

IT OUTSOURCING AS AN INNOVATIVE STRATEGY: THE EXPERIENCE OF A MALAYSIAN BANK.

*M.A. Suhaimi, M.S. Mustaffa and H. Hussin
Department of Information Systems
Faculty of Information and Communication Technology
International Islamic University Malaysia
53100 Kuala Lumpur, MALAYSIA
Email: adam@iiu.edu.my*

ABSTRACT

The outsourcing of IT services is growing rapidly and becoming more complex. This study centres on the IT outsourcing decision and its initial implementation at one of the top commercial banks in Malaysia. Being among the few local banks to undertake such a bold step, the bank is fully aware of the high level of uncertainty whether the strategy will bring the desired outcome or not. The scope of the study includes the motivating factors for the IT outsourcing decision, implementing the IS outsourcing strategy and managing the strategy. The study adopts a case study approach where forty interviews were conducted among the staff, covering the management as well as non-management group. The findings of the study indicate that the motivating factors are the focus on core competencies, turning non-profit activities into profit-generating activities, and cost reduction. The model involves the set up of a two-tier relationship between the bank and the service provider. The challenges include managing the partnership and handling the staff transition and motivation. The study provides a real life example of IT outsourcing practice in the banking sector of a developing country.

1. INTRODUCTION

Outsourcing of information systems (IS) has experienced a tremendous growth in the last 10 to 12 years, ever since the landmark information technology (IT) outsourcing agreement signed between Eastman Kodak and service providers IBM, DEC and Businessland [1]. According to the IT Index¹ prepared by the Outsourcing Institute, spending on IT outsourcing reached US\$ 56 billion in 2000 and is expected to top US\$100 billion by 2005. This trend is expected to continue for many reasons such as to be cost effective, concentrating on organisation's core business activities and to keep abreast with rapid IT technological advancement.

Considering market players, [2] states that the most matured IT outsourcing partnerships are found in the United States. United Kingdom and Australia are said to be closely following the trend, followed by the Western Europe and South America. The rest of the world, including Asia, IT far behind. However, parts of the East Asia, including Japan, which initially resisted the trend, is now positively responding [3].

As with most developing countries, there is a limited empirical studies conducted to evaluate the extent of IS/IT outsourcing in Malaysia. However, a few large companies are embarking on IT outsourcing projects, and the Malaysian government too is outsourcing most of the important national projects such as the Smart School, Human Resource Management Information Systems, and e-procurement project. Are Malaysian organizations naively "jumping on the outsourcing bandwagon"?

This paper presents a case study of the IT outsourcing experience of one of the top commercial banks in Malaysia. The main theme of the study centres on few fundamental questions, from the point of view of management and employees as well as other stakeholders such as customers and shareholders. Examples of the fundamental questions may include, 'Why the bank implements IT outsourcing?', 'What is the best way to approach IT outsourcing?', 'Will the IT outsourcing work?', 'How does the

¹ URL: http://www.outsourcing.com/content.asp?page=02i/other/_sungard/it_index.htm

IT outsourcing strategy affect both internal and external customers?', and 'How is the outsourcing partnership being managed?

In essence, the case study is to explore IT outsourcing practices in the selected bank with the following main objectives:

1. To understand the objectives of IT outsourcing decision in the bank;
2. To identify the rationale behind the IT outsourcing strategy adopted;
3. To explore the implementation of IT outsourcing strategy in the bank, and;
4. To observe potential challenges faced by the bank following the IT outsourcing decision.

To achieve anonymity of the organizations under study, the bank will be referred to as ALPHA, the service provider as GAMMA and the intermediary company as BETA

2. OUTSOURCING PHENOMENA

IS outsourcing refers to the concept of subcontracting part or all a company's IS function to one or more external vendors [4]. [5] defined IT outsourcing as 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. Additionally, [6] stated that IT outsourcing involves transferring IT assets, leases, staff, and management responsibility for delivery of services from internal IS functions to third-party vendors. In the IS/IT industry, outsourcing draws upon the collaboration of two parties -- the service receiver and the service provider. Service receiver is the company issuing the outsourcing contract; alternatively service provider is the company receiving the contract. In short, IT outsourcing involves the act of a company (service receiver), which trust part or the whole of its IT or IS functions to be processed, managed or maintained internal data and provide information-related services by one or several external vendor (service provider).

There are four types of IT outsourcing decisions [7]:

- Inourcing (In-house sourcing): Retaining IT responsibilities as in-house functions, it is a relationship with the internal IT department.
- Multiple selective sourcing: A more comprehensive type, it describes a relationship with one or more IT services suppliers for only parts of the IT services.
- Total outsourcing: The most comprehensive type, it describes a relationship for all IT services, with one or more IT services supplies.
- Strategic alliance / Joint venture: Today's outsourcing agreements are in the spirit of long-term (5-10 years) partnerships and alliance.

An extensive study on selective versus total outsourcing decisions was conducted by [8]. The study found that most respondents preferred selective outsourcing than total outsourcing, and one of the reasons is that it was discovered to be more controllable. Total outsourcing is only successful if there is a tight and well-monitored contract or agreement between the sourcing firms and the externalized party/parties. Until 1990, the driver for IS/IT outsourcing is the perceived potential of cost savings for the outsourcer and shifting the burden or risk to the service provider or vendor in order to gain access to the cutting-edge technology [9]. The potential for cost savings has led many senior managers to enter into various types of contracts with IS outsourcing vendors [10]. Contrary to this, findings from a study conducted by [11] suggested amongst others, that savings were not significantly associated with satisfaction with outsourcing for either larger or smaller firms. The main reason for outsourcing was to access better or acquire more skills.

Another driving force for outsourcing is management's perception that by surrendering control of company's IT functions to external service providers, management can better focus on its core business [12]. Outsourcing can quickly bridge the gap of IS inadequacies since the perennial slogan of computing is faster, better and cheaper. Outsourcing also frees up resources for other more vital business objectives. Defining what are core competencies for any firm is rather ambiguous. Firms that

identify IS as a non-strategic function or if the company is a low-technology organization, considering the possibilities of outsourcing is the solution since staying to current technologies requires tremendous effort and time [13].

2.1 Outsourcing in Malaysia

The prevalent trend of outsourcing information and communications technology (ICT) operations in local scene is fast becoming an alternative business solution in Malaysia especially so among large organizations. It was reported that Meta Group Asia-Pacific states that the current trend is to go into outsourcing by forming joint ventures [14]. Malaysia views outsourcing as a value-added service to generate revenues and also a means of improving IT performance. Since 1995, Asia-Pacific is the leading outsourcing market; Malaysia and Singapore are the leading countries where interest level is high. To countries where the knowledge of the English language is not high, for example, Korea and China, they rather purchase technology per se than buy services. As reported by [15], Sirim Berhad clarifies that an organization would typically have three ICT functions, namely management, development of new systems and maintenance. In preserving the organization's competitive edge such critical systems components should not be jeopardized. Maintenance of hardware systems could be outsourced unlike business specific applications. In addition, gateway to the organization's network is considered crucial to safeguard the organization's security; as such it is not advisable to be outsourced. The need to understand and develop a fit between IT outsourcing and business strategy has long been emphasized by researchers and practitioners. It was also reported that KPMG Consulting Asia believes third party outsourcing works, but provided it has a track record [16]. Even as outsourcing becomes an integral part of the banking sector one needs to consider the issue of security. In the world heading towards borderless transactions and information communication technology, security is crucial to the reputation of the organization.

Among the early Malaysian government's large-scale systems integration projects were for Malaysian Postal Office and Amanah Saham Nasional Berhad for Permodalan Nasional Berhad (PNB). All these massive computerization projects are outsourced to HeiTech Padu Berhad, which is Malaysian's leading total ICT solution and service provider. It was reported that the Malaysian Government awarded the Smart Schools project to the Telekom Malaysia Consortium [17]. Electronic Data Services (EDS) Malaysia had earlier been selected, as part of the Sapura Consortium, by the Malaysian Government to develop and implement the pilot phase of the Prime Minister's Office – Generic Office Environment (GOE) project. Then again, Price Waterhouse Coopers briefs [18] that Malaysia can expect to attract at least US\$ 3 billion of the global outsourcing business that is projected to be worth US\$ 0.504 trillion by 2008. According to Multimedia Development Corp.(MDC), this would lead to the creation of some 60,000 high-end jobs in the country. The growth of Malaysia as an outsourcing center would drive the outsourcing implementation, may it be in manufacturing, telecommunications, finance, government or other services.

3. METHODOLOGY

Since the main objectives of the study is to understand the outsourcing decision and approach by the bank, it is thought that case study method is the most appropriate. According to [19], 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 events.

This case study covers only on the understanding the IT outsourcing decision-making process and the implementation of the decision in ALPHA. It is not intended however to study whether the decision will bring the desired results because at the time of writing, the decision has not been fully implemented. This exploratory study seeks to understand the IS outsourcing undertaken by ALPHA and strive to identify potential challenges faced by the organisation. This study is predominantly based on interviews and reports available. The approach to the study is more qualitative than quantitative. Candidates interviewed are from top and middle management and technical staff who are

affected by the IS outsourcing decision. Opinions were also elicited from the internal customers i.e. the users especially on the service level. The following is the distribution of numbers of candidates interviewed:

Designation	Number of Candidates
Top and middle management	5
Technical staff	15
Other internal customers	20
Total	40

A total of 40 interviews were made in the middle of year 2002. The length of each interview varies, depending on the interviewee's designation in the company. It is observed that top and middle management are more passionate when it comes to the discussion on IS outsourcing, thus interviews lasted slightly longer than the other two groups, i.e. technical staff and other internal customers. Nonetheless, all interviews conducted have indeed provided useful insights on the IS outsourcing in ALPHA.

3.1 Case Background

As an effort to strengthen the Malaysian banking industry following the 1997 financial crisis, Bank Negara Malaysia (BNM) had directed local banks to merge and to form only ten anchor banks. ALPHA was one of the mergers completed in this process, which represents a merged entity between two previously independent commercial banks. It is presently one of the largest banks with a strong presence of more than 300 branches and retail service outlets throughout the country. In addition to strong presence locally, ALPHA also has branches in Singapore, Hong Kong, Tokyo and London. In the company's 2001 Annual Report, it is stated that the company's vision is to be a Malaysian icon – a dominant financial service provider in the country with a significant presence in the region. The mission statement of ALPHA is expressed as follows: *“We are building a financial institution with competencies and capabilities to deliver the highest standards of service and innovative financial products initially satisfying the needs of customers in all sectors of Malaysian society. We will achieve this through the introduction of best business practices, high standards of management, investments in enabling technology and strategic alliances with world-class players.”* In achieving the vision, the company is guided by the following core values:

- ◆ **Performance-driven** – be result-oriented while mitigating risks through the adoption of prudent policies and processes. Quality shall be the trademark of all the company's endeavour.
- ◆ **Trustworthiness** – exhibiting the highest standards of professionalism, integrity and business and work ethics.
- ◆ **Innovation** – encouraging innovation, adopting best practices and leveraging technology to raise internal efficiencies and continuously create superior value propositions for our customers.

Despite being one of the largest banks in the country, ALPHA envisages that the banking industry will be very competitive in the coming years, especially with the completion of all bank mergers in the country and the liberalisation of Malaysian financial industry. Having identified the threats, the bank has embarked on several steps to prepare itself for the challenges in order to safeguard and improve its position. One of the steps taken by ALPHA is to re-organize its credit department. The department was selected as it is closest to the customers in terms of banker-customer relationship. With customer base that spans Malaysian life in all its richness and diversity, from small households to huge conglomerate, it is important for ALPHA to be able to meet those unique needs. With those objectives in view, ALPHA has re-organised its credit departments into three sub-divisions or 'internal banks' as follows:

Retail Banking	:	Serving the banking needs for individuals and small businesses.
Business Banking	:	For the growing businesses
Corporate & Institutional Banking	:	For large and complex organisations

To support these divisions or 'internal banks', there are Policy and Control and IT division cutting across the divisions. Figure 1 depicts the organisational structure of ALPHA after the merger and prior to the outsourcing decision.

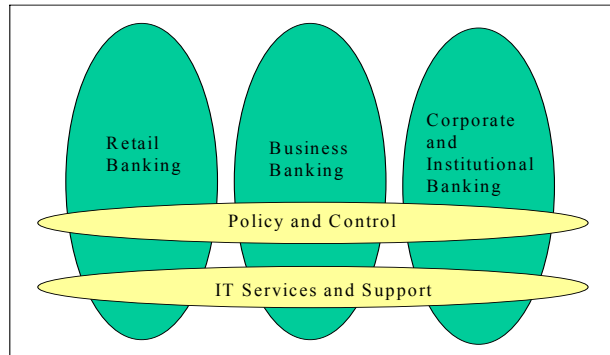


Figure 1: ALPHA's organisation structure after the merger

3.2 Case Discussion

Outsourcing of Information Systems at ALPHA

In the Financial Master Plan revealed in 2001, Bank Negara Malaysia (BNM), the Malaysian government central bank, encourages banks to outsource their non-core back-office and IT processes to enhance their internal efficiency and enable them to focus on selling and marketing financial services products. This move is consistent with trends in most developed nations. In response to this, and partly to gear itself for the inevitable competitive environment of the banking industry, the management of ALPHA has decided that each of the 'internal bank' has to concentrate on the sales function. It is observed that in order to achieve a strong sales function and high service level, the divisions should not be bogged down with back-office processing as well other supporting functions. Aspiring to be leaner and more efficient, ALPHA adopted a new business model to reposition itself by taking a bold step of outsourcing back-office processing and its IS management to focus on its core competencies.

The CEO of ALPHA outlined the following four major benefits expected of the outsourcing decision in its internal bulletin (2002):

1. The clearer demarcation of the functions of sales and services on one hand and processing on the other, allows the Bank to focus on the design, packaging and marketing of products which more closely meet the needs of customers of ALPHA,
2. Back-office processing will no longer be an under-appreciated task. Instead, it will be recognised for what it really is – a necessary and value-adding activity for the operations of the Bank,
3. It will facilitate the integration of a broad range of financial services, both banking and non-banking, as offerings to the consumer and
4. It raises opportunities to develop new income streams from non-core activities.

The Birth of BETA

The interest for outsourcing has been on the uprising trend as more and more organisations are striving to focus on their core competencies in the increasingly competitive business environment. Having identified the possibility for the outsourcing trend to continue and copied by other financial institutions, ALPHA has decided to take advantage on the opportunity of being the first to embark on outsourcing of back-office activities together with its IS management. As the new back-office operations segment of the financial services industry develops, economic pressures may compel most banks to outsource their back-office and IS management. The management of ALPHA believes that, given the size of Malaysian financial services market, approximately 10.0 million customers, there will be only room for two or three back-office processing companies in the industry. The management has decided that the outsourcing decision is a double-pronged strategy where it provides better cost-management for the Bank and at the same time it is also a profit-centre that should generate additional income stream to the organisation. ALPHA is aiming for the outsourcing business to complement its banking business.

Working hand-in-hand with one of the Consulting Group company, OpCo was set up. OpCo is to manage ALPHA's back-office processing initially, but in the long run, it is to manage other financial institutions' back-office processing as well. Later, in February 2001, it was decided that OpCo will also manage the IS management of ALPHA in addition to the back-office processing. A lot of time and effort was spent to understand the existing business processes and reengineer them with great clarity and detail. Various steps were taken by ALPHA to ensure the success of the new business model such as news updates for better communication at all levels using memos, emails and intranet and the formation of change management committee. In August 2001, a workshop was held for key personnel in OpCo to derive the mission statement, identify the set of core values and define the set of core competencies. At the end of the workshop, a new name, BETA, was chosen for OpCo, as it provides a strong brand affinity and brand usage. The core values of BETA are Excellence, Professionalism, Innovation, Caring and Integrity.

ALPHA formally introduced BETA Sdn Bhd beginning 2002. The Chief Executive Officer (CEO) of ALPHA, in his welcome remarks, was "*excited and proud to be the first domestic bank to implement outsourcing in line with the country's financial master plan*" [20]. According to the CEO of BETA, who was formerly the CIO of ALPHA, although BETA is a wholly owned subsidiary of ALPHA it is not just confining itself within ALPHA Group. The company also targets business outside the group that includes providing IS services for government departments, private sectors and other financial institutions.

Involvement of GAMMA

Having decided to outsource its IT management, services and processes, BETA issued RFPs to ten candidates, all of which are reputable multinational IT outsourcers. The following criteria are used by BETA in the service provider selection process:

- Global presence
- Management processes and strengths
- Proven track records in technical capability and vast experience in IT outsourcing
- Attention to the human resource issues arose as a result of the outsourcing decision
- Savings to BETA and ultimately savings to ALPHA
- Congruence of objectives

At the end of the process, BETA decided to select GAMMA as the service provider. According to the CEO of BETA, "our tie-up with GAMMA, that has vast international networks and years of experience, will enable us to obtain the most current and practical IT solutions". GAMMA is not a new name in the IT outsourcing business. The company has successfully undertaken many IT

outsourcing agreements for various huge multinational conglomerates. This augurs well for GAMMA, and with proven track records, ALPHA expects to ride on the invaluable experience GAMMA has both in tackling organisational as well as technical issues. As outsourcing is new to ALPHA, GAMMA has been engaged to provide management participation in BETA. The US\$ 250 million, 10-year multifaceted partnership with GAMMA includes an IT agreement, and management services and business development agreement.

The CEO of BETA emphasized that *“the partnership with GAMMA enables us to leverage their experience in business consulting, IT and back-office processing which will help us reduce our start-up expenses and operate efficiently as we begin operations as a separate entity.”* GAMMA, on the other hand, promised that *“The solutions GAMMA will provide for BETA will primarily focus on cost saving of at least 20%, which will be achieved with economies of scale, new technologies, reengineered processes and improved staff productivity.”*

In line with BETA's objectives to become a significant player in financial services' back-office processing company, GAMMA is committed to introduce new business opportunities to BETA. This is to ensure BETA is able to *“acquire the business volume and scale to be even more cost efficient, and therefore able to embark on market expansion in its target market within 18 months. By 2004, GAMMA envisions having significant third party processing business in BETA”*.

The outsourcing agreement between BETA and GAMMA was signed in December 2001. It took more or less a period of nine months to complete the IS outsourcing process from selection to signing of outsourcing agreement. With the completion of assets transfer between ALPHA, BETA and GAMMA, BETA will have an asset base of US\$ 32.6 million and expected revenues of US\$ 71.05 million per year.

The implementation of IT outsourcing

As indicated above, the outsourcing of back-office and IS in ALPHA is unique in the sense that it involves a 'middle-man', BETA. ALPHA has appointed BETA as the outsourcing company providing the back-office and IS management. BETA in turn has appointed GAMMA as the service provider of IS management to BETA immediately and to ALPHA ultimately.

The implementation of the IT outsourcing was done in three phases:

- Phase 1 commenced in January 2002 and completed in March 2002. Phase 1 included the outsourcing of payment processing, cheque processing, call centre and IT infrastructure.
- Phase 2 started in March 2002 and its target date of completion is in June 2002. Functions that have been outsourced in Phase 2 include Automated Teller Machine (ATM) management, cash management, branch accounting and IT application management.
- Phase 3, which at the time of writing has not started, covers the function of trade processing, corporate services, administration services and consumer finance.

The phases of implementation are summarised in Figure 2.

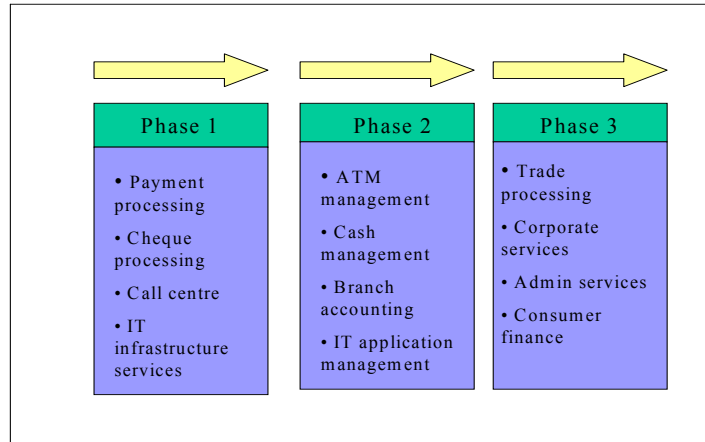


Figure 2: Phase of back-office and IT services of BETA (The Star ,2002)

Under the outsourcing agreement signed between ALPHA and BETA, and between BETA and GAMMA, ALPHA will sell all its assets in outsourcing of back-office processing to BETA while assets in outsourcing of IS management will be sold directly to GAMMA. Under the agreement between BETA and GAMMA, GAMMA is to manage the following areas of IS management:

- i. Desktop management
- ii. Computer operations
- iii. Network management and solutions
- iv. IT security
- v. IT support

It is noted that, in almost all areas of ALPHA, IS management have been outsourced. However, the development of new system applications has not been outsourced yet at the time of writing, although the CEO of BETA has not ruled out the possibility that it will be done in the near future. It is worth noting that licences for the use of proprietary application or software in the bank are not part of the outsourcing agreement. Licences are still to be paid by ALPHA to the application or software owner.

Managing the IS outsourcing

Though BETA is a wholly owned subsidiary of ALPHA, it will maintain an arm's length relationship with the latter through a new unit within the Bank formed to manage the relationship with BETA. The unit, known as Service Management Group (SMG) is the focal contact point between the various business units of the Bank and BETA. SMG is therefore the key player in the negotiation and development of the terms and conditions of service of BETA for ALPHA (Annual Report, 2001).

In addition to the existence of SMG, the IS outsourcing to GAMMA is also overseen by the directors of BETA together with 3 senior representatives of GAMMA. To enhance the working relationship between BETA and GAMMA, the possibility of the latter to have equity stake in the former has been explored. However, at the time of writing the structure of the partnership has not been determined yet. The equity sharing will depend largely on what GAMMA brings to the table, that is, the potential value of external business or new technologies.

Despite the potential benefits of the 'marriage' between customer and service provider, things may change especially for a 10-year contract in rapidly changing industry. According to the CEO of BETA, notwithstanding the fact that the outsourcing agreement should not emphasise on how to resolve problems as a result of the partnership dissolution, the agreement should have the spirit, like any other contract, the provisions to handle the situation if at all the 'marriage' does not work.

In the case of BETA and GAMMA, there are termination clauses as a result of many factors such as performance below expectation and breach of regulatory conditions (i.e. breach of duty of secrecy). In

the unlikely event of termination of the service contract between BETA and GAMMA, it will be resolved by arbitration. However, there is one striking clause in the outsourcing agreement with BETA and GAMMA, known as 'termination of convenience'. Under 'termination for convenience', BETA may terminate the outsourcing agreement without a specific reason. However, it can only be invoked after 5 years. If it is invoked by BETA before 5 years, GAMMA is entitled for compensation.

Staff Transition

ALPHA, BETA as well as GAMMA appreciate the fact that one of the key issues in IT outsourcing is the issue of migration or transition of staff. The process covers mostly the transition of staff from ALPHA to BETA and GAMMA, and familiarisation of changed processes and rules for the staff of other units.

The selection of staff for BETA and GAMMA from ALPHA is determined by the manpower demand of the BETA and GAMMA, and will be based on skills and competencies required for the job. Those staff identified will be offered employment in either BETA or GAMMA. It is noted that the staff have the liberty to make their own decision whether to accept or decline the offer of employment made. There is no coercion by ALPHA in this process. In addition to selecting staff from ALPHA, BETA and GAMMA may also conduct external recruitment concurrently. Even those staff from other units may apply for an employment with BETA or GAMMA. However, in such situation, BETA and GAMMA have the prerogative whether to accept or decline the application.

Those staff not offered employment by BETA and GAMMA will remain with ALPHA and will be redeployed to appropriate positions. Where necessary, training will be provided to these staff to enable them to perform the jobs in their new roles. The treatment is similar to those who decline the offer of employment by either BETA or GAMMA. However, to facilitate replacement, handover and continuity of the functions, the staff concerned may be requested to carry on their current duties for a period of not more than three months.

The terms and conditions of service of BETA will be reflective of the terms and conditions of information processing industry. Similarly, the terms and conditions of service of GAMMA will be reflective of IS outsourcing industry. Because BETA and GAMMA are in industries different from the Bank, their terms and conditions of employment are different from ALPHA, although there may be slight similarities. Nonetheless, for those from ALPHA, BETA and GAMMA will take into consideration the current terms and conditions of employment with ALPHA.

Knowing the fact that staff transition is a delicate issue, communication is vital. Therefore, a lot of effort has been made by ALPHA to communicate the effect of the outsourcing decision on manpower requirement. Frequently Asked Questions (FAQ) on staff transition is posted on ALPHA's intranet web page to allow staff to understand the situation and to avoid them reaching wrong conclusion or developing wrong perception.

4. SUMMARY OF THE FINDINGS

In the paragraph that follow, the following are the findings of the study, which provides some understanding on issues related to the implementation of IT outsourcing strategy in the banking sector.

The determinants of IT outsourcing decision

From the study, it is clear that the main motivation for the IT outsourcing decision in ALPHA is to allow the company to focus on its core banking business. This reason is similar to the one reported in the past literature (Grover and Teng, 1993). The bank has adopted a new business model to allow it to focus on its core banking business and also the creation of superior processing capability. The implementation of the new business model has resulted in a significant change and the reengineering of the operating and administrative structure of the bank. By outsourcing the bank's back-office

processing and IS management, sales staff can dedicate their energy and effort to increase banking business as all the supporting activities have been relieved from them. The secondary determinant of the outsourcing decision is to turn non-profit activities such as back-office processing and IS management into profit generating activities. As ALPHA is the first to commence on this, the bank is expected to skim the market and to benefit the most from it. The third motivating factor of the IT outsourcing decision is cost reduction. This is very much similar to the findings of most outsourcing literature (Apte et al., 1997; Aubert et al., 1999).

The Rationale Behind the IT Outsourcing Strategy

The rationale of the IT outsourcing strategy is for ALPHA to face the threats following the impending liberalisation Malaysian banking and financial industry. With the liberalisation, the landscape of Malaysian banking and financial industry will be significantly changed. Therefore, to ensure the survival of the organisation, drastic measure has to be taken. Thus, a new business model has to be adopted by the bank. ALPHA is also poised to reap other benefits from the outsourcing decision such as better cost management, employment of newly available technology, best practice of IS outsourcing taken place elsewhere especially with the support of GAMMA and more importantly the improvement in business processes. Related to the secondary objective above, ALPHA will also have diversified income contributor. Rather than solely relying on its traditional banking income, the organisation is hopeful that it can earn from good income stream from the back-office processing and IS management business.

Implementing and Managing the IT Outsourcing Strategy

Meanwhile, at every step of the decision-making process, the management of ALPHA has taken reasonable steps to ensure that every aspect of the organisation affected by the decision is thoroughly understood. Though effectively the idea of outsourcing is a top-down approach, the management of ALPHA did take into account the opinions and views of the staff, particularly from the middle management directly affected by the outsourcing decision made by ALPHA. Having identified the magnitude of change in the organisation as a result of IS outsourcing decision, ALPHA did make a right step in managing the change. The management formed a Change Management committee to handle the issues arising from the change in business processes. Change management in itself is a vast subject. It is suffice to note here that it is imperative for organisations to appreciate the impact of change in an organisation, particularly in managing it.

Another issue pertinent to the implementation of IT outsourcing is the issue of human resource management. The feedback received from staff in regards to staff transition is mixed. Though there was no pressure for staff whether or not to accept employment with BETA or GAMMA, some ALPHA's technical staff perceived that there was some pressure for them to accept employment with GAMMA. Though they have the options to stay with ALPHA and learn new skills, as a result of their IT background or qualification, they may not able to learn the new skills. Another issue related to the implementation of IT outsourcing is the impact of service level although some allowances have to be made because the outsourcing decision is only six months into its implementation stage. Mixed feedbacks have also been received. If users have any IT related problems, they will inform the Help Desk. However, there were unfortunate occasions where to the frustration of the users, it took a while for GAMMA to attend to and resolve some problems.

5. FUTURE CHALLENGES

It is definitely a challenge to the ALPHA to ensure successful implementation of the IT outsourcing. The main challenge is whether the strategy brings the desired results. These include better sales and marketing functions, better service, superior processing capability, deriving income stream from non-bank activities and the desired 20% reduction in IT cost.

One of the reasons why IS outsourcing is different from outsourcing of other functional areas of a business is the long-term agreement signed between a customer and a service provider in a world

of fast changing technology of IT. As the agreement between BETA and GAMMA is only six months old in a ten-year contract, it is yet to be seen how both organisations resolve the issue of technological advancement.

The management of ALPHA should also consider the long-term effect of the outsourcing decision on its own staff development, especially in regards to IS management. There is the issue of moral hazard where the staff of ALPHA may over-rely on GAMMA even for small problems which can be solved rather easily. This may lead to 'spoon fed' situation when it comes to IS management. Over-reliance on outside assistance may also kill the creativity of end-users, especially in systems development.

Another challenging point is related to the staff transition. It is imperative for ALPHA to monitor the employee competency and motivation. No matter how best a system is, if employees are not motivated the management is unlikely to optimise its organisational effectiveness.

CONCLUSIONS

Like any other tools of strategy, whether IT outsourcing is appropriate or not to an organisation depends on the unique situation and the needs of the organisation. The question whether IT outsourcing is a right strategy or otherwise is indeed an open-ended question. Certain situations warrant or substantiate the decision to outsource IS management while different situation demands the continuation of in-house IT department. What is important is for management to evaluate the options as both strategies have their respective benefits and disadvantages.

The findings reveal the impact of IT outsourcing decision on almost every organisational aspect of ALPHA, most notably in the organisation's operations and administrative structure, human resource management and also on the issue of service level. It is observed that the implementation of IT outsourcing is all about implementing drastic and significant change in ALPHA. This includes change in work processes, operations and administrative structure of the organisation. ALPHA like any other profit-oriented organisation is implementing continuous improvement to improve its efficiency thus in turn sustain or enhance its profitability.

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