

# Chapter 8

## Information Technology Outsourcing Cost and Policy in Developing Countries: A Case Study of Malaysia

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### EXECUTIVE SUMMARY

*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 and several others. These and other problems are well pronounced among the developing countries who are tapping from the global outsourcing resource market. Malaysia being one of the leading ITO destinations is not an exception in these problems. Therefore, in this chapter, we took an in-depth look into various challenges facing Malaysia's ITO industry especially from suppliers' perspectives. We looked at problems facing ITO practices in the light of government policy and ITO model in this chapter. We also used qualitative research method with special reference to interpretive and exploratory approach for the analysis of relevant issues in the chapter.*

### INTRODUCTION

In the late 70s and early 80s, outsourcing was referred to as 'bureaux'. This shows that outsourcing itself is not a new concept (White, 2002: 15). Outsourcing fell from favour at the beginning for several reasons which are still relevant in the outsourcing environment today. The IT industry

has added mystique to describe outsourcing by establishing its own vernacular, though these vernaculars are sometimes controversial (Cullen & Willcocks, 2005). 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:

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*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 as a sign of failure for large firms as commonly known in the 1950s, there is a paradigm shift in the reasons behind outsourcing (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 continued into the 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 change has made outsourcing to become "*downright fashionable*" (Anderson & Trinkle, 2005). To this research, this phrase symbolizes a constant growth in ITO management, and at the same time, indicates some of the challenges that continue to arise in the face of client/supplier relationship and IT Outsourcing management.

During the last decade, outsourcing has emerged as a major strategic option in information technology management (Jae-Nam et al., 2008). Cobb (2005) noted the continued 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 2000 to whooping 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, observed that 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.

Similarly in Malaysia, 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. Kearney (2007) index of the 50 most attractive offshoring locations also ranks Malaysia third in the world indicating that Malaysia is an appealing domain for outsourcing among the developing countries. Thus, this research has chosen Malaysia as a suitable site for putting into perspective the challenges of IT outsourcing with special reference to cost and policy implications.

## **STUDY POPULATION SAMPLE AND INTERPRETATION PROCEDURE**

At the onset, we estimated 120 IT vendor companies in Malaysia that have attained MSC status and have been recognized and licensed by the Malaysian government to engage in IT/IS services. However, at end of the day, due to unforeseen obstacles lesser number of IT outsourcing vendors responded and granted the much-needed interview. Nevertheless, this research gained the required data with the adoption of the interpretive approach, which calls for less number but qualitative and in-depth interview. MAXQDA data analysis tool

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