potential clients. Small scale ITO organisations provide flexible method of charging their clients as stated by Case1 that;

We don't have a unified way of charging our clients we are very flexible when it comes to charging. For our IDC we charge based on the space size each client requested for, we have different level of service and maintenance, the class of service a client subscribed for will determine the amount to be paid at the end of the month or year as the case may be.

Small and medium scale IT enterprises in their attempt to wooing clients provide not only a flexible charging for SMEs but also a customised service, at relatively cheap price. For instance, Case1 explained that;

... there are actually options for SMEs, all providers have services for individual and for SMEs, RM35 that is about \$10US for 2years you get 1gig of space and that pretty cheap so normally to SMEs when we create it.

This approach is in contrast to big ITO organisations which find such flexibility as an attempt to compromise their standard which they considered dangerous for organisation's reputation. This leads to the second reason why ITO services is considered expensive, big ITO organisation focus on big contracts therefore they do not expect SMEs patronizing their service. As Case2 precisely pointed out that;

Basically, the company as big as Case2, their concern is about big contracts, so the smaller companies who cannot afford to pay that much, there is many smaller IT outsourcing companies that can render their services depending on the fees paid how much they can afford. So Case2 get more concern with big money they don't really care much for small businesses.

Similar opinion was expressed by other Cases except Case1, though Case3 based its charges on service level agreement, certain measures were identified to determine the cost to be charged.

We charge base on SLA, we have some identified measure that we agreed upon, though we have our standard to maintain. Duration of contract is also a factor in charging clients, because we have discount method or some kind of flexibility mode of charging. For data centre, it has to do with space per cubic, plus associated charges.

However, these measures were related to big clients that were patronizing them and at the same time certain basic service costs such as 'associated charges' are charged along.

Table 5.5.1 Justification for High Cost of ITO Service

Case	Summary of Views
Case1	Standard of charging, options for SMEs clients, flexible approach, Service Level Agreement (SLA)
Case2	Focus on big organisations as client, SLA, Service required by client
Case3	SLA based on identified measures
Case4	High quality service, Global standard
Case5	Big organisations

The lack of services awareness about small ITO vendors and maintaining high standard by big ITO vendors had made it difficult for SMEs clients to partake actively in IT outsourcing. Table 5.5.1 above and Table 5.5.2 below represent the justification for high cost ITO service and steps towards reducing the cost respectively.

5.5.2 Steps towards Cost Reduction

In any move to reducing the service cost in ITO, a pragmatic approach should be adopted in order to achieve a lasting solution to the problem, because issues related to cost will continue recurring in any business relationship or entity. Along this assertion, ITO vendors had developed different strategies towards moderate-cost-services. A SMEs ITO vendor such like Case1 came up with what it called 'Volume versus Value' cost base method where client can determine goal of contract, he explained further thus:

Here I [interviewee] will say it's either you want volume or you want value. If you want value you charge high and you go for premium clients, if you want volume then you can just spread your cost or you can have a mixed of both which mean you demarcate your service for example Case1 we demarcate, we have service for SMEs and we have for the high value. This means we have to set some infrastructure. It is what we call value versus volume

This approach has triggered a *global operating model* which allows Case1 to provide low budget website design and web base application solutions in a very efficient and quality manner, enabling businesses to go online fast and at reduced costs. Case2 believed that SMEs are better off outsourcing their IT functions to small IT vendors in order to be able to reduce high service cost emanating from patronizing big IT vendors. Others advocated for flexible costing, on-job training and flexible charging as ways of leveraging and reducing ITO service cost.

Most ITO vendors should leverage on cost over a few customers. They will also leverage on the skills already developed to deliver the services. That's how vendors make their margin and at the same time should offer lower cost to their customers. But if the clients are looking at innovation and re-engineering of their business processes, then there is value for the vendor to charge more. In any case, the additional cost.

However, Case5 reiterated the importance of SMEs in the ITO service cost reduction drive, by isolating big from small IT vendors would not give a long term benefit for Malaysian ITO market, he cautioned that: *"if we really want to improve the ITO practices in Malaysia we would have to consider the SMEs along"*.

Table 5.5.2 Steps towards Cost Reduction

Case	Views Summary
Case1	Volume versus Value, low budget web-design, Cost is a business strategy
Case2	SMEs option, flexible costing
Case3	On-job training, Leverage cost, flexible charging,
Case5	ITO development inclusive SMEs, No price control

Meanwhile, Case5 acknowledged that it will be a daunting task to control ITO service price in Malaysia therefore he suggested collaboration between *Outsourcing Malaysia*. He submitted thus:

So definitely, we can't control the price, however, what we do is to help an association which is called Outsourcing Malaysia, there is source for local Outsourcing companies, and the company who is outsourcing will like to look at all local outsourcing companies in Malaysia and whereby it can reduce its costs.

Similar call for cost reduction was made by Manwani (2008), he attributed the need with downward pressure on the operation and cost margin. Manwani elaborated further thus:

IT firms would be embracing innovative methods to keep their cost down. I believe the when the firms constantly focus on creating value for the customer through its competitive advantage with lower cost, it will automatically increase the value of such firms in terms of revenue and return on investment.

5.6 Theme 6 Mutual Trust in ITO

Four questions were coded under 'mutual trust in ITO', they are: how IT vendors' organisations establish trust with their clients, how to build trust in clients, how to manage trust between parties and lastly to ascertain whether trust constitutes problem or not. After further analysis these questions were narrowed down to one.

1- Process and effects of trust on ITO contracts

5.6.1 Process and Effects of Trust on ITO Contracts

Outsourcing distinguished itself from subcontracting in the sense that there is a sharing of risk and benefit in the contract. In another word, there should be element of trust between the contracting partners. All the interviewees believe that effectiveness of the ITO vendor services could make clients develop trust and confidence, while some attributed trust to reputation of the vendor. Case3 interpreted trust to mean absence of legal tussle between a vendor and clients. While Case2 saw problem associated with trust as inevitable for the contracting parties to always try to have evidence, proving that you have done your work; trust is always an issue.

Case3 gave an in-depth analysis into the causes of mistrust and distrust in the ITO business environment he attributed these to economic situation and change in personnel. He elaborated further thus:

Several factors could lead to mistrust: economic situation, change in personnel. Global economic situation might increase fear in people and that might lead to mistrust or a kind of doubt between client and vendor. Another reason is when there is acquisition or buy over of organisation, existing clients tend to develop kind of distrust and mistrust because it took several years to build a solid trust relationship between two parties.

The above assertion showed that trust is the ability of vendor to put a resilient and continuous process in place that could face the challenges of time with clients as active players. Other interviewees also agreed with this notion for instance Case1 put in place a process that comprises three elements "*infrastructure, process and people*" which he accept not to be "*easy and has to be over time and experience.*" Case2 and Case3 believed that part of the process of establishing trust is reputation and achievements of the ITO vendor organisation Case2 confidently asserted that:

Our achievements speak for us, we do not go out looking for clients anymore and most of the clients come to us themselves after reading or witnessing our success story

Case3 says: “It has to do with number of achievements and accomplishments made by the organisation”

Table 5.6.1 Process and Effects of Trust on ITO Contracts

Case	Views Summary
Case1	Trust and confidence, Process, 3 elements
Case2	Evidence and proof, success stories, stringent policies, Reputation
Case3	Standard, Reputation, No legal battle, Factors
Case4	Risk sharing

In conclusion, all ITO vendors in this research has adopted one process or the other to establish trust with their respective clients while most of them often use the grace of the established trust with some of their clients as part of strategies to woo other potential clients. They all equally agreed that trust is an essential component for any successful ITO vendor to develop its clients. Table 5.6.1 above represents the Cases (interviewees) views on process and effects of trust on ITO contracts

5.7 Components of Proposed Performance and Outcome-based Pricing Model

In the light of (5.4.2) above where called for new ITO model was yearned for and development on the need for new ITO model became inevitable for ITO success. Another round of telephone interview sessions was conducted with all the previous IT vendors samples used in this research. Table 5.7.1 below depicts the suggested components for the proposed new ITO model, followed by detail on the proposed theoretical model’s design and discussion. The telephone sessions was followed by meeting all the research samples for again after the model had been developed for amendment and endorsement.

Case2,

Performance-based pricing must include service and maintenance because performance is attained only when the product or system is operating. Further, it allows the up-front cost of the client to be relatively low, offering the vendor a high return based on performance.

Case1

Pricing is a zero-sum game between the supplier and customer. The focus must move to win-win, simultaneously providing greater customer value and higher supplier profitability. Performance-based pricing is the answer. It allows the up-front cost to the buyer to be relatively low, and offers the seller a high return based on performance.

Table 5.7 Components of Proposed Performance and Outcome-based Pricing Model

Case	Proposed Components
Case1	<p><i>Flexible costing:</i> IT suppliers need to maintain diverse pricing methods to their clients by considering the size of the client both in capacity and ability.</p> <p><i>Win-win focus:</i> an instance whereby, the contract benefits and risks could be equally share by the parties (supplier and client)</p> <p><i>Business capability:</i> ability of the client to know its limit and capacity in the business</p>
Case2	<p><i>Transparency:</i> both parties should openly disclose certain policies to a public explanation of ‘why’ a company is taking a certain approach or utilizing a certain strategy.</p> <p><i>Interoperability Networks:</i> both supplier and clients should be working on the same platform, or at least understand which platform is client or supplier applications were implemented.</p> <p><i>Service and Maintenance:</i> the contracting parties should include after service maintenance in their term as this could lead to a long term mutual benefit and a foundation for mutual trust.</p> <p><i>IT capability:</i> this is ability of clients to understand the limitation of their IT suppliers.</p> <p><i>Relationship Management:</i> this is crucial to both parties (supplier and client).</p>
Case3	<p><i>Cultural harmony:</i> business relationship should be seen as a way of understanding partners’ culture, and environment. As these are considered as integral part of any successful partnership.</p>
Case4	<p><i>Efficient communication:</i> the parties should avoid any kind of miscommunication in order to keep the trust and business going.</p> <p>Readiness of Client to share Data with Client:</p> <p><i>Business understanding</i> such as the industry in which the IT business operates and some of the policies that are surrounding it.</p> <p>IT understanding and managerial philosophy of the client organisation.</p> <p><i>Nature of the business activities:</i> Some of ITO suppliers were into high end activities while some were into low end activities, a potential client should be able to identify area of specialisations of their IT supplier/vendor likewise vice versa.</p>
Case5	<p>Improved government policies</p> <p><i>Size of business:</i> the way a SME operates differs from how a big organisation will. Therefore expectations should also be along with not only the capacity but also the capability.</p>

Case3

Though I think that there is risk mitigation for both supplier and client, but the buyer [client] would be ascertained that there is no risk involved because pricing is determined by the outcome and performance of the supplier [client].

Considering the risk/reward trade-off embodied in various pricing approaches, pricing for services based on costs plus a predetermined profit margin often referred to as "time and materials" which involves no vendor cost risk. The customer [client] pays for all cost overruns and the supplier's profit is established before delivery. Typical fixed-price, cost-based sales involve only cost risk for the seller. The price is set before the product or service is made or provided. Therefore, I think that performance and outcome based pricing model is partially client's focused.

This development would be good for dwindling ITO market like Malaysia, encourage the SMEs participation and eventually erase the negative perception on high service cost charged by ITO vendors.

5.8 Introduction to Proposed New ITO Model

Following several failures recorded in IT outsourcing contracts in recent years, a call for building an ITO business models around partnerships and strategic alliances as well as flexible pricing models was made in 2006 by Currie and Parikh. Earlier in 2005, Gartner an IT consulting and research firm had suggested an outsourcing model which is based on mutual investment called "*Strategic Out-Tasking*". According to Gartner this model (Strategic Out-Tasking) empowers enterprises to retain final ownership and accountability for business outcomes, even when they partner on specific operations. This concept was explained further thus:

Enterprises and outsourcers must [be] ready to change the way they outsource. Under the proposed model, enterprises will not achieve cost savings and innovation, nor will outsourcers secure new contracts and higher margins. The compromise can be broken, but both parties must invest in a superior outsourcing foundation before entering into an outsourcing contract. By mutually investing in people, IT strategy and architecture, and infrastructure that is shared across multiple costumers, enterprises and outsourcers can create dynamic IT service that adapt to changing enterprise demand and are profitably delivered

Similarly, Pinto (2008) advocated for reexamining performance-based pricing as a viable alternative model, he elaborated further thus:

In the performance-based pricing, vendor gets the opportunity to manage value for the customer, and be closely involved in generating additional profits for both sides. With the risk comes added revenue and profit opportunity. In today's competitive global business environment, traditional cost-based pricing is seriously flawed.

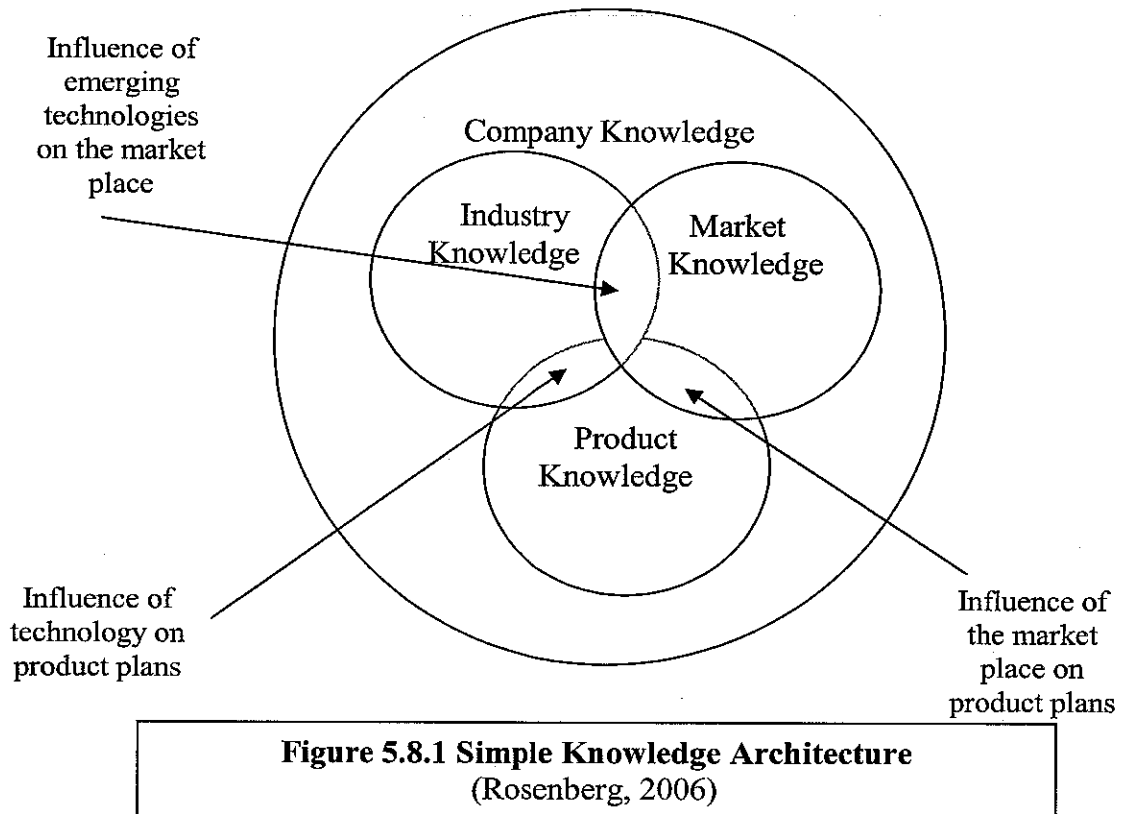
In the same way Case3 had earlier suggested that moving towards performance and result/outcome based model could be a way out of problem emanating from different ITO models adopted in Malaysia IT industry.

Yes, I also agree with moving towards performance and result/outcome based pricing model. Though such model is not fully tested yet as pointed out by CEO [he shared your interview session with me. This step will assist the IT outsourcing industry to move from a tactical sourcing model to a strategic sourcing model. The latter model should generate more values to the relationship between the vendor and clients, where the vendor will get involve directly in the business strategic issues with the clients.

In the light of this development and several suggestions by interviewees of this research, the researcher suggested that the alternative business ITO model for developing country like Malaysia would be a combination of performance based and result/outcome based pricing models. This suggestion is borne out of data collected during this research and interviewees' views on new ITO model for Malaysia environment.

5.8.1 Performance and Result/Outcome Based Pricing Model

There is a growing mismatch between expectations of today's business organizations and what their outsourcing partners are currently delivering. Therefore, in order to avoid reoccurrence of such mismatch, the outsourcing model should take into consideration all the ITO stakeholders. Rosenberg (2006) study had shown that a model cannot be built in isolation especially when the stakeholders play a vital role as in the case of ITO model. Figure 5.8.1 below demonstrates that there are congruence of influences that determines company knowledge (influence of emerging technologies on the market place, influence of technology on product plans and influence of the market place on product plans).



Taking the stakeholders influence aside, gone are the days when the clients were satisfied with one time cost arbitrage and in-time project completion. The business leaders now expect suppliers to deliver value added innovations along-with ongoing price reductions. Such demands are forcing increased adoption to new business models based on 'performance based pricing' and 'result/outcome based pricing' contracts. In short, a clear shift from input based cost mechanisms to output based pricing models is emerging.

However, there is a distinct view that quantum of output alone is not an adequate measure of the success. The clear expectation is that the output must meet a minimum success criterion and the price of outcome is lesser than the value addition perceived (Pinto, 2008). The dilemma that ITO transaction face is how to clearly define a successful transaction and related value enhancements. The move from existing effort based pricing methodologies to successful outcome based contracts throws a couple of challenges for both suppliers as well as client organizations.

Some of the key issues that were raised during the telephone interview sessions to determine the components of the proposed performance and outcome based model are:

- To define a transaction from beginning to end including all the expected milestones
- To ensure there is a clear agreement on what determines a successful outcome (before and after maintenance).
- To differentiate such an outcome from merely processing a transaction
- To emphasize that this is a partnership model and collaboration and trust are the keys.
- To formulate Risk-Reward strategies and quantifying the same in a contractual manner.
- To benchmark an outcome for future value creation (at a common basis)

All the above criteria were the guiding principles that this research is expecting the proposed model to be built on. Although, many industry experts believe that success of outsourcers will depend on not just the ability to meet the demand, but the sustainable value that they will create (Pinto, 2008).

However, it is clear that performance-based pricing is the "insurance" that the IT supplier does not undercharge the clients. It also guarantees that when IT suppliers provide more, they will earn more. Significantly, the client also receives insurance that it will not overpay; it pays only for the amount of performance that is actually delivered on a measurable basis. This means that the performance and expected results of the product must be immediately measurable based on the agreed contractual terms.

The contours of outsourcing contracts are also steadily shifting towards outcome based pricing from traditional effort based pricing models (Tholon, 2008). According to Tholon, the inherent revenue risk of IT outsourcing contracts will act as a catalyst for using more outcome or result based pricing, as more large deals are stuck. *"The revenue contribution of outcome based pricing contracts for large offshore vendors will increase from 8% in 2007 to 14% in 2008"*. Tholon also predicted that:

Overtime the ability of service providers to offer new success-fee based pricing will become a major source of differentiation in the market. This pricing model will result in higher revenue realization for well executed contracts and will help combat margin pressures.

With performance and outcome based pricing, suppliers get the opportunity to manage customer value and be closely involved with generating additional profits for both sides. With the risks come added revenue and profit opportunities for the suppliers (Pinto, 2008).

In contrast, some ITO entrepreneurs were of the concerned that this type of ITO model will work for some verticals and may not work for all (Bajpai, 2008). If vendors are responsible for increasing efficiency or ROI as suggested by this model, then they need to be a part of the overall business planning, whereas some companies have their defined business objectives and policies which are very difficult to change.

In response to Bajpai's fear, this research believes that the proposed model is merely theoretical and flexible enough to accommodate change to specific situation under the contractual specification. More so, the possibility of success of this model cannot be generalized for general situation in Malaysia because this model is at theoretical level not yet been implemented by any ITO vendor, besides this is beyond the scope of this research.

5.8.2 Measuring Organisation Performance

There is no a general standard on how to measure performance, though several ways had been advocated by various experts. Recently Skibo and Schiffer (2008) called for use-alteration traces for performance based technical analysis, their suggestion came a year after Hashim (2007) set some criteria. Though Hashim equally acknowledged that, there are variations in these criteria from business to business, industry to industry and country to country. Hashim (2007) identified that the criteria for measuring organisational performance will depend on the following:

1. The size of the business;
2. The nature of the activities of the business;
3. The managerial philosophy of the business;
4. The industry in which the business operates, and
5. The core objectives of the business.

According to Hashim (2007), both quantitative and qualitative criteria may be used to assess the performance of business especially the SMEs, various financial ratios such as:

return on investment, return on equity, return on asset, return on sales, profit margin, market share, debt to equity, earnings per share, sales growth and asset growth. However, there must be a comparative analysis of ITO business performance over different time periods, also with ITO competitors and with the ITO industry averages, in order to carry out the assessment judiciously. Coincidentally, the suggestions offered by Malaysia ITO Vendors industry interviewed in this research correlate with most of Hashim's five points above. Hashim's book focused on SMEs in Malaysia.

5.8.3 Structure of the Proposed Model

This model has four phases; the first phase focuses on necessary requirements to develop a harmonious and trust-based relationship between IT suppliers and their clients. While the second phase of this model emphasizes on internal and external factors that affect ITO practices in Malaysia and possible effects on performance and outcome-based model. The third phase of the model diagnoses the ITO success from the perspective of service cost. While the last phase is the amalgamation of the first three phases which results in the proposed performance and result/outcome based pricing model.

5.8.3.1 Phase I

The following elements were identified in the first phase of the proposed model, three on the suppliers' side and three on the clients' side; IT capability, relationship management (on both parties), business understanding, IT understanding, and business capability. The first three elements were for the suppliers' side while the last three were for clients' side. Note that relationship management is an element that commonly shared by the two parties. The elements in the phase is in line with Siakas et al (2006) who concluded in their study that "*trust is slowly built through communication and experience of attitude and behaviour of stakeholders [vendor and clients]*" Lumden and Mackay (2006) also maintained that "*all IT outsourcing or e-commerce relationships contain elements of cooperative agreement and requirements of increasingly complex systems*". The elements in this phase were summary of Sparrow's (2005) identified factors that will help organisation develop an effective outsourcing relationship. Figure 5.8.3.1 depicts the first phase of the proposed model.

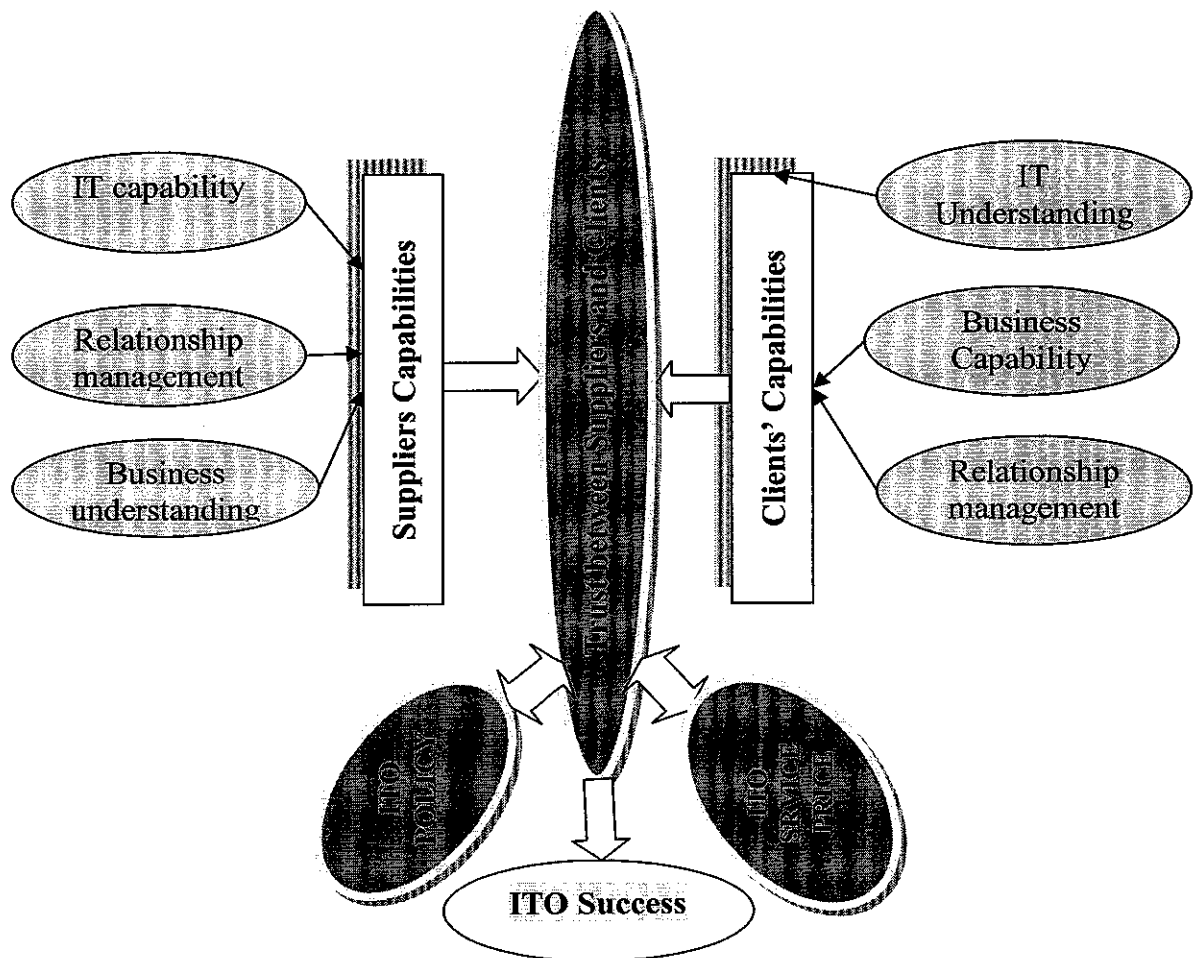


Figure 5.8.3.1 First Phase of the Proposed Model

5.8.3.2 Phase II

The phase II of performance and outcome/result based model centers on effect of government policies on ITO industry. Based on suggestion from the industry, this research realized that there is a direct relationship between ITO policy and ITO success. Several contributing factors were identified, subsequently, these factors were broadly categorized into two; internal and external factors. Internal factors were related to either IT supplier or client while external factors were related to government. Economic performance, level of literacy, manpower, IT infrastructure, bureaucracy and communication link between government and ITO industry were considered as

component of external factors that influence formation of ITO policies in Malaysia. This phase is represented in Figure 5.8.3.2

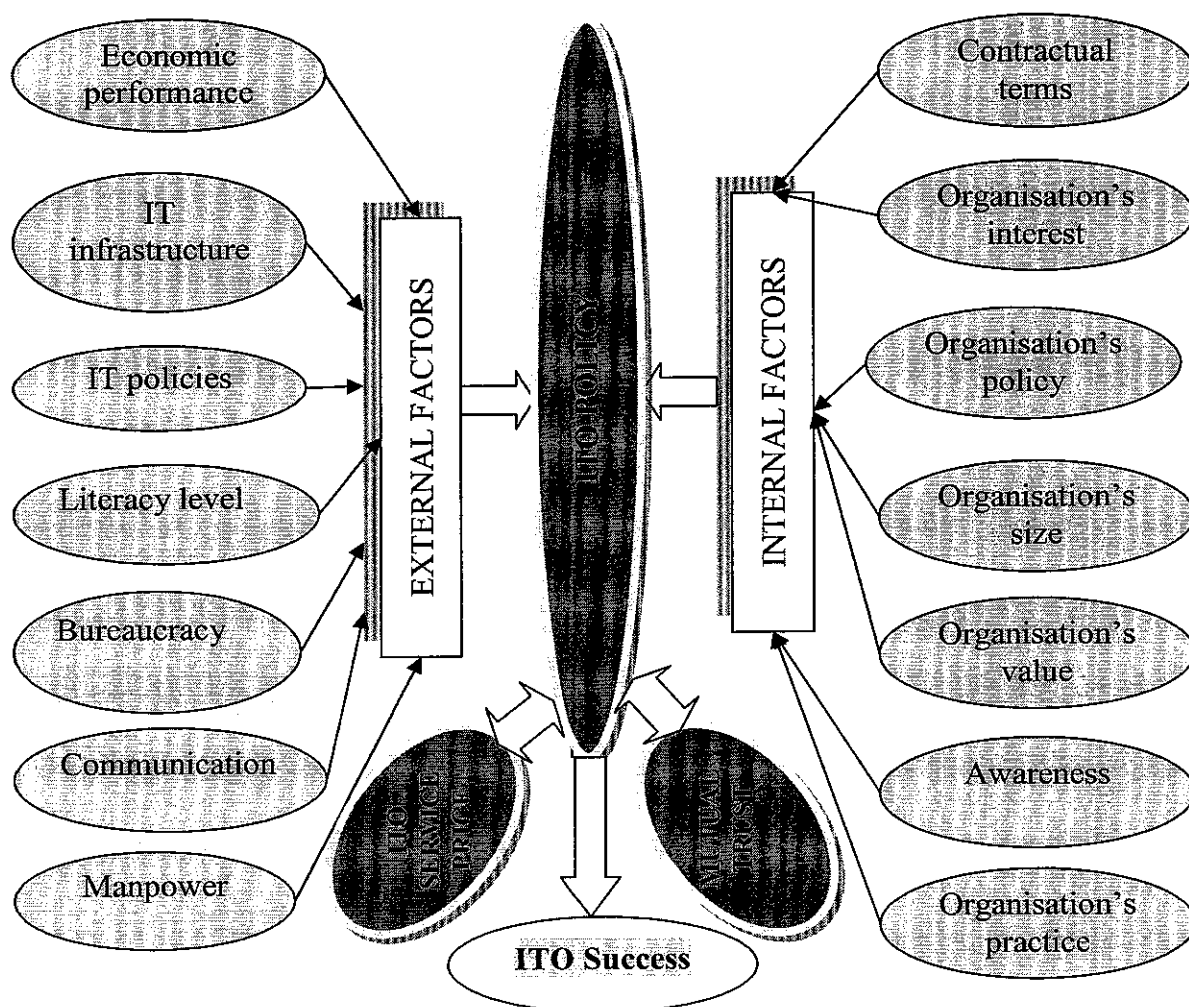


Figure 5.8.3.2 Second Phase of the Proposed Model

Contractual terms, organisation's size (supplier and client), organisation's policy and interest, organisation's value and practice and level of organization's awareness were identified as internal factors. Figure 5.8.3 above gives a summary representation of second phase of the proposed model. This phase correlates with Singh et al (2007) who acknowledged in their study on Malaysia outsourcing that: *"although legislation is adequate ... contracting and governance needs extra attention"*

5.8.3.3 Phase III

Phase III of this model centers on effect of price and factors that determined the price of IT service. This research is banking on the feedback from the ITO suppliers interviewed, during the initial and advance stages of this research. They identified the following as the determinants of ITO service price: size of organisation, organisation flexibility pricing, market size, duration of contract, complexity of the project. Factors such as trust between supplier and client and government (economic) policy were also identified as major determinants of pricing IT services by suppliers. Figure 5.8.3.3 below describes phase three of the proposed model.

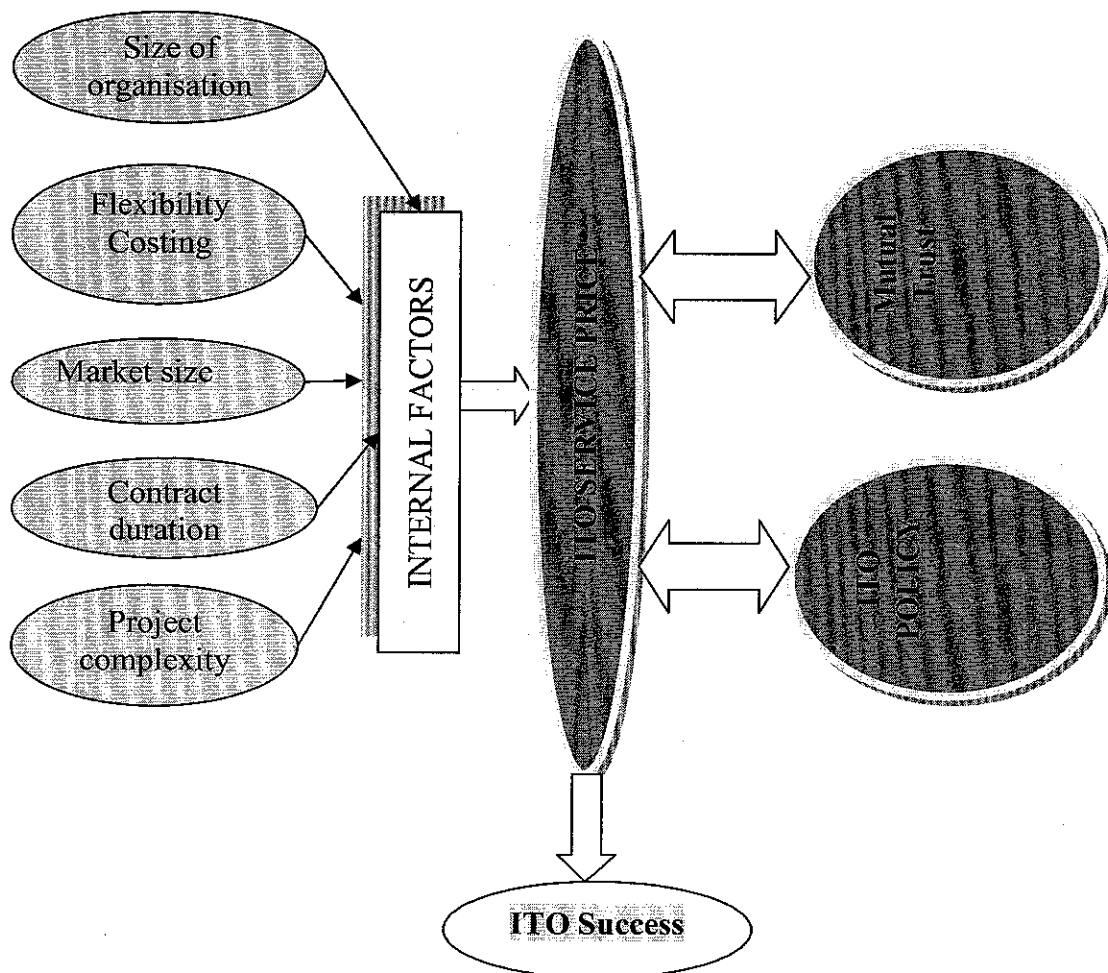


Figure 5.8.3.3 Third Phase of the Proposed Model

Figure 5.8.3.3 above describes the effects of the price on ITO success. The former sets of determinants are considered as internal factor affecting ITO service pricing while the later are considered as external factors. These external factors according to this research are components of performance and outcome-based model (Figure 5.5), which ITO service price is mutually dependent on that will eventually leads to ITO success. Mol (2007) had earlier identified that research and development (R&D) in ITO could favour Malaysia. The need for implementing this phase in ITO rooted from the claimed that: *“Malaysia is not the lowest-cost country but an alternative location for higher-end IT and business process services”* Singh et al (2007). Therefore, there is need for an effective price attracting model for ITO.

5.8.3.4 Phase IV

The combination of all these phases suggests the need for an outcome and performance based pricing model where government policy, mutual trust, price would be integral part of model besides.

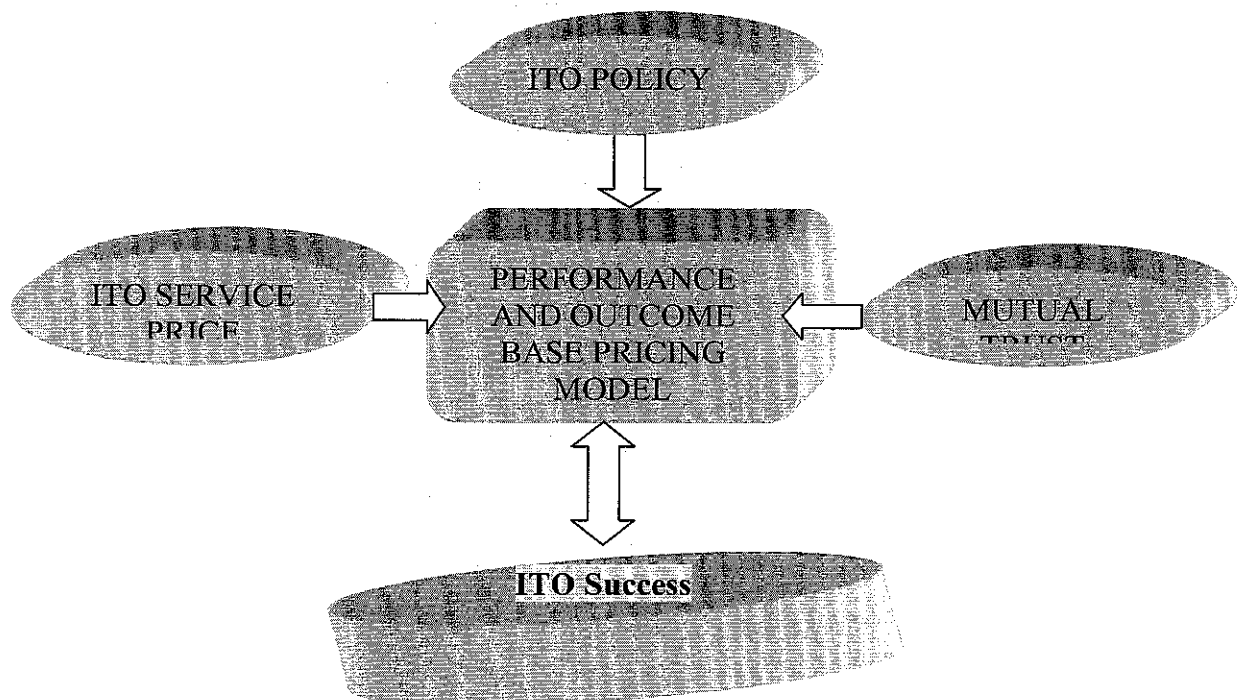


Figure 5.8.3.4 Final Phase of the Proposed Performance and Outcome Based ITO Model

This research realized the interdependence of all these factors, none of these factors could independently lead to ITO success. Figure 5.8.3.4 represents the proposed performance and outcome-based pricing model. The model is in response to the Fleming (2007) call for new ITO model and Currie and Parikh (2007) advocacy for ITO model built around flexible pricing model, partnership, etc.

5.9 Summary

This chapter discussed the similarities and differences in the views expressed by different Cases that is, ITO vendor organisations selected for this research. All of them have shared similarities on the selection process and little differences in identifying problems facing Malaysia information technology outsourcing (ITO) industry. Diverse opinions were shown on the effect and effectiveness of government policies on ITO. There was unanimous decision on the need for new ITO model for Malaysia environment. This development prompted another round of telephone interview sessions to these organisations (used as sample) in order to give their industrial and technopreneur inputs into the proposed new Performance and outcome-based ITO model. High cost of service and mutual trust were seen from different perspectives by the interviewees but all agreed that there is need to address them in the new proposed ITO model.

In essence, ITO vendors have identified lack of standard ITO model, high cost of service and inconsistent government policies on ITO and lack of mutual trust between vendors and clients as major problems facing ITO industry in Malaysia.

CHAPTER SIX

RESEARCH CONCLUSION AND RECOMMENDATIONS

6.0 Overview

The supply side of IT outsourcing has received little attention in the academic research community since focus has been largely on client strategies (Currie, 2000; Ernst, Kamrad & Ord, 2007; Mao, Lee, & Deng, 2008). This has tended to produce one-dimensional approach to the study of IT outsourcing in Malaysia. Therefore this research was carried out in an attempt to create a balance academic review in IT outsourcing by looking at the practice from suppliers/vendors perspectives. Besides, this research did not only adopt an interpretivist method of analysis but also a multiple case studies, thereby making it distinct, because most research on IT outsourcing often used quantitative method, while the few qualitative researches on IT outsourcing are mostly single case studies and analysed from a positivist point of view., this chapter brings to an end this research thesis which was aimed to contribute to the field of IS research methodology and IS research in IT outsourcing process in the developing world.

6.1 Addressing the Research Objectives

This section addresses the research objectives that were set in Chapter 1, by reflecting upon each objective and its corresponding chapter(s). As mentioned at the beginning that the aim of this research is to identify and understand how IT outsourcing has being practiced in a developing country (Malaysia) can contribute effectively to their economic development and maximize global opportunity rendered by IT outsourcing practices. In order to realize this aim, the researcher set objectives which were later codified accordingly.

6.1.1 Cost of IT Service

1. *Analyze and evaluate the extent at which the global IT outsourcing market price is affecting outsourcing services in Malaysia.*

This study finds that the global IT outsourcing price phenomenon is affecting the small and medium-sized organisations and big organisations. However, there are two broad dichotomies to this claim. The first dichotomy correlates with Bragg's (2006) view that, when IT suppliers are big organisations, naturally they are allowed to bid costs against small and medium-size enterprises (SMEs), to an average SMEs the cost is usually higher than expected even if it is not.

On the part of big ITO organisations, the brunt of IT service price is bore by them (big organizations). From the solutions suggested by Bragg (2006), IT suppliers should set up operations in low-wage and lower-cost service areas, such as (India, China, or the Philippines) and (Ghana, Uganda, Vietnam and Argentina) respectively with the exclusion of Malaysia among the duo because Malaysia is neither classified as low-wage or lower-cost service areas both in the region and the global pedestal.

Singh et al (2007) similarly agreed with this conclusion on Malaysia, they said: *"although [Malaysia] is not the lowest-cost country [but it] is an alternative location for higher-end IT and business process services"*. This shows that there has not been much internal change in the effort of positioning Malaysia as a potential destination in IT outsourcing.

On the second dichotomy, the rise of outsourcing in R&D intensive environment as reported by (Mol, 2007) could favour Malaysia ITO drive. This is because, the relational view argues that much of a firm's innovation now occurs in conjunction with outside suppliers and enabling environment such as amenities, level of literacy, economic stability, etc. with all these criteria Malaysia is considered as a favorite destination for IT outsourcing. Therefore cushioning the effect of high price of IT service and enhancing the hope of big ITO organisations in Malaysia, while the SMEs could handsomely benefit from flexible pricing method is suggested under the proposed model.

6.1.2 Government Policy

- 2. Analyze and evaluate government policies that are affecting IT outsourcing services especially the suppliers in Malaysia.*

This research establishes that the problems facing Malaysia IT outsourcing services were not solely lying in government policies but also in the process. Level of involvement of ITO suppliers, awareness and lack of commitment to intellectual property right were identified as major problems facing ITO suppliers in Malaysia. This research's outcome correlates with Singh et al., (2007) findings, which said that: *"although legislation is adequate, contracting and governance may require extra attention, as the enforcement of data and intellectual property security and privacy laws continues to be a concern."*

Virtually, all the interviewees agreed with government policies as they considered those policies as acts of protecting economic interest of the nation and beside there should be an articulate way of governing the outsourcing in order not to jeopardize government interest. This view was in line with *Life after Outsourcing- a Sourcing Management Model* advocated by Burkholder (2006).

This research realized that most of the government policies on IT and share-service outsourcing were benchmark against India which had recorded high level of success despite its past history (Nobrega & Sinha, 2008). This is considered as a positive development for Malaysia ITO, as this move could assist Malaysia to ride successfully on the Indian tiger.

6.1.3 Mutual Trust

- 3. Identify and analyze the effect of mutual trust between ITO vendors and clients.*

The relationship between client and vendor is a vital component of a successful outsourcing agreement (Fleming, 2007). There was unanimous agreement of the interviewees that the trust constitutes a vital role in any ITO success model, though some organizations find it very difficult to relinquish control or trust third parties to manage their applications and data. This development is gravely affecting ITO suppliers' performance and eventually leads to contracts failure. This conclusion is also shared by

Lumsden and MacKay (2006) "*Trust is a critical component of successful e-Commerce, without trust, development of e-Commerce cannot reach its potential*" Lee et al. (2008) place trust at the heart of successful IT outsourcing.

As this research suggested a mutual trust based relationship between ITO supplier and client as component of ITO model, similar suggestion was made by Siakas et al (2008), they proposed that both the service provider and the client must value and nurture the relationship, in order to effectively manage an outsourcing contract in today's dynamic business environment.

6.1.4 New ITO Model

4. Develop a theoretical IT outsourcing management model for successful IT Outsourcing suppliers in Malaysia and

At the set of this research, there was not any clue of the parameters and/or dimensions in which the intended model would take if at there would be any, due to the approach of this research which is evolving in nature. In the light of the outcome of the interviews conducted during this research, all the interviewees called for new ITO model that could harmonize a balance between these above three factors (Cost, Trust and Policy).

In 2006 Currie and Parikh, had made a call for business models which should be built around partnerships and strategic alliances as well as flexible pricing models, this can be partially called a cost based. Also in 2007, Fleming acknowledged that: "*only solidarity, flexibility and monitoring of the vendor were found to be positively related to the success of information systems outsourcing*". He subsequently advocated for developing an extended relationship outsourcing model based on his findings on literatures on IT outsourcing models.

Based on all the above literature's yearning for new ITO success model and interviewees request in this research, it becomes imperative for this research to make several telephone interviews with the individual that were interviewed earlier, in an attempt to get industrial input in the proposed new model. These developments gave birth to the performance and outcome based pricing model which is believed to be a new lead to ITO success.

Besides, a successful relationship requires a combination of soft-based and hard-based relationship management. Hard-based relationship management allows a relationship to be established within a strong contractual framework to govern the ensuing soft-based relationship (Fleming, 2007).

Coincidentally, the contours of outsourcing contracts are also steadily shifting towards outcome based pricing from traditional effort based pricing models. As more large deals are stuck, the inherent revenue risk of such outsourcing contracts will act as a catalyst for using more outcome or result based pricing. Tholon (2008) projected that: *“the revenue contribution of outcome based pricing contracts for IT suppliers will increase from 8% in 2007 to 14% in 2008.”*

With the outcome of this research, in the nearest time the ability of ITO suppliers to offer new success fee based pricing that is subjected to mutual trust and considerate government policies, will become a major source of differentiation in the ITO market. This pricing model will result in higher revenue realization for well executed contracts and will help combat margin pressures.

6.2 Validation for the New Model

After the model has been developed, the research sought for ITO industrial approval of the model by going back to the research sample organisations. All the organisations agreed with the model and acknowledged the possibility of implementing it in respectively. However, the implementation process and post implementation verification were beyond the scope of this research.

6.3 Justification for the New Model

Based on the responses from this research sample, twenty-four out of twenty-six ITO personnel interviewed in this research supported the model and the phases involved. While one of the interviewees was out of the country during the model verification and the remaining one was indisposed. This represents 92% acceptance from the industry. More so, the two personnel that were not able to contact for model verification and justification represents different organizations, and this research interviewed at least five ITO personnel from each organisation used in this research.

6.4 Addressing the Research Method

What makes qualitative research different from other forms of research is that the uniqueness of qualitative research lies in the fact that it does not focus primarily upon the identification and explanation of facts, but upon the illumination of people's interpretations of those facts. As a consequence, qualitative research is an appropriate mode of enquiry when researchers wish to study the understanding and motivations of the research subjects (Cormack, 2000). In fact Myers (2009) identified the researcher's impressions and reactions among others as example of qualitative research.

The contribution of this research to its adopted methodology is insignificant, for the fact that, this research considered interpretivism has a research tool. Therefore the change of this research to the study of development of interpretivism method was to understand the applicability of interpretivism method to this research. In essence this research did not aim to justify any preference for any research method.

6.5 Contribution of Research

Sequel to the above clarification on the research method deployed in analyzing and interpreting this research thesis data (which can also be considered as part of this research thesis contributions to research method in studying IT and IS, because interpretivism is seldom used in the IS/IT studies), this research thesis has able to give a different approach to the IS/IT research and development. Apart from this, this research thesis was able to identify certain areas that it has contributed to in the field of IT/IS both in academic and industry and also to knowledge in general, these contributions are therefore making this research a gap bridging between academic and IT industry. Some of the notable contributions of this research thesis are ability to:

- *Develop a theoretical performance and outcome based outsourcing model which is based on both literature and industrial contribution.* Although, Ryan and Bernard (2000) mentioned five functions of a researcher after collection of data which include (1) identify themes and subthemes, (2) build and apply codebooks, (3) describe phenomenon, (4) make comparisons, and (5) build, display, test and validate models. They acknowledged that the analytic options available to researchers for accomplishing these goals are staggering (Ryan & Bernard, 2000).

However, this research could not practically test this model as earlier under limitation, but the research was able to come out with a performance and outcome based model which is theoretical in nature. The validity of this model could be another longitudinal study of this research.

- *Develop a practicable phases that eventually lead to the proposed performance and outcome based outsourcing model.* This research did not simply came out with the model from a vacuum, its follows a methodological process that can be replicated or modified to suit other environment. Each phase of the performance and outcome based model could also be adopted into several existing ITO business models. Meanwhile, these phases can be restructured and adapt to operating environment.
- *Develop a theoretical platform that is applicable to both big and small and medium-size enterprises (SMEs) to successfully involve in IT outsourcing deals.* This model is not conditioned to either SMEs or big ITO organisation only. Either scale of the organisations (big or small) can adopt it, the researcher hope that with every other thing in place, the outcome of such implementations would be astonishing. Moreover, implementation process could be sort out by organisation itself, based on its goal, vision and mission.
- *Contribute to IT outsourcing development in Malaysia.* Developing world has always being bearing the brunt of global problem created directly or indirectly by the industrialized and developed nations. This performance and outcome based model could to some extent balance the bearing of risks and benefits associated with outsourcing contracts.
- *Address to the scarce academic and research resources on multiple case studies.* Finding multiple case research material could be a daunting task, this research however contributes its window-might to not only qualitative research but also to the multiple case studies available. This assumption is based on Bengtsson (2008) statement that: “*Although, the literature offers much material on case study research there is not much to find on multiple cases studies as such*”.

6.6 Delimitation

The research design, undertaken using an interpretive case study approach, can only provide snapshots of phenomena and events that are continuously evolving in context. As such, the findings, like in any other case study, are not definite and cannot be claimed as universal and certainly not as globally applicable empirical findings (Mahmood, 2005).

For those who have wanted to make generalizations based on Theme studies, some researchers have attempted to develop methods for quantifying data from Theme studies, but most agree that it is difficult if not impossible to generalize from Theme studies to a wider population (Lee & Lings 2008). Although, this research categorised its research data into Themes, but that does not justify generalisation of this research findings.

This does not mean, however, that the findings lack generalisability and usefulness. Lee and Baskerville (2003) have pointed out that findings can be generalised as long as they are within the sample or domain that the researcher has actually observed.

6.7 Suggestion for Future Research

The future work on ITO should include both supplier and client, and with broader participants and bigger sample size, though this will be time and cost intensive. Also there is need to study the impact of IT outsourcing on some countries categorized as low-wage and lower-cost service areas. This could further give a broader and clearer picture of IT outsourcing vis-a-vis the third world countries.

It is equally necessary to conduct studies on the prospect and challenges facing performance and outcome based ITO model from the contemporary realities such as; economics, politics and global changes. Other suggestions are:

- Study on rate adoption of the proposed ITO model among Malaysia ITO Suppliers. A possible researchable area is the rate of adoption of proposed ITO model. This could happen after certain ITO suppliers were able to share the effect of this model on the organisation's business practice.
- There is a need for longitudinal study based on this suggested ITO model. As Ryan and Bernard (2000) rightly said, a model need to be tested and validated before it can be recommended, the case of this model might be a little different

due to the fact that, the model has to put into practice in order to validate its usability. The readiness of some ITO suppliers' organisations to implement this model will give room for longitudinal studies of this model after the maturity stage.

- A different research method such as quantitative and or mixed method could also be used to carry out similar research. Johnson and Onwuegbuzie (2004), sees mixed method as "*the natural complement to traditional qualitative and quantitative research*". This research thesis agrees with Sydenstricker-Neto (2004) who claims that: "*the use of mixed-method is likely to increase the quality of final results and to provide a more comprehensive understanding of analyzed phenomena*" though this research suggests another similar study on ITO using quantitative research method. Although there is high tendency that the quantitative approach might not be feasible for this research enquiries, which might therefore defeat the essence of mixed method research community.
- Extending this suggested model and probably modify the proposed model to suit different the country. As this studies focus on the developing nations, this research will suggest other country to adopt and adapt this ITO model and possibly carry out studies on pros and cons of this model in the respective country.

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APPENDICE

Appendix I

Interview Questions

This research will attempt to examine the relationship between IT outsourcing management model and Government policy Service Cost Client/Vendor relationship

Demography of Interviewee

Name of Interviewee

.....

Name of Organization

.....

Brief history of Organization

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.....
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.....
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.....
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.....
.....

What kinds of services provided by your company

- 1-
- 2-
- 3-
- 4-
- 5-
- 6-
- 7-

- 8-
- 9-

ITO Challenges

- 1- What are the challenges facing ITO in Malaysia?
- 2- To some clients cost of ITO services is just too enormous, can you justify the high cost of IT outsourcing service charged by IT suppliers?
- 3- Considering the local environment, what do you think about the cost charged by ITO vendors?
- 4- What steps should be taken by ITO vendors that could help in reducing the service cost?

ITO Model

- 1- What type of ITO model your organisation adopts?
- 2- Do you have a proper ITO management model in place, if yes why ITO still facing problem?
- 3- Do you think that a new ITO management model developed?

Government Policy

- 1- What are the requirements of the Government agencies regarding outsourced activities?
- 2- Is there in any way government policy creates any obstacle to ITO?
- 3- Do you think government should handoff from ITO?

Mutual Trust

- 1- Is mutual trust a problem in ITO deal in Malaysia?
- 2- How do you manage trust in outsourcing?
- 3- How does your organisation establish trust with your clients?

ITO Vendor Assessment

- 1- What motivates your Organization into IT outsourcing?
- 2- What the organizations are trying to achieve?
- 3- No. of IT outsourcing contracts your organisation managed to secure?
- 4- How many of these projects were actually completed successfully?
- 5- Did your organisation ever encounter any problem relating to your ITO contract?
- 6- Can you give assurance that your organisation has the full capabilities to handle outsourced projects?

Types of Activity, Total Value, Print/Design, Applications Development, Network Setup, Network Management & Operations, Web Services, Database Services & Operation, Procurement, Trainings, Marketing, Hardware ,Maintenance & Servicing, Others

Appendix II

Interview Questions for MDeC

In-depth questions on government policy, this set of questions is used in the interview with MDeC. In the attempt of this research to seek further clarification on certain questions that concern government policy on information technology outsourcing (ITO)

- 1- What are the criteria for a company to be met to qualify for MSc status?
- 2- What are the government policies on ITO vendor?
- 3- Why government stills control ITO industry?
- 4- In what way is this policy affecting ITO industries
- 5- According to my preliminary interview, some believe that government should back-off totally in handling ITO in order to be competitive
- 6- What are the incentives provided by government for local ITO vendors to enable them compete globally?
- 7- Do you think these incentives are enough or there is still need for more?
- 8- For a foreign ITO to operate in Malaysia, what are the conditions to be met?
- 9- Are any of the local ITO vendors able to go beyond Malaysian shore?
- 10- Is there any allocation for IT outsourcing in 2009 budget

Appendix III

List of Attributes (MAXQDA)

List of Attributes				
ID	Attribute	Attribute Type	To be displayed	Source
13	Design and Development	Boolean	1	Code
25	Challenges facing ITO in Malaysia	String	1	Code
26	Provisions for MSC Status organisations	String	1	Code
27	Types of Service	String	1	Code
28	Local ITO organisation going Global	String	1	Code
29	Effect of Government Policy on ITO	String	1	Code
30	ITO incentives from Government	String	1	Code
31	Budget	String	1	Code
32	Types of Government Policy	String	1	Code
33	Need for Government to handoff ITO	String	1	Code
34	Need for Government Stake in ITO	String	1	Code
35	Effectiveness of Government policy	String	1	Code
36	Obstacles emanated from Government policy on ITO	String	1	Code
37	Need for New ITO Model	String	1	Code
38	Need for a Customised ITO Model	String	1	Code
39	Suitable ITO Model for Malaysia	String	1	Code
40	Why ITO models face problem	String	1	Code
41	ITO Model in place	String	1	Code
44	Establishing Trust	String	1	Code
45	Building Trust	String	1	Code
46	Capability to Handle ITO project	String	1	Code
47	ITO vendor goal	String	1	Code
48	ITO Vendor strategy	String	1	Code
49	Demography of Personnel	String	1	Code
50	MSC Status	String	1	Code
51	MSC Status for Local ITO	String	1	Code

52	Number of Years in ITO operation	String	1	Code
53	No or Value of contracts secured	String	1	Code
54	Years in ITO business	String	1	Code
55	Creative Multimedia	String	1	Code
56	hardware design	String	1	Code
57	IT Application Development	String	1	Code
58	Call Center	String	1	Code
59	ITO Adversory Service	String	1	Code
60	ITO Consultancy	String	1	Code
61	Portal Management	String	1	Code
62	Internet Service Provider	String	1	Code
63	Data Center	String	1	Code
64	Challenges facing ITO in Malaysia	String	1	Code
2	Textgroup	String	1	System
6	Textname	String	1	System
7	Creation Date	Date/Time	1	System
8	Number of Coded Segments	String	1	System
9	Number of Memos	String	1	System
11	Author	String	1	System
12	Bytes	String	1	System
14	Number of Interview	String		User
15	Size of ITO organisation	String		User
16	Number of Contracts	String		User
17	Years in operation	String		User
18	Types of IT service	String		User
19	Challenges facing ITO in Malaysia	String		User
20	Effect of Government Policy on ITO	String		User
21	Need for New ITO Model	String		User
22	High Cost of ITO services	String		User
23	Mutual Trust in ITO	String		User
24	ITO Vendor Justification	String		User

Appendix IV
Tables of Code Text

Vendor Criteria

Comment	Text	Segment
IDC	Interview 1-1	Not yet all are local, though we do have in term of IDC but very minimal less than 5%
RM100 millions	Interview 1-1	I can't remember the figure may be I can say more than 100million ringgits
1994	Interview 1-1	Case1 was formed in 1994
IDC	Interview 1-1	Data Center Services: we focus only on internet data center (IDC) we have server room
Vendor set up	Interview 1-1	The server must internet run 24 hours, so you need to have proper air conditioning room, otherwise the server will be deteriorated. So need to have that kind of infrastructure, and you need to have bandwidth, and you need to have people to manage and run the server or internet operation for 2 hours. So to do all these things, for a company to invest it are actually expensive
Renovation cost	Interview 1-1	You need to have renovation cost, bandwidth, we subscribed to Jaring, it is our provider
24 personnel	Interview 1-1	We have 24 personnel to support. That is number one service we provide that relates to IT outsourcing
Manage Portal	Interview 1-1	"Managing Portal", for example the government of Malaysia, they have portals, all the government agencies have a lot of portals, I think is about four to five hundreds (400 to 500) websites that the entire government of Malaysia has
Government websites	Interview 1-1	So, each of this website is managed individually by each government department and agencies, there is no standardization and some are very outdated and some are not meet certain standard. So what we offer is that we managed all these websites on behalf of the government, which means we take over the software, hardware, data center, security, we provide the services.
50 to 100 websites	Interview 1-1	We need to redesign the portals, managed the content so that the contents are always updated. the benefit to government, one is that Government can have a standardized, not controversial because they are dealing with one company, otherwise, if you want the government agencies who is in charge of for instance MAMPLE, you have to monitor probably you

		know fifty to hundreds government websites to ensure that each is according to policy, but know that you just put the responsibility to one company, this company has to deal with all the organisations
Call center	Interview 1-1	We have auxiliary services for example because our IDC runs for 24hours we invest in call center, so some of our clients who which to have call center services we do offer them
41years	Interview 2-1	The organization has been active for 41 years. Basically it focused on global outsourcing
Maybank	Interview 2-1	Maybank has outsourced their entire IT to us
Good track record	Interview 2-1	That's supposed to be handled by sales people how well that can sell Case2 to client. Case2 is having good track records so it wouldn't be a problem it is one of the biggest outsourcing company in the country.
Largest ITO in Malaysia	Interview 2-1	Case2 is one of the largest ITO in the country most of the major organisations are with Case2. The biggest bank in Malaysia is with Case2.
35 years	Interview 2-2	We are actually celebrating our 35 years of excellence, this year
Global IT outsourcing	Interview 2-2	Case2 is global IT outsourcing organisation with local presence in Malaysia under the name Case2. Case2 started its operations in Malaysia in 1971
End user computing	Interview 2-2	Since 2003, Case2 started delivering end to end support for end user computing, midrange and helpdesk services for DuPont in 15 countries
US\$ 1.6 Million	Interview 2-2	A USD 1.6 million Motorola Global Outsourcing deal is another project currently under Case2, since 2003.
RM 1.3 Billion	Interview 2-2	RM1.3 Billion Maybank 10 years contract which is already in its third year,
ITSS	Interview 2-2	multi-million Ringgit ITSS contracts for University of Nottingham Malaysia campus
MAS	Interview 2-2	Malaysia Airlines Berhad
DBKL	Interview 2-2	DBKL Integrated Transport Information System (ITIS) is a RM17 million project
10yrs	Interview 2-2	Maybank project is going on smoothly, we are in our third year of the 10 years contract
High % of	Interview 2-	Case2 became a member of CSC in Nov 1999, [9years ago] this marks

local	2	the start of our journey into the IT outsourcing business. Though we have global operations, very high percentage of our staff were Malaysians
1983	Interview 3-1	Case3 was established in 1989 is a specialist in Data Centre Managed Services and Business Continuity Solutions. Case3 is a member of the Kompakar Group, which was formed in 1983.
Software development	Interview 3-1	It provides software development services to the ICT industry in Malaysia
100 contracts	Interview 3-1	Close to a hundred (big and small included)
1983	Interview 3-1	IT outsourcing services is not new to Case3. As it started business in 1983
20years	Interview 3-2	We are almost two decades into IT outsourcing business, next year we are going to celebrate our 20years golden jubilee
100+	Interview 3-2	Quite a lot close to a hundred different contracts
Categorized services	Interview 3-2	Our core services in Case3 are broadly categorized into three: a) managing services, b) professional advisory services and c) Business continuity services. Under Business continuity services we also two different focus areas. i) ICT Resumption service and Business Resumption service.
ISO 27001	Interview 3-2	Case3 is accredited with MS ISO 9001 in the 2000 and ISO 27001 in the 2005
17years	Interview 4-2	17years old firm, headquarter in Malaysia
Direction of ITO	Interview 5-1	IT outsourcing, is look directing into your infrastructure, you're manning services, help desks, contact center, technical support that is IT outsourcing.

MSC Status for Local ITO

Comment	Text	Segment
MSC status	Interview 1-1	Case1 is a MSC Status company
ISO	Interview 2-2	We were awarded MS ISO 9001 Quality Management and Assurance Standard accreditation in 1994 for our entire business operations by SIRIM and MSC status. CSA became a member of CSC in Nov 1999, [9years ago] this marks the start of our journey into the IT outsourcing business. Though we have global operations, very high percentage of our staff were Malaysians

MSC status	Interview 3-1	Among the first organisation to be awarded MSC status
MSC status	Interview 3-2	Our company is one of the first MSC status companies in Malaysia.
2 criteria	Interview 5-1	there are two different criteria one for local and one for foreigners
Designated	Interview 5-1	thirty percent (30%) of their operations have to in MSC designated areas
Export revenue	Interview 5-1	50% export revenue per annum
100 positions	Interview 5-1	They have to create a minimum of 100 positions within the first three years.
70%	Interview 5-1	the 70% of revenue generated by the MSC company has been export revenue, that mean it has to be project outside Malaysia been delivered within Malaysia
Cyber cities	Interview 5-1	Company apply for MSC status have to seventy percent of their operation within the designated areas like Cyberjaya, KLCC, there are four area around Malaysia which are MSC area
Multimedia products	Interview 5-2	Provider or heavy user of multimedia products and services
Cyber cities	Interview 5-2	The organisation should locate or ready to locate in a MSC Malaysia designated cyber-cities. the organisation must comply with environmental guidelines
Knowledge workers	Interview 5-2	Another criterion is that the vendor should employ a substantial number of knowledge workers.
Technology transfer	Interview 5-2	Another criterion is that the organisation as a whole should be able to provide technology transfer and/or contribute towards the development of MSC Malaysia or support Malaysia's k-economy initiatives.

ITO Vendor Strategy and Goal

Comment	Text	Segment
Success story	Interview 1-1	And we always we do local first, have a success story, and built our experience here, and then we go global. In fact, we are targeting the developing countries rather than developed countries in our global quest.
Personalized services	Interview 1-1	Like I say again in your flexibility of outsourcing packages, personalized services and also your need niche markets you need to know what your strength is and how you position yourself.
Creativity	Interview 1-1	You cannot go direct competition with them [multinational organisations], you will never win so you need to be very creative.

Creativity	Interview 1-1	The word here is business is about 'Creativity' ...creativity arise from deep understanding of your business (SWOT of your business)
Global	Interview 1-1	Our aim is in term of IDC we want to go global, but we are taking step by step, first and foremost we want to make sure that we are very good in what we are doing and focus.
High quality	Interview 1-2	As a company we always aim to deliver our customers with high quality products and services at a very low cost
Improve ROI	Interview 2-2	Goal of any organisation is to improve his financial standing, beside that we want to the leader in IT outsourcing not only in Malaysia but around the globe. We want to improve our return on investments [ROI], reduce our day sales outstanding [DSO]
Quality, People	Interview 2-2	There are a lot of things, 1- Quality, 2- People, and 3- the ultimate goal is the other one. In all these things people is the main thing, we going to share your outsourcing with people, we need to have the right people, right skill, right timing
Dollars	Interview 2-2	Definitely dollars, at the end of the day in Return Of Investment ROI. At the end the day I need to look at money, that's why I in the business, At the end of the pay I need to have reputation, Image and make sure that I maintained my staff as well
Business model	Interview 3-1	IT outsourcing services is not new to Case3. As it started business in 1983, it provides software development services to the ICT industry in Malaysia. The IT outsourcing offerings complement its other core business in hardware and software solutions as a System Integrator. IT outsourcing provides another business model for clients to obtain Case3's solutions and at the same time ride on its service capability.
Specialised best	Interview 3-1	We are aiming towards becoming the best in our specialisations
Service capability	Interview 3-1	IT outsourcing provides another business model for clients to obtain Case3's solutions and at the same time ride on its service capability.
Business applications	Interview 3-2	Our managed services enabled organisations to outsource the provision, setup, management and operation of data centre as well as business applications to Case3 to ensure high level of performance, security
Global leader	Interview 3-2	we want to become one of the global leading players in outsourcing
\$2.5 Billion	Interview 4-2	MDeC and all of us in the industry is that we want to target 2.5% of the outsourcing demand that's 2.5% of a trillion dollar, that's our focus in term of service export by 2010. So we want to grow industry to about \$2.5 billion worth of service export,

Capability to Handle ITO project

Comment	Text	Segment
Infrastructure	Interview 1-1	Yes we do, why because we have infrastructure, we have the process and we have the people and on top of that we have the experience
No of contracts	Interview 1-1	Experience comes from number of contracts and from number of clients that we have
Complications	Interview 2-1	I am sure we have, but I am working in the Data Center, I have not seen any. Generally, with any organisation there will be delay in handling projects due to complications mainly in management and feedback from the customers.
+ or - 100	Interview 2-2	Our achievements speak for us, we do not go out looking for clients anymore, most of the clients come to us themselves after reading or witnessing our success story
ISO	Interview 3-1	This organisation was the first IT company in Malaysia to be awarded the MS ISO 9002:1994 Quality System Certification and also the MS ISO 9001:1994 Quality System Certification in 1999.
IT security	Interview 3-1	It has recently been awarded the ISO 27001:2005 Information Security Management System (ISMS) certification.
CMMI	Interview 3-1	It is also the first ICT company in Malaysia too join the world league with the Capability Maturity Model Integration (CMMI) Level 5 rating
ISO 20000	Interview 3-1	The first IT company in South east Asia to be certified ISO 20000 for Service management. Among the first organisation to be awarded MSC status
Credit	Interview 3-1	Assurance is given through SLA and service credit/penalty regime
experience	Interview 3-2	We have proven experience and specialisation in supporting real disasters and live simulations which has continuously helped our clients stay in business. We also have a comprehensive range of solutions, with a combination of professional advisory services, IT and business resumption capabilities in our integrated enterprise recovery solutions, coupled with tight security systems.

Demography of Personnel

Comment	Text	Segment
Operation Head	Interview 1-1	Operation Head Data Centre
CIO	Interview 1-2	Chief Information Officer
Top Management in USA	Interview 2-1	Higher management post is all America, because it involved in American company likewise Australian.
Head IT	Interview 2-1	Head of IT Business

Head Tech	Interview 2-2	Head of Technical Support
CEO	Interview 3-1	Chief Executive Officer
CIO	Interview 3-2	Chief Information Officer
Senior Staff	Interview 4-2	Senior Staff IT Operation
Head	Interview 5-1	Head SSO Unit
Senior Executive	Interview 5-2	Senior Executive SSO Unit

ITO Challenges in Malaysia

Comment	Text	Segment
Control freak	Interview 1-1	Number one is about control freak I will say, as organisation you are scared to outsourced to some people, especially in terms of security, you know you let people manage your infrastructure, your data on your behalf for example when actually people want to have control,
	Interview 1-1	And most of the large organisations they have money and they don't mind to invest, spend money in detail of control. Some companies they look at the numbers which make cost, say I can safe 5% cost so I will go for IT outsourcing and forgo some certain control,
Education	Interview 1-1	then we need to educate, normally control associate with security fear
Talent pool	Interview 1-1	Another problem is talent pool , we don't have enough manpower that can handle the need for global IT outsourcing
Control	Interview 1-2	The first challenge is control you know the clients are afraid of losing their entire organisation's strategies to competitor. Nowadays data has become the most valuable asset to organisation and to share data with IT vendors which are mostly considered as an outsider to the organisations.
Talent pool	Interview 1-2	Number two problem is talent pool , Malaysia we don't have enough talent pool that commensurate the global outsourcing need, the number of IT graduates produced annually by Malaysian universities is not enough to cater for the IT outsourcing need, therefore there is always a kind of vacant, do you know that more than 15 thousand jobs declared vacant under IT
Graduate preference	Interview 1-2	Most IT graduates do not want to work as an IT they prefer looking for job in other industries
Communication skills	Interview	Some of them lack communication skills which is very essential

	1-2	in today's global market.
Financial remuneration	Interview 2-1	Generally, the problem would be financially founding the staff which in term of pays wise, because when you may work for an organisation in other IT company, your pay slip may be much higher than what you get working for IT outsourcing organisation.
Talents and man power	Interview 2-1	Definitely, this country is definitely can produce enough manpower and talents needed for ITO
Enough expert	Interview 2-1	No we never have any problem expertise are very well available, staffing is very easy.
	Interview 2-1	Percentage of locals [Malaysian] in CSA 99%
	Interview 2-1	I can pray we never turn down the better hand, if someone is better than another, sure we will hire the person.
Talent pool	Interview 2-2	one of the major challenges facing ITO in Malaysia is lack of man-power
Talent pool	Interview 2-2	there is no enough local manpower that commensurate with ITO need, as you know ITO is becoming a global business strategy
Financial remunerations	Interview 2-2	Another factor is money ie in term of rewards and benefit, this forced many IT expert to move to other business and corporate sectors like banking etc
Bureaucracy	Interview 2-2	And it's also difficult for us to get best expert from outside due to bureaucracy involved in getting them
Lack of experience	Interview 3-1	lack of experience people (both talents and scale)
Low adoption	Interview 3-1	low adoption of outsourcing services as a business model by local industry as well as Government and GLCs
Small vendors	Interview 3-1	Other than the bigger and more matured players, most vendors are small and may not have proven processes and governance models to manage the outsourcing engagement.
Lack of experience	Interview 3-2	The number of experience people in the ITO industry is very small, majority of talented IT graduates prefer jobs with banks and other financial institution thereby making their number low in the industry.
Adoption rate	Interview 3-2	Another reason is that there is very low adoption of outsourcing services as a business model by local industry as well as

		Government and other government agencies.
SMEs problem	Interview 3-2	Though government is promoting outsourcing but little has been done from their end. another problem is lack of knowledge of essence of outsourcing by industry, apart from big industries most small scales enterprise are not adopting outsourcing model
Companies are small	Interview 4-1	There are a lot of problems, the biggest problem here is that companies are small,
Discipline problem	Interview 4-1	ITO is not discipline oriented industry yet a lot to be done in term of structure, in terms of program governance they don't follow any of the best practices, so is not great.
Talent pool	Interview 4-1	Second issue is of course talent pool is an issue in the region is not an issue of Malaysia, but the Malaysia is manifestly higher because we don't find the passionate to in a lot of people, nobody understand the industry very well.
Lack of knowledge	Interview 4-1	The forth issue is learning: learning in the industry is very little, at the CEO level nobody is investing enough time in what the industry is all about what should they should be driving the company, they are not interest they are busy saying we are unique caller center
Competent managers	Interview 4-1	In Malaysia, you don't have strong competent managers, is tough to get a decent project manager, is tough to get a decent service delivery here
Purchasing service	Interview 4-1	Basically the purchase services, you don't purchase services, the customer is not purchase services, and he is purchasing capabilities. How are you clearly explaining that how you are delivering the component is not there stack on service level, is always fire fighter, because there is no structure, there is no methodology put in place, there is no clear alignment of what customer needs versus what your solving. That's where the problem lies.
No decent	Interview 4-1	<i>hand-overing</i> companies how long for over fifteen years not a single decent global oriented company has come out of this country, why what is wrong
Training period	Interview 4-2	one is to have the right people and second is to grow them continuously because it takes 2-3yrs to develop individual to become an expertise
Access to capital	Interview 4-2	That's what we're trying to promote / provide in Malaysia that's only positioning, but do we have the best capabilities. In term of real capabilities, do we have the companies? we have very small companies we don't have large companies in Malaysia most of

		them are small SMEs, for them to be able to grow and serve the demand of these large companies is very limited, not because of experience but because of access to capital
Human capital	Interview 4-2	No, the human capital is not balanced up, the supply is not balanced up, when I say supply is not about number it is quality of the talent, we face significant problem including Malaysians, to send to us and so because of our pressure to run a profitable entity we end up bringing problems
	Interview 5-1	Yes, I can say that part of government strategies this year and next year is to select some companies, which we have already begin.
Human resources	Interview 5-1	The number one challenge is human resources, Malaysia does not have enough people, population is 27millions and in the last 12 months we created under MSC companies at least 15,000 to 16,000 jobs.
Talent pool	Interview 5-1	MSC companies at least 15,000 to 16,000 jobs. They are all IT jobs. In total last year from Malaysia universities there were not much more than 20,000 totals graduates. So this is a big issue.
Foreign workers	Interview 5-1	We also are allowing companies to employ foreign workers to breach that gap. this is a big challenge for ITO in Malaysia
Cost as a challenge	Interview 5-1	Challenges for ITO here in Malaysia are not so much. Cost is one thing, you know where we are cost competitive with India, we are probably about 10% more expensive than Philippines, But is under emerging economies. SO another challenge would be cost.
Human capital	Interview 5-2	The number one challenge is human capital for the ICT industry
Employability	Interview 5-2	In 2005 ICT industry employs 365,000, another 50,000 work force in 2007 and it was projected that by the year 2010 ICT industry will employ 497,000. Out of current supply of 20,000 ICT graduates a year, only 10-15% are ready to be employed.
Brain drain	Interview 5-2	Another problem is migration of skilled workers overseas many highly skilled IT workers prefer to work elsewhere, such as Dubai, and other middle-east country. Even fresh graduates also prefer to go abroad due to low starting salaries

Provisions for MSC Status Organisations

Comment	Text	Segment
tax free 10yrs	Interview 5-1	Ten years corporate tax free
no local requirement	Interview 5-1	We [MSC] allow 100% foreign own company, there is no local ownership requirement, so there is no Bumiputra or non-Bumiputra.

capital movement	Interview 5-1	We [MSC] allow freedom of capital movement, in and out of the country. Which means foreign companies find it very easy to set up in Malaysia, because I can bring in money to set up and if I operate as a profit, I can repatriate back the dividends to my own country
foreign knowledge workers	Interview 5-1	We [MSC] allow unrestricted employment of foreign knowledge workers
employment process	Interview 5-1	If company needs a specific skills or a language skill that is not available in Malaysia, the process for approving employment pass is about five (5) days from start to finish
internet censorship	Interview 5-1	Part of the guarantee is no internet censorship, another guarantee would be to erect globally competitive telecommunication towers, which means if the company is looking at setting up call-center or direct center
financial incentives	Interview 5-2	Government provides competitive financial incentives including no corporate tax or an investment tax allowance for up to ten years and no duties on the import of multimedia equipment.
foreign workers	Interview 5-2	Government also allow unrestricted employment of foreign knowledge workers, which is very important,
intellectual property	Interview 5-2	There is also intellectual property protection and cyberlaws in place.
telecom tariff	Interview 5-2	Malaysia telecoms tariffs is globally competitive compared to some other ITO destinations
One-stop service	Interview 5-2	Multimedia Development Corporation (MDeC) – one stop service agency, this make it easy for any MSC status organisation to complete his or her need at one place, without unnecessary delay

Local ITO Organisations becoming Global

Comment	Text	Segment
ITO Awareness	Interview 2-2	Awareness is another problem in Malaysian ITO environment local organisations were not going beyond Malaysia shore, whereas there are abundant opportunities offshore, CSA is able to position itself globally because it is a member of Computer Sciences Corporation (CSC). No desire to go offshore
Global ambition	Interview 5-1	Yes, I can say that part of government strategies this year and next year is to select some companies, which we have already begin. May be four or five Malaysian companies to take global.
Malaysian's global companies	Interview 5-1	And when we are talking like that there some companies who are already going global from Malaysia. Company like Celcom, which is a business processing outsourcing (BPO) company, they got about 2000 people in Malaysia they have office in Srilanka, India.

PETRONAS	Interview 5-2	Yes, company like PETRONAS eLearning Solutions Sdn Bhd has able to go offshore especially on PETRONAS global business platform
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Positioning Malaysia ITO

Comment	Text	Segment
IDC	Interview 1-1	Sure, in terms of portals, internet data center, because especially in IDC and portal Malaysia there is pool of talents.
Political stability	Interview 1-1	Malaysia is Politically sTable, and no war, economic stability and competitive price and no natural disaster.
ITO awareness	Interview 2-2	Awareness is another problem in Malaysian ITO environment local organisations were not going beyond Malaysia shore, whereas there are abundant opportunities offshore, CSA is able to position itself globally because it is a member of Computer Sciences Corporation (CSC).
Capability problem	Interview 4-1	the third issue is about capability, people don't really understand where Malaysia is, US buyers they don't know where Malaysia is, they don't really have a good understanding, although, the awareness is increasing, when they are coming to this country, they come to set up their own capital, HSBC, DHL etc they own their own company, you won't find many of them working with local vendors as much as they should or as much as you expect them to.
Multinational industry	Interview 4-1	The industry is predominantly multinationals, local companies are very small
Investment's trend	Interview 4-1	Malaysia ITO, are not investing to create a good organisation, they are investing because the customers want it with that cause that is the reason why industry don't grow
Incentive wise	Interview 4-1	Globally, Malaysia offers some of the best incentives in the world anybody can offer, nobody can retreat Malaysia incentives
One-stop solution	Interview 4-1	And it is so easy to integrate in this country, one stop... you go to MDeC everything get done through that.
3% for Malaysia	Interview 4-2	Global sourcing together with about \$1trillion in total demand , is about \$990 billion so you can say it is 1 trillion, this exactly going to be 1.1trilliion... how of that only 20% is from US demand, 42% of that range is from US customer, 43% is from Europe, Europe taped the US because they increase in demand in the last three years, 5 years ago 82% was in America they were the earlier adopters of the outsourcing model anyway, that take care about 90%, the rest 10% -- out of this 10% 7% is going to Japan, is not coming yet but it start up in 2009. I tell you what, if 7% is for Japan and if we could develop 3% outsourcing for the rest of the world like Malaysia, Singapore all of the other countries put together, it is very small. but 7% of Japan is interesting you know the demography of Japan is Aging population, and Japan is going to lose almost 2/3 of his working population to retirement in 2009 [that's big issue in Europe] as well

		as Japan itself, but if Europe is still have option because they are already exploring in Multiple global outsourcing destination, for them I belief it will be too difficult to set up offshore in other parts of the world because they re already being doing it.
Company model	Interview 4-2	Again the thing it is useful for company model in Malaysia because of cultural proximity excluding the language, culture is very important, Chinese, Japanese, Malaysian, Singaporean, fully different culture, language is not a big barrier, for example a company in India if they want to serve company in Japan it is very difficult because culturally they are pole apart, 1- that where I guess Malaysia got one distinctive advantage with respect to language difficulty. the 2- second advantage that Malaysia has is it is a small country is not a huge country to able to say would be able to cater for a lot of demand the target for the industry, MDeC and all of us in the industry is that we want to target 2.5% of the outsourcing demand that's 2.5% of a trillion dollar, that's our focus in term of service export by 2010
Quality of life	Interview 4-2	What kind of demand could we satisfy; we can't do everything in everything it depends. Malaysia is one of the cheap nations; this is one of the best most appropriate country with the best quality of life in this part of the world and only country with the huge service potentials. A person living in Malaysia for what he earns can purchase the lifestyle he want and still safe money. whereas if you go to Shangai in China, India, Phillipine, Singapore anywhere, for one individual earnings, for lifestyle he wants he has to purchase the lifestyle for himself because if the income is not sufficient to purchase the lifestyle he wants there is a negative service potential and Malaysia got a huge positive in this potential which mean that cost of sustainability is huge then there will not be sprawling growth in inflation in the next (10) ten years to (15) fifteen years, that's it would not be huge inflation, which of course in economic perspective will only sure that the is medium course economic growth, but I guess it alright, local citizens why does somebody tamper with economic growth rate which cost growing rate of about 15% to 20% every year.
Local language capability	Interview 4-2	Yes we are good in calling centers in South-East Asia because we can speak many languages, if we want English capabilities we are good at it because we got Indian (Indian speaks good English) or go to Phillipine, because they are the best in communication skills and they can serve you but if you have customer based in Thailand, Singapore, Taiwan or China because you need local language capability that is what Malaysia companies can do
Stability	Interview 4-2	Political stability, these all complemented our effort is not just single race for example it got vary multi racial, you will be access to multiple markets, you got Indian, Chinese, Malays, you can access, right away from Indonesia all the way up to China. The entry point for Malaysia is much easier plus been part of the ASEAN, OIC.
450 global companies	Interview 5-1	Of course we have about 450 global companies which fall under MSC.

2100 MSC status companies	Interview 5-1	Under MSC we have 2100 companies, when you become a MSC company you are not subjected to Bumiputra and all these.
global ambition	Interview 5-1	These are the companies who we [MSC] are assisting to go global because what we would like to see is
Graduate training program	Interview 5-1	We have training programs for universities graduates, we come up with degree on different disciplines, we have been having real training programs, training mainly in IT
Global pedestal	Interview 5-2	Government is trying to select some four to five Malaysian companies this year and next year is and put them on global pedestal, so that they can equally compete in the global outsourcing

ITO Incentives from Government

Comment	Text	Segment
Tax free	Interview 5-1	Ten years corporate tax free
Ownership	Interview 5-1	We [MSC] allow 100% foreign own company, there is no local ownership requirement, so there is no Bumiputra or non Bumiputra.
Capital movement	Interview 5-1	We [MSC] allow freedom of capital movement, in and out of the country
Foreign workers	Interview 5-1	We [MSC] allow unrestricted employment of foreign knowledge workers
Internet censorship	Interview 5-1	Part of the guarantee is no internet censorship
Telco tower	Interview 5-1	another guarantee would be to erect globally competitive telecommunication towers, which means if the company is looking at setting up call-center or direct center,
Specialised training	Interview 5-1	Other area we are assisting them is in human resource, we have programs in place, we have training program where the government sponsor: Dot net, Java, SAP, Oracle, and any other training programs,
Sponsor 25%	Interview 5-1	We [MSC] have fresh graduate training program, where we sponsor 25% of the employee salaries for the first 6months
Budget	Interview 5-1	Of course, not necessary for ITO, but it is a MSC budget, and it will be for IT outsourcing, for creative multimedia, for like tele-health, Mycard, egovernment, there is a budget allocation for that, which is given to MSC Malaysia or MDeC to manage that found
Budget	Interview 5-1	for 2009 budget we are getting an additional 95million ringgit in addition budget to what we incurred then for undertaking our

		programs
Financial incentives	Interview 5-2	Government provides competitive financial incentives including no corporate tax or an investment tax allowance for up to ten years and no duties on the import of multimedia equipment.
Unrestricted employment	Interview 5-2	Government also allow unrestricted employment of foreign knowledge workers, which is very important
Intellectual property protection	Interview 5-2	There is also intellectual property protection and cyber-laws in place. In principle we ensure no censorship of Internet. Malaysia telecoms tariffs are globally competitive compared to some other ITO destinations.
One-Stop MSC	Interview 5-2	Multimedia Development Corporation (MDeC) – one stop service agency, this make it easy for any MSC status organisation to complete his or her need at one place, without unnecessary delay

Types of Government Policy

Comment	Text	Segment
Staffing vs MSC	Interview 2-1	I think their main requirement is that the employment should be limited or let say staffing is emphasized more for the locals, because the government is concern with given his citizens jobs/work, so they wouldn't want definitely want a lot of international staff, they would like to localized staff, majority of the staff if not all, would have to be locals.
Processes	Interview 3-1	It [outsourcing] also needs to tidy up their processes and have a clear understanding on what the service level is then, now and the expected future.
Accreditation	Interview 5-1	One is MSC accreditation for individual IT Company operating in Malaysia
ISO standard	Interview 5-1	The other one is ISO, they have ISO 1001, ISO 9002, ISO 14000, which is for IT services
Internet censorship	Interview 5-1	But part of the bill of guarantee for MSC companies is too ensure privacy, intellectual property, to ensure no internet censorship, in essence these are the part of bill of guarantee for MSC status company
Contrast incentives	on Interview 5-1	So it will be interesting to see what these companies are saying, because from our side we don't have companies we enable compliments, the Malaysian government supporting the industry
Bumiputra practices	Interview 5-1	when you become a MSC company you are not subjected to Bumiputra and all these
Recruitments abroad	Interview 5-1	if a company is from Australia is coming here, we would give them the list of every Malaysians studying in Australian universities and they (students) can actually recruit from Australia to bring back to

		Malaysia.
Breeding local for global	Interview 5-1	So what we want to do to is “we want to grow a few locals Malaysian companies into this class of companies to compete head on with all these large organisations”
Approval	Interview 5-2	Any changes to the approved MSC Malaysia-qualifying activities must receive prior approval from MDeC
Cyber-cities	Interview 5-2	Locate MSC Malaysia-status company’s headquarters and/or principal work activities of the MSC Malaysia-qualifying activities, in a MSC Malaysia designated cyber-cities within six months from the date of approval
15% employees	Interview 5-2	Ensure that at all times at least 15% of the total number of employees (excluding support staff) of MSC Malaysia-status Company are knowledge workers

Need for Government to Handoff ITO

Comment	Text	Segment
Interference	Interview 1-1	Actually the government do, they don't interfere in ITO,
Reason for control	Interview 2-1	I suppose the government has his reason for controlling ITO
Reason for government control	Interview 2-1	Because everything is a business and the government will value a business happening in their country, they will like to make money out of business, therefore if they release ITO, they would not have control over financial situation they would not be able to control how much money therein. If they open it what happen is there are too many hands.
Still control	Interview 2-1	They wouldn't like to open up IT, because if they open up IT they opened the entire trade industry they cannot just open up IT industry alone. And our country [Malaysia] has not come to the level that we can open-up that big yet.
Government control	Interview 2-2	I don't think so, and beside this is a sensitive question, maybe you can refer to MDeC on such questions
No need	Interview 3-1	No, there is plenty of room and benefits for the country if the government could adopt outsourcing as one of the means to improve productivity and efficiency.
No	Interview 3-2	There is no need for that, government should not hand off from ITO now
Step back	Interview 4-1	Too much of government helping, I thing the Malaysia government should step back, everybody depends on the government, every single time, every little problem they want the government to help

Creating strong industry	Interview 4-1	if they sneeze they run to government, that does not create a strong industry, industry are created by industry leaders, if the industry leaders are busy running around the government, trying to get clients and other, how do you create the industry?
Complacent	Interview 4-1	What government can give you? Money! they can't give you anything else, government can't tell you how to run your company you got to go and figure that one out.
Control contrast	Interview 5-1	I am surprised to some will say that we control too much... all we are doing is from Malaysian government
Involvement	Interview 5-1	The thing is that the government should be more involve not less involve
Economic interest	Interview 5-2	As I said earlier, ITO is related to economic growth that's why the government cannot handoff in ITO, at least for the time being, may be later when a well transparent system is in place, the inflow and outflow of economics and financial transactions is open, you know it will be easy for the government to calculate and project it revenue from ITO

Need for Government Stake in ITO

Comment	Text	Segment
Stake	Interview 1-1	Yes on certain services for example Data center, any non sensitive to the government, normally to the government only non sensitive information they don't outsource.
Professionals	Interview 1-1	The government do leave ITO to the professional is just that the government policy on sensitive information cannot be outsource, which to me is fair,
Monopoly	Interview 2-1	I don't think so Why? Because if you release it freely people can actually abuse it and start monopolizing the market, given the government hard time.
Not at that level yet	Interview 2-1	They wouldn't like to open up IT, because if they open up IT they opened the entire trade industry they cannot just open up IT industry alone. And our country [Malaysia] has not come to the level that we can open-up that big yet. Yes the America is very free base country, but you must remember that America have over 200 years independence. I may not say in the near future, but in the future, may be they Malaysia government can open it up and there would be guideline.
Business model	Interview 3-1	Government need to firstly believe in outsourcing as a viable business model to help them innovate and reduce cost.
Economic interest	Interview 3-2	because outsource is equivalent to economic growth nowadays, a therefore government should rather look into how to benefit more from outsourcing

No need for incentives	Interview 4-1	I don't think the government needs to give so many any incentives anymore
Financial support	Interview 5-1	We have a lot of support: financial support, we have training in certain programs, we offer guarantee on infrastructures like electricity and telecommunication.
Economic	Interview 5-2	But you cannot expect the Government also to fold his arms on ITO because it's related to economic. You know that the Malaysian outsourcing income for 2007 only was worth US\$ 300 million and is growing at CAGR of 30% year on year. And when we are talking like that there some companies who are already going global from Malaysia. We are working towards making IT outsourcing to generate 10% of Malaysia's GDP by 2012. you can now understand why government is having stake in ITO
GDP 10%	Interview 5-2	

Effectiveness of Government Policy

Comment	Text	Segment
Openness	Interview 1-1	So far the government is that open to IT
Service level	Interview 3-1	It [outsourcing] also needs to tidying up their processes and have a clear understanding on what the service level is then, now and the expected future
Policies	Interview 4-1	The policies are helping, that's what I say that the problem is in the company not with the government
No restriction	Interview 4-1	In term of service in term of policies, policies are never restricted,
Openness	Interview 4-1	You see policies have never be the problem, as long as the industry is open, there is not too much of restrictions, more facilitations there are no barriers to entry, that is what a government is expected to do, ease the process of entry and ease the process of the business.
One-stop MSC	Interview 4-1	And it is so easy to integrate in this country, one stop... you go to MDeC everything get done through that.
ISO certificate	Interview 5-2	MSC also support encourage IT Company operating in Malaysia to have ISO certification, because it easier to promote the company globally with all series of ISO (ISO 1001, ISO 9002, ISO 14000, which is for IT services).
No censorship	Interview 5-2	in principle we ensure no censorship of Internet

Obstacles emanated from Government Policy on ITO

Comment	Text	Segment
No obstacle	Interview 1-1	So far the government does not put any policy that prove obstacle to ITO
	Interview 1-1	Not to my knowledge, I don't see that, there is a problem.
Nation based policy	Interview 2-1	As for the environment, that one depends, each nation has it set of rule that would prohibit everything, the fact that CSA can operate in Malaysia means that they had already met the regulation of the country.
Not aware	Interview 2-2	I am not aware of any
Government laws	Interview 2-2	If you are talking about corporate level is very high, across region there are a lot of policies, government laws itself, outsourcing is not so easy because we are thinking of we would be having manpower, labour law , industrial law, local laws, before we talk about outsourcing itself. Salary scale policy, the working environment,
Human resource	Interview 3-1	Main concern is the deployment of human resources. People are fearful of losing jobs or have a higher expectation on their jobs. Too much protection to jobs than focusing on performance.
No restriction	Interview 4-1	In term of service in term of policies, policies are never restricted,
Solution	Interview 4-1	I don't think there is anything else the government can do without the change in the situation of industry. It is the industry that has to go and learn what the problem is, which they don't do it.
Local partner	Interview 4-2	We will help you to become a global organisation, but you got to use our view of outsourcing model, is one of the models FDI puts related model, FDI needs another five years of investment before you starting to return. But our outsourcing model is direct local partners and the more you bring a local partner in equity mode the commitment on the local partner is higher but in a supply mode a partner that cannot make money ...forget it ,or he is too difficult, so why should I even start with
Internet censorship	Interview 5-1	Like internet censorship, this is something I really cannot comment on that, I can't give my personal comment is too much political.
Privacy law	Interview 5-1	There is problem with the privacy law
Local vs foreign ITO	Interview 5-1	The thing is we have issues opposite that, we have local companies (Malaysian companies) saying we don't support them enough, and that we (MSC) fights for the global companies, that is what the local companies are saying. While the foreign companies are saying we (MSC) fights for local companies.
Censorship	Interview	I think it is only on internet censorship that there is control

	5-2	
privacy law	Interview 5-2	Another grey area is problem with the privacy law
Political	Interview 5-2	and it might not be appropriate for me to discuss it because it is somehow political
No control	Interview 5-2	Not really, the Government don't have to much control on ITO,

Government requirements for ITO

Comment	Text	Segment
Standard of facility	Interview 1-1	Is actually in term of security and your standard of facility which mean your facility must have met with certain required standards
Standard	Interview 1-1	Basically, standard of your facilities and security. Which mean that they would look at do you have a backup systems, backup power supply, or all that of things, is more of standard of facility and security.
Refer to MDeC	Interview 2-2	I think MDeC will be of good help on this question, but what I can say is that CSA has met all these conditions, if not we would not be allow to operate in Malaysia
Political	Interview 3-2	Maybe, though I considered this question has been somehow political therefore, I may not be able to give accurate answer, however, the fear is there this fear is related to human resource and loosing job. everyone is trying to protect is job one way or the other
Too much offer	Interview 4-1	Government offer is so much, they can't handle a business for you, they give you all that you asked for and you are not able to take all they give you and create a good strong company
100 positions	Interview 5-1	They have to create a minimum of 100 positions within the first three years.
70% revenue	Interview 5-1	the 70% of revenue generated by the MSC company has been export revenue, that mean it has to be project outside Malaysia been delivered within Malaysia
Cyber-cities	Interview 5-1	3- Company apply for MSC status have to seventy percent of their operation within the designated areas

Need for a Customised ITO Model

Comment	Text	Segment
No need	Interview 1-1	Not really I don't think so, personally I don't think so, if you talk about those kinds of outsourcing
SLA	Interview 1-1	The model as SLA, there is still a lot of opportunity to do all these, you need to do a lot of education programs to educate the clients why ITO increase beneficial

Flexibility	Interview 1-1	Actually customization is not the correct word, it more of flexibility in your business offerings, because these established companies are very rigid, why they are rigid probably they are targeting more value, they are like BMW so if you want to go you can also be very rigid like them or be very flexible so is not about customization or introducing new ITO model is just like offering a service in a more different way, normally I will say we use personalized rather than customized.
Personal touch	Interview 1-1	You know client like to have personal touch, that s the key word. For example CASE1 we do offer personal because our clients are all long time clients they can call us anytime, so the main reason why they want to be with you is because of personalized services offered rather than customized.
Flexible service package	Interview 1-1	Yeah, we did that on certain type of our package depending on your target clients so what you need to do is to have flexible service packages. May be 1 for assembly, 1 for SOHO, 1 for enterprise but in all of these you must offer some of personal service. That's the way we look at it.
Culture understanding	Interview 1-1	A lot of outsourcing company talks about call centers for example DELL they outsource call center, we don't that. DELL have foreign company, they open up an Internet Data Center here offering services, but our value is always there because we are local to locals, so we understand culture so we go on that strength. Let go back to courteous part our client can have personal touch rather than just go to professional body and robot act, such cannot be done
Courteous	Interview 1-1	Let go back to courteous part our client can have personal touch rather than just go to professional body and robot act, such cannot be done, you are SME and profit is only is too small
SLA	Interview 2-1	That one I wouldn't know. But so far it seems the SLA model been used in CSA is efficient enough for the time being, if there is going to be any changes in CSA model, that decision will come from top-most management level, as you know that CSA is a multinational organisation
Big organisations	Interview 2-1	As I said earlier, CSA targets big organisations therefore there is no need for us to customise our model. We have an established standard across the globe. Those big organisations come to us because of our known standard.
Possibility	Interview 2-1	Need for new IT model: if there is a new one identifiable I am sure the corporation will go for it
SLA	Interview 2-2	SLA is so far ok with us, that has been part of our global practices, though it goes down with certain specification depending on the nature of contract
out tasking	Interview 2-2	We do ... small at small aspect, they don't call it outsourcing, we called it 'out tasking'. Outsourcing is entire IT infrastructure pass over... they focused on their business we focused on ours. Being their partner, we

		have customer/partner relationship
RFP	Interview 2-2	Yes, we would be very well defined in RFP between the customers is not so easy defining everything in the RFPproposal, RFQuestion, RFInformation.
Performance based	Interview 3-1	Yes, trend towards performance and result/outcome based pricing model. But such model is not fully tested yet
Strategic sourcing model	Interview 3-1	But key point is to move from a tactical sourcing model to a strategic sourcing model. The latter model should generate more values to the relationship, where the vendor will get involve directly in the business strategic issues with the clients. Example: help client deploy new technology to serve new markets or new sets of clients to help them expand their business.
Performance based	Interview 3-2	Yes, I also agree with moving towards performance and result/outcome based pricing model. Though such model is not fully tested yet as pointed out by CEO [he shared your interview session with me]. This step will assist the IT outsourcing industry is to move from a tactical sourcing model to a strategic sourcing model. The latter model should generate more values to the relationship between the vendor and clients, where the vendor will get involve directly in the business strategic issues with the clients.
Longing for model	Interview 3-2	Our organisation are being longing for this model to be develop, with hope that it will assist the ITO industry in the long run. Besides that, result/outcome pricing model as suggested will forced the vendor to focus on the outcome work as it will be determinant for the price.
Standard	Interview 3-2	Therefore there must be standard which is clearly stated in your contract agreement
No need	Interview 4-1	Models are all there, we don't need to develop something, we got thousands of models out there, we just have to replicate them, we just need to understand what these models are, deploy them to the company, and manage them effectively
Outcome based model	Interview 5-2	These SMEs will not be able to complain if their work is done and their payment is based on the outcome. This model might not be acceptable by big vendors in ITO industry, they might be afraid that their standard will be compromise and in actual sense it won't.

Suitable ITO Model for Malaysia

Comment	Text	Segment
SLA	Interview 1-1	Yes, SLA is working properly at least in our company because we have clients like Bank Negara, PETRONAS, Maxis who are been with us the past 7 to 8 years
Understand	Interview 1-	A lot of outsourcing company talks about call centers for example

culture	1	DELL they outsource call center, we don't that. DELL have foreign company, they open up an Internet Data Center here offering services, but our value is always there because we are local to locals, so we understand culture so we go on that strength. Let go back to courteous part our client can have personal touch rather than just go to professional body and robot act, such cannot be done
Flexible service package	Interview 1-1	Yeah, we did that on certain type of our package depending on your target clients so what you need to do is to have flexible service packages. May be 1 for assembly, 1 for SOHO, 1 for enterprise but in all of these you must offer some of personal service. That's the way we look at it.
Out tasking	Interview 2-2	We do ... small at small aspect, they don't call it outsourcing, we called it 'out tasking'. Outsourcing is entire IT infrastructure pass over... they focused on their business we focused on ours. Being their partner, we have customer/partner relationship
Manage Disparity	Interview 3-2	Hence, a proper governance model must be put in place by both vendor and client to manage the disparity.
Performance based	Interview 4-1	Yes, trend towards performance based pricing model or and result based pricing model. Even we can think of combining these two models and test them in Malaysia ITO. These are new trends in ITO and Malaysia might end up being among those benefit from these models implementation.
Partners	Interview 4-2	Customer will say look you did not disturb of outsourcing, is not to talk of vendor you are seeking, you are seeking partners and seeking markets. India sells partners they don't sell market, they said if u want a partner we can serve you, you pay the fee that is all
Payment based on outcome	Interview 5-2	These SMEs will not be able to complain if their work is done and their payment is based on the outcome. This model might not be acceptable by big vendors in ITO industry, they might be afraid that their standard will be compromise and in actual sense it won't.

Why ITO Models face Problem

Comment	Text	Segment
3 reasons	Interview 1-1	Why ITO model facing problem is because of these 3 things: 1- Slow in responding, 2- Inaccurate diagnose of problem so they give inaccurate solution and 3- Courteous.
Lack of transparency	Interview 1-1	Our clients appreciates and value those thing, we are not saying that we are offering the best service we make mistakes in our way, but what we focus on is honesty to our clients no matter crisis, we have a couple of month ago problem. We actually inform our clients and explain to our clients all this and certain people who have certain service level we do offer some kind redemption to our clients for example discount, to show that we are sincere in the business. That mean I sure you had suffer with the some loses then we are willing to forgo some of our profit, at least to cover some of your loses which was probably caused by us or some third party so the problem is

		always go back to some model.
Operation Managers	Interview 1	2- Monitoring is handled by operation managers. In my department SLA is mainly for backup, backup SLA should be monitored by the operation managers and if their SLA are not met there is a weekly update direct to the client and the client will questioning why SLA is not met. So we have to go by SLA module and depending, if you meet the SLA there is no charges but if you missed the SLA there is charges because there is an impact to the business
International standard	Interview 1	3- Yes, many models are based on international standards.
Disparity	Interview 1	3- ITO failures could be due to a disparity in expectation between client and vendor
Less forgiving attitude	Interview 1	3- In a lot of cases, once the work is now done by external party, the expectation rises with less forgiving attitude.
Cultural changes	Interview 1	3- Other reasons could be cultural changes. Hence, a proper governance model must be put in place by both vendor and client to manage the disparity
Contract failure	Interview 2	3- Inability of IT vendors to identify this need lead to several contract failures, though these failures could be due to a disparity in expectation between client and vendor
Business model	Interview 2	4- Thankfully in Malaysia that is not the case because most Malaysian companies that started with domestic business are now the experts including the sustainable business model at least they did not get kick off of their own country in term of customer base.

ITO Model in place

Comment	Text	Segment
Process model	Interview 1	1- Normally ITO management process model refer to your operation process in term of setup, in terms of problem solving and in terms of crisis management and one more is your clients' management or servicing.
SLA	Interview 1	2- CSA goes by service level agreement [SLA] model
Backup SLA	Interview 1	2- Monitoring is handled by operation managers. In my department SLA is mainly for backup, backup SLA should be monitored by the operation managers and if their SLA are not met there is a weekly update direct to the client and the client will questioning why SLA is not met. So we have to go by SLA module and depending, if you meet the SLA there is no charges but if you missed the SLA there is charges because there is an impact to the business.
Long term service	Interview 1	3- Mostly long term service contracts as a base and additional variable cost based on innovation or enhancement (through transformation projects

		during the contract term)..
No strict model	Interview 3-2	Yes, we have being implementing international standards models are based on. We don't strictly follow particular model because we have to consider the local environment and the market we are operating in.
Credit/penalty regime	Interview 3-2	SLA and service credit/penalty regime

Table 5.5.1: High Service Cost

Comment	Text	Segment
Benefit in return	Interview 1-1	Yes is true to some clients do think that the ITO charged is just too enormous but actually you need to look at the benefit in return
3rd party	Interview 1-1	if you do outsourcing you can only deal with one party third party takes the responsibility, if not total, large part of the responsibilities if you imagine you have a data center, if anything happens you have to go down
Deadline	Interview 1-1	if you outsourced just phone call 'I WANT IT TO BE SOLVED IN 5minutes' s
Peace of mind	Interview 1-1	So the cost is normally justified based on peace of mind.
Manage and update	Interview 1-1	tomorrow Hp for example may have new models of servers, tomorrow you have new virus attack, if you managed on your own you have to all these you have to keep yourself updated and you have to invest, but if you outsource to people, you just put your Service Level Agreement (SLA).
Peace of mind	Interview 1-1	to ensure mind is protected I want 99.9% up time
Invest	Interview 1-1	if I want to do it myself I have to do all these I have to invest in knowledge that is the thing why sometimes IT outsourcing is been viewed as expensive
Requirement for in-house	Interview 1-1	You need to have infrastructure, you need to have electricity and power backup you need to have not just power, but another substation, generating set, you need to have batteries there are layers when you talk about security, you need to have people, multiple layer of security, if you talk about bandwidth you need to have double bandwidth
Compute total cost	Interview 1-1	Anybody who claim ITO services cost is too enormous it means that they have not compute the entire cost, our electricity bill only can easily cost you a million ringgit.
SMES ITO knowledge	Interview 1-1	SMEs they don't have the knowledge, that why they say it is expensive.
priority	Interview 1-1	If you talk about the SMEs IT is always the last agenda, those who understand the dot of IT will not make this kind of acquisition

Not all expensive	Interview 1-2	Not all service are expensive some are not really for instance, we offer high-quality web site design and development at the most affordable prices. We design and develop websites for small to large businesses, corporate bodies and individuals.
Big contract	Interview 2-1	Basically, the company as big as CSC, their concern is about big contract, so the smaller companies who cannot afford to pay that much, there is many smaller IT outsourcing companies that can render their services depending on the fees paid how much they can afford. So CSA get more concern with big money they don't really care much for small businesses.
Charges ok	Interview 2-2	for the big companies in Malaysia as far as CSA clients are concerned the charged is ok
ITO cheaper	Interview 3-1	Generally, assuming the deliverables are identical (compared if done in house), IT outsourcing services should be cheaper. Hence, I disagree with the statement.
Business driver	Interview 3-1	Outsourcing services business drivers are lower cost, ride on talents and proven processes, etc.
Not cheap	Interview 3-2	The cost of running an IT vendor is not cheap, for us to attract clients we have to provide state of art infrastructure and best class service, coupled with expertise. At time the companies have to trained employee new skills in IT, some of these professional trainings run into thousands of dollars per head. Though these are organisation's assets but it is at a cost.
Cost is high	Interview 5-1	The cost is high, that is correct, if you are not doing it direct so you got certain guarantee with IT vendors like Hp, Satyam, Wipro, ACA, EDS,
No price control	Interview 5-1	So definitely, we can't control the price, however, what we do is to help an association which is called Outsourcing Malaysia, there is source for local Outsourcing companies, and the company who is outsourcing will like to look at all local outsourcing companies in Malaysia and whereby it can reduce it costs.
Big names	Interview 5-2	If you go for big names you pay big that is the trend, though most of the big names have established themselves and have standard practices across the globe. That is why their charging is considered exorbitant.

Big versus SMEs

Comment	Text	Segment
Typical SMEs	Interview 1-1	You know most of these complaints come from SMEs that is SMEs it just typical I am not criticizing them
No knowledge	Interview 1-1	SMEs they don't have the knowledge, that why they say it is expensive.
ITO last agenda	Interview 1-1	If you talk about the SMEs IT is always the last agenda, those who understand the dot of IT will not make this kind of acquisition. Secondly, SMEs they want Mercedes but they can afford Kelisa [a Malaysia made

		small car], tell me how we can have that!
Less expensive services	Interview 1-2	The SMEs go for less expensive services as cheap as RM35 or 10USD per annum while the big companies like PETRONAS etc go for high service with the cost ranging from RM999 to RM9999.
Global standard	Interview 2-1	As I said earlier, CSA targets big organisations therefore there is no need for us to customise our model. We have an established standard across the globe. Those big organisations come to us because of our known standard.
Big org	Interview 2-1	Basically, the company as big as CSC, their concern is about big contract, so the smaller companies who cannot afford to pay that much, there is many smaller IT outsourcing companies that can render their services depending on the fees paid how much they can afford. So CSA get more concern with big money they don't really care much for small businesses.
Quality	Interview 2-2	In CSA our clients know quality of our work and performance, therefore, they never complained of our cost, beside CSA clients are big organisations we do not really deal with SMEs instead we out-task for them.
Charged ok	Interview 2-2	for the big companies in Malaysia as far as CSA clients are concerned the charged is ok
SMEs complain	Interview 2-2	only the SMEs that are complaining of price
Out-tasking	Interview 2-2	We do ... small at small aspect, they don't call it outsourcing, we called it 'out tasking'. Outsourcing is entire IT infrastructure pass over... they focused on their business we focused on ours. Being their partner, we have customer/partner relationship
organisation strategy	Interview 3-1	Beside no big client will want you just for a year since they considered outsourcing as part of organisation strategies.
no big company agreed	Interview 3-2	I am aware of some SMEs facing this cost problem, no big company will agree with you, most of them [SMEs] do not place IT function at priority, and they considered it last. Information technology has become the strategic aspect of organisation nowadays, it is no more a supporting factors, though, it might not be the core function of the organisation but it is engine room for the organisation
ITO exorbitant	Interview 3-2	These SMEs were not ready to look at IT from that perspective that is the reason they consider spending on IT outsourcing exorbitant. I will also say that these SMEs were only looking at it from short time aspect, considering the long time implication IT service is not too costly.
Complexity involved	Interview 4-1	Though it depends on the complexity involved in the contract, a big scale contract should be at least up to five year while the small scale project should be at least one year

Duration of Contracts

Comment	Text	Segment
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1year	Interview 1-1	No we don't normally our minimum is one year and normally you should have the actually contract which we call 'Service Level Agreement' SLA...
1year	Interview 1-2	the list contract duration we have is one [1] year, though we have some of our major clients that are being with us for almost a decade
One year	Interview 2-1	No, our minimum contract period is one year, our packages are annually based
Extend up to 5years	Interview 2-2	Usually our basic contractual period is minimum of one year, most our deals usually extend up to five years and above
1 yr not enough	Interview 3-1	We are a big organisation, the minimum contractual period we have is one year, at least though it might not be enough for professional analysis of success of failure that is why most of our clients extend their contractual deals with us. Beside no big client will want you just for a year since they considered outsourcing as part of organisation strategies.
Effective contract starts from 1yr	Interview 3-2	No, any contract that less than a year is not an effective contract, it means you are not ready to assist your clients and your organisation as well. SLA assessment is quarterly based, it will be difficult to measure development if the period is less than a year
Big or small project	Interview 4-1	Though it depends on the complexity involved in the contract, a big scale contract should be at least up to five year while the small scale project should be at least one year
Not possible in 1yr	Interview 4-2	You are creating an organisation where every single entity is the best; supply chain, distribution network, IT, Finance and the might be located in different country, but all are with single goal, working for the best. This cannot be done within a year
1 yr	Interview 5-1	Each company has its policies which are completely different from others, but so far as I know is company's minimum contract period is one year.

Methods of Charging

Comment	Text	Segment
Bandwidth usage	Interview 1-1	Normally the extra are usage of bandwidth for example if you use bandwidth that beyond what you subscribed for, though we do allow you to use access but we monitor, normally if it constant access then we charge extra or we just go back to client and tell him you are always use this megs, so you need to pay extra.
Location	Interview 1-1	Location normally doesn't add to cost its always at the service level
Bandwidth, space and response time	Interview 1-1	On the SLA the most important is bandwidth. Other variables are Space; maybe you want to have 1rap or two raps sometimes you have clients that says I want the space this bid dedicate to my company (1- Bandwidth, 2- Space, 3- Certain response time) and also certain response time.
Standards	Interview 1-1	There are standards for example if you pay certain amount you will get this kind of response for hour... but if you want to have less than one hour you

		should pay extra .. These are the variables so it depends
RM35	Interview 1-1	But there are actually options for SMEs, all providers have services for individual and for SMEs, RM35 that is about \$10US for 2years you get 1gig of space and that pretty cheap so normally to SMEs when we create it.
No unified way	Interview 1-2	We don't have a unified way of charging our clients we are very flexible when come to charging. for our IDC we charge based on the space size each client requested for, we have different level of service and maintenance the class of service a client subscribed for will determined amount to be paid at the end of the month or year as the case may be.
Services required	Interview 2-1	I am not in the right position to answer that, I am in a very specialized area I wouldn't know what it actually going in the finance and promotions. Cost charges is depending on the services required by the client, it ranges from tens of thousands to millions, the level of services, how much the services they required
Smaller ITO	Interview 2-1	Basically, the company as big as CSC, their concern is about big contract, so the smaller companies who cannot afford to pay that much, there is many smaller IT outsourcing companies that can render their services depending on the fees paid how much they can afford. So CSA get more concern with big money they don't really care much for small businesses.
SLA	Interview 2-1	CSA goes by service level agreement [SLA] model
SLA module	Interview 2-1	Monitoring is handled by operation managers. In my department SLA is mainly for backup, backup SLA should be monitored by the operation managers and if their SLA are not met there is a weekly update direct to the client and the client will questioning why SLA is not met. So we have to go by SLA module and depending, if you meet the SLA there is no charges but if you missed the SLA there is charges because there is an impact to the business
SLA	Interview 2-2	In CSA we adopts SLA
SLA	Interview 3-2	We charge base on SLA, we have some identified measure that we agreed upon, though we have our standard to maintain. Duration of contract period is also a factor in charging clients, because we have discount method or some kind of flexibility mode of charging. For data centre, it has to do with space per cubic, plus associated charges.
Cost based	Interview 3-2	Mostly long term service contracts as a base and additional variable cost based on innovation or enhancement
Steps to Reduce ITO Cost		
Comment	Text	Segment
Business strategy	Interview 1-1	Actually, to me this is just a business strategy either look in the long run or short term planning, because the cost is always about the same is just how you perceive

Volume vs Value	Interview 1-1	Here I will say is either you want volume or you want value. If you want value you charge high and you go for premium clients, if you want volume then you can just spread your cost. This means we have to set some infrastructure. it is what we call value versus volume
Demarcated services	Interview 1-1	Or you can have a mixed of both which mean you demarcate your service for example Case1 we demarcate, we have service for SMEs and we have for the high value.
Low budget web design	Interview 1-2	Our global operating model allows us to provide low budget website design and web base application solutions in a very efficient and quality manner, enabling businesses to go online fast and at reduced costs.
Big deals	Interview 2-1	Basically, the company as big as Case2, their concern is about big contract, so the smaller companies who cannot afford to pay that much, there is many smaller IT outsourcing companies that can render their services depending on the fees paid how much they can afford. So Case2 gets more concern with big money they don't really care much for small businesses.
SMEs options	Interview 2-2	But there are options for these SMEs they better do their IT outsourcing with small IT vendors if they see price offer by big IT vendors to be too high.
Difficult	Interview 2-2	That is difficult, because big IT vendor such like us [Case2] will not compromised our standard just because of SMEs
Flexible Costing	Interview 2-2	Maybe ITO vendors should established a kind of flexible costing for small and medium scale enterprises, as I said it very difficult because it might backfire and no organisation wants to put its name on the line for such kind of a step.
Leveraging	Interview 3-1	Most ITO vendors should build leverage on cost over a few customers. They will also leverage on the skills already developed to deliver the services. That's how vendors make their margin and at the same time should offer lower cost to their customers. But if the clients are looking at innovation and re-engineering of their business processes, then there is value for the vendor to charge more. In any case, the additional cost should be cheaper and innovation can be achieved at much quicker time. But please bear in mind that not all outsourcing projects take cost cutting as the main criteria.
Flexible charging	Interview 3-2	since costs is related to service, for SMEs we a very flexible charging method for them, this is to encourage them to outsource more and give them room to focus on their core business
Training on job	Interview 3-2	We also provide training for them so that they can understand important of our service.
Can't control price	Interview 5-1	So definitely, we can't control the price, however, what we do is to help an association which is called Outsourcing Malaysia, there is source for local Outsourcing companies, and the company who is outsourcing will like to look at all local outsourcing companies in Malaysia and whereby it can

		reduce it costs.
Considering SMEs along	Interview 5-2	But if we really want to improve the ITO practices in Malaysia we would have to consider the SMEs along

Local Service Cost

Comment	Text	Segment
Security	Interview 1-1	To local environment the issue is always security, and of course the government, they have annual budget. Other than that the cost is not a big issue, it is always control and security. Because government always need his sovereignty.
Culture	Interview 1-1	A lot of outsourcing company talks about call centers for example DELL they outsource call center, we don't that. DELL have foreign company, they open up an Internet Data Center here offering services, but our value is always there because we are local to locals, so we understand culture so we go on that strength. Let go back to courteous part our client can have personal touch rather than just go to professional body and robot act, such cannot be done
Personal touch	Interview 1-1	You know client like to have personal touch, that s the key word. for example Casel we do offer personal because our clients are all long time clients they can call us anytime, so the main reason why they want to be with you is because of personalized services offered rather than customized.
Affordable prices	Interview 1-2	We offer high-quality web site design and development at the most affordable prices. We design and develop websites for small to large businesses, corporate bodies and individuals.
Reasonable costs	Interview 1-2	We deliver high quality web-based solutions and IT enabled services at low and reasonable costs
Should be cheaper	Interview 3-1	IT outsourcing services should be cheaper considering some local factors that give local ITO some competitive edge, such as language
SLA Assurance	Interview 3-2	Assurance is given through SLA and service credit/penalty regime
standardized pricing	Interview 5-1	Because local companies would have standardize pricing on Malaysia and probably would have more competitive pricing than the multinational companies

Establishing Trust

Comment	Text	Segment
Reputation	Interview 1-1	You need to build your own mark of success that means your reputation which means you need to build your trust in outsourcing
Convince clients	Interview 1-1	I think is anywhere in the world is not an easy job to do, but if you actually try to manage and convince certain clients
3 elements	Interview 1-1	We have established a process it always go back to the three element infrastructure, process and people. Is not easy it has to be over time and

		experience. Just like when the foreigner comes here Oracle, Microsoft, what do they tell you 'this is used by' so it gives you confidence?
Trust and confidence	Interview 2	1- Our redundant systems, Internet connections, network infrastructure and most importantly experienced systems specialist, continue to win customers' trust and confidence
Years in business	Interview 1	2- Many years in the business we tell you that we have solid ground we have big companies like Maybank and Motorola who are actually have trust in Case2 that should be sell enough.
Clients come	Interview 1	2- People now come to Case2, CSC have not to go out itself that how well developed the name CSC as.
Known standard	Interview 1	2- Those big organisations come to us because of our known standard.
Achievements	Interview 2	2- Our achievements speak for us, we do not go out looking for clients anymore, most of the clients come to us themselves after reading or witnessing our success story
CMMI	Interview 1	3- Capability Maturity Model Integration (CMMI) Level 5 rating, and the first IT company in South east Asia to be certified ISO 20000 for Service management. Among the first organisation to be awarded MSC status
ISMS	Interview 1	3- Information Security Management System (ISMS) certification
Achievements	Interview 1	3- it has to do with number of achievements and accomplishments made by the organisation
no failure	Interview 2	3- but so far none of our dealings leads to legal battle or terminated due to poor performance, I can vouch for that
Reputation	Interview 2	3- You know our reputation is better announced by our clients
No mistrust record	Interview 2	3- How do you manage trust in outsourcing? As I said earlier no record any kind of mistrust or distrust with our client
Investigation	Interview 2	3- firstly, before a client considered you as potential vendor, such client must have done certain level of investigation about their potential vendors, then after, they shortlist, nowadays our client come to us because of reputation, though we still go to bid for big deal but none of such contracts will bid for was rejected on the ground of inexperience or what so ever.
ISO	Interview 2	3- Besides, we have achieved some standard like no other in Malaysia, ISO standard, Capability Maturity Model Integration (CMMI) Level 5 rating.
Modulus Corporation	Interview 2	4- Overtime some of these large suppliers who have been offering services consistently well for the large companies said they can't be a fee-base

		provider anymore I wanted to be part of your company, buyer have to open to their suppliers, by open up part of their organisation to external people, this brings a lot of risks however, some companies did it successfully that is what lead to Modulus Corporation
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Building Trust

Comment	Text	Segment
Build your mark	Interview 1-1	Trust is an issue you need to build your mark, you have good clients. This why when you want to put money, usually you pick your bank either it Bank X or Y you have to know with one you trust.
Infrastructure	Interview 1-1	Why bank X, because they have certain infrastructure because they want to build trust. They want to say that if you put your money in our bank our bank is an established bank we are going to be here for long time, you don't want to put money in a bank and after 3 years it went bankruptcy.
Process	Interview 1-1	We have established a process it always go back to the three element infrastructure, process and people. Is not easy it has to be over time and experience
Success story	Interview 2-1	People trust CSA because we got a lot of success story
Clients	Interview 2-1	The fact that Maybank can give a trust by outsourcing it entire IT to CSA other people can look at that and say they have Maybank for over ten years and that it good.
No legal battle	Interview 3-1	If success means no legal battle or termination due to poor performance, then all are successful.
Results	Interview 3-1	Prove with measurable results
Quality Certificate	Interview 3-1	IT company in Malaysia to be awarded the MS ISO 9002:1994 Quality System Certification and also the MS ISO 9001:1994 Quality System Certification in 1999
ISO	Interview 3-1	It has recently been awarded the ISO 27001:2005
1 st time	Interview 3-2	Especially if it is a first time dealing with such client
Mistrust	Interview 3-2	Several factors could lead to mistrust, economic situation, change in personnel. Global economic situation might increase fear in people and that might lead to mistrust or a kind of doubt between client and vendor. Another reason is when there is acquisition or buy over of organisation existing clients tend to develop kind of distrust and mistrust because it took several years to build a solid trust relationship between two parties.
Standard	Interview 3-2	Therefore there must be standard which is clearly stated in your contract agreement
Client advocates	Interview 3-2	We don't usually use the names of our clients to support of claims, in most cases our clients advocate for us, because they want other to know

		how serious they are in term of IT functional aspect of their organisation
Risk sharing	Interview 4-2	Outsourcing distinguished itself from subcontracting in the sense that there is a sharing of risk and benefit in the contract, moment u asked someone to share the company the person must understand the work. For instance a banking industry should be focusing on how to satisfy her customers, most of the operation cost I should be focused on customer service my score is customer service, their might companies who good in accounting, technology development, that how will come with outsourcing model development.
Modulus cooperation	Interview 4-2	Multiple companies come together to form one large company, that's what is called Modulus corporation, one single company need not to have everything in-house, departments are not internal departments, they are external companies. You re creating an organisation where every single entity is the best; supply chain, distribution network, IT, Finance and the might be located in different country, but all are with single goal, working for the best.

Problem Constituted by Mutual Trust in ITO

Comment	Text	Segment
Control	Interview 1 1	Yes, it relates to control
Trust problem	Interview 1 1	2- There is always a problem with trust, that's why we always try to have evidence, proving that you have done your work trust is always an issue.
Headache	Interview 2 2	Yes, getting mutual trust is a big headache for any organisation
Early stage	Interview 1 1	3- Yes, usually at the early stages of the engagement. That also depends on how the deal is done and how much buy in through-out the organizations
Change in personnel	Interview 1 1	3- Change in personnel also arouses some mistrust and new people may not honour old commitment and goodwill.
Manage misunderstanding	Interview 2 2	3- But problem is normal in any business dealings important thing is how to manage misunderstanding in business.

Managing Mutual Trust

Comment	Text	Segment
Mark of success	Interview 1 1	1- You need to build your own mark of success that means your reputation which means you need to build your trust in outsourcing
Manager handles	Interview 1 1	2- That's done by the managers, on the operation side we just do our side, what we are told to do we do. The management handles all that I don't know how they handle it.
Headache	Interview 2 2	2- Yes, getting mutual trust is a big headache for any organisation

Non disclosure agreement	Interview 2-2	You need to have a non-disclosure agreement commitment, how do you at it if not you wouldn't be able to business it a contract binds between aim of investment itself if not you won't get the things solved, there are a lot of implication itself a lot of secret things, so we don't disclose whatever information we get from the customer side. This is one of the things there are many other things we don't disclose.
Stringent policies	Interview 2-2	Definitely, it is an open world, we have a lot of challenges, is not that easy we won't get things by just put things up and get a contract or get to win a deal or things like that. Stringent policies and to get the things to their parts that really not only locally, were managing globally we have a lot of constrains the local government authority, local government certification or things like that...not so easy.
Lack of clarity	Interview 3-1	Lack of clarity in scope and differences in expectation, usually at the initial stage of the engagement.
Security	Interview 3-2	These are housed in our secured and state of the art 24 x 7 operating data center and business work area facilities supporting customers across various industries
Educate	Interview 3-2	Usually the problem comes from clients but at time we are to blame for some, we supposed to educate our clients and asked for detail and clarification on certain parts of the contract.
Distrust record	Interview 3-2	As I said earlier no record any kind of mistrust or distrust with our client because we never lose any major client since and that is a prove that we are able to manage trust that our clients have in us
Local heads	Interview 4-2	Malaysia understand America standard and vice-verse ...because it might take an American 20years to understand Malaysia, that's why the bring local person to head the multinational company