

The effects of partnership quality on business process outsourcing success in Malaysia: key users perspective

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Abstract This paper proposes a theoretical framework to investigate the impact of partnership quality and other variables—business understanding, commitment, communication, relationship age and top management support—on outsourcing success. Data were gathered from a survey of nine banks, from which 105 respondents participated in this study. The results indicate that partnership quality may serve as a key predictor of outsourcing success. Partnership quality was found to be influenced positively by business understanding, commitment, communication and top management support. However, relationship age was found to be not significantly related to outsourcing success. The implications of these findings are further elaborated.

Keywords Business process outsourcing · Partnership quality · Outsourcing success · Banks · Malaysia

1 Introduction

Outsourcing has become as one of the broadly adopted business strategies of this globalised era (Willcocks 2010). In fact, business process outsourcing (BPO) has emerged as a critical mechanism for delivering excellent services to customers in the banking and financial services community (Ravi et al. 2011). Banks and financial institutions have been facing the pressures of higher returns on capital,

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effective drives on cost management, increasing market requirements and tougher competition from other market players (Parker and Russell 2004; Gewald 2010). In order to sustain their competitive capabilities, banks and financial institutions have been looking for ways to reengineer their internal processes and improve their service levels. There is an increasing trend for banks and financial institutions to outsource their operations to offsite processing locations to improve their business performance. In this case, many global banks or financial institutions have set up offshore frontiers in South-East Asian countries such as Malaysia and Singapore to handle their operations (Ngamkroekjoti and Johri 2003; Ravi et al. 2011).

The banking industry in Malaysia dates back to the early 1900s when rapid economic development, as a result of thriving profits from rubber plantations and the tin industry then, saw the opening of foreign bank branches. Since then, the banking industry in Malaysia has continued its steady growth and expansion. This led to the establishment of 'Bank Negara Malaysia', a statutory body which is wholly owned by the Federal Government. Financial institution in Malaysia comprises commercial banks, Islamic banks, merchant banks, foreign banks' representative offices, finance companies and discount houses. Following the successful restructuring and consolidation of the banking sector in Malaysia in 2003, efforts have shifted to building the domestic financial infrastructure. The industry-wide consolidation of the domestic banking institutions resulted in reduced to domestic anchor banking groups namely: Affin Bank, Alliance Bank, AmBank, CIMB Bank, EON Bank, Hong Leong Bank, Maybank, Public Bank, RHB Bank and Southern Bank (Bank Negara Report 2004).

The evolution of the banking industry in Malaysia has led to conventional banking products and services, such as deposits and loans/hire purchase, taking on more sophisticated and advanced features such as phone banking, phone a-loan, auto pay, auto debit, ATMS, online shopping and banking and many others. These features are facilitated by advanced technological developments that allow bank customers easier methods and processes of going about their daily banking (Bank Negara Report 2009). In this sense, the banking industries in Malaysia is considered one of the robust and fast emerging sectors (The Association of Banks 2010) and given the nature of information technology and intensive business processes, the banking industry has a huge potential for benefiting from outsourcing (Task and Sunder 2004). Due to this scenario, many banks find difficulties in improving banking features and methods. As such, they start to transfer the services to service providers (McIvor et al. 2009).

Many businesses are now considering process outsourcing as a strategy to strengthen their core competencies and improve their performance (Quinn 2000; Gewald 2010). Moreover, outsourcing is considered to be an innovative strategy that uses the latest technologies and management techniques to put companies in sustainable leadership positions (Huber 1993; Busi and Mcivor 2008). Research shows that the sheer size of spending on outsourcing makes outsourcing decisions more strategic in an organisation today than ever (Willcocks 2011). Since the 1980s there has been a trend of outsourcing among banking industry with non core functions to advanced strategic and transformational outsourcing (Schniederjans et al. 2007). Further, many companies have achieved large savings through

traditional BPO alone. According to Hamilton (2003), among the companies that have benefited from this are the following:

- i. Citigroup realised an estimated \$75 million by outsourcing operations to its 2,500-employee India centre in 2001.
- ii. GE Capital now has over 15,000 employees in India.
- iii. Prudential Insurance UK outsourced its call centre to ICICI one source in India and has achieved savings of 30–40 %.
- iv. American Express has reported savings of over 50 % on its Indian-based operations.

Although the above examples largely refer to India, many multinational companies are now looking at other East Asian countries that offer equal if not better advantages. Among the common considerations for potential BPO locations are a stable political climate, an excellent telecommunication and IT infrastructure, the availability of talented human resources with widespread use of English and major Asian dialects, a relatively low cost of labour and positive support from the government involving start-up investments with relevant tax incentives (Hamilton 2003; Jabnoun et al. 2003). Does not Malaysia meet almost all these criteria? How does Malaysia fare in this? According to the Business Times (August 2004), Malaysia is ranked the third most attractive offshore location for shared services and outsourcing. The Malaysian Government is also realising the potential of outsourcing's contribution to the local economy. In fact, the outsourcing industry in Malaysia in 2011 captured investments of more than RM1 billion (Kearney 2011). Figure 1 summarises the attractiveness of BPO sites for selected East Asian countries.

The latest development is that many banks and financial institutions have set up affiliate outsourcing centres in East Asian countries, particularly Malaysia. These foreign banks are adopting the outsourcing operations concept by setting up centralised processing centres in Malaysia to handle their local and overseas operations to achieve the benefits of outsourcing. The local banks in Malaysia have also implemented the same operations strategy with various key regional processing

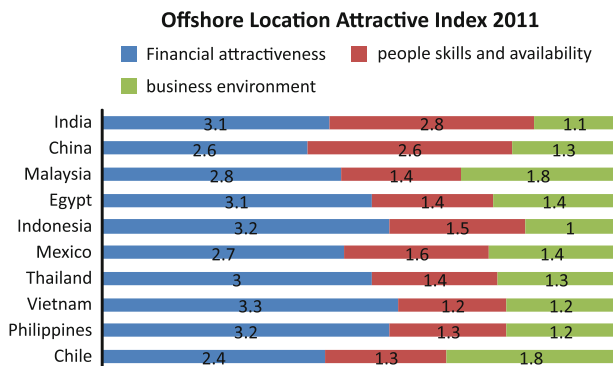


Fig. 1 Offshore location attractiveness index 2011. *Source* A. T. Kearney Consulting

centres established across the country to handle their nationwide operations (Kearney 2011). This indicates that the recent liberation in regulation as well as advances in information and communication technology has provided the banking sector with an opportunity to use outsourcing as a strategic tool such as to develop new capabilities, improve processes, to focus on core competencies, improve efficiency and to reduce cost of services (Jain and Natarajan 2011). Nevertheless—is the concept of centralised service centres working for the banks? How successful is this operations strategy for harvesting the benefits claimed to be achievable? Another aspect to consider in outsourcing is the relationship between service provider and client. In this case, choosing to outsource or not is obviously important and critical. Creating, establishing and managing relationship is not easy. Therefore, the quality partnership needs to be established well in order to ensure the outsourcing success (Arshad et al. 2008). Consistent with the above explanation, this study aims to establish whether there is a relationship between the partnership quality and the outsourcing success for banking and financial operations in Malaysia.

This paper is organised in the following manner. The next section reviews the literature on BPO for banks and financial institutions, partnership quality and outsourcing success. It also develops the hypotheses. The third section presents the methods used. The fourth section highlights the analysis and the overall results. The final section presents the discussion, limitations, and conclusions.

2 Literature review

2.1 BPO for banks and financial institutions

According to Lacity et al. (2004), innovative companies are transforming their back office functions into commercial enterprises. Back office functions for banks were often viewed as being high cost and slow to respond and contributing little. Yet, back office executives claimed that they could do better via outsourcing and strategic partnerships. Back office processes can be transformed through various approaches such as people development, process improvement, service excellence, technology enablement and slick physical facilities (Jain and Natarajan 2011). The ownership of this transformation was always open to question, and organisations could carry it out themselves by participating as a supplier (or service provider) in the outsourcing market. Banks that succeeded in the outsourcing process would see immediate outcomes, such as lower costs and better services and shared revenues even after the first year of operations. Banks outsource their operations through the establishment of centralised service centres to achieve the benefits of operational efficiency, effective cost management and economies of scale (Jabnoun et al. 2003).

The banking industry has undergone considerable internal process change to improve its performance compared with other industries (Gewald and Dibbern 2009). However, outsourcing is a more complex business alternative for banks as it is difficult to break financial services into convenient packages for distribution to various service providers (Heywood 2001). This leads to the idea that some existing

banks might eventually reposition themselves as service providers. Given this unique situation, some banks have set up their own centralised processing centres to handle the bulk of activities. This move is not only restricted to processing their own work, as some banks even provide processing services to competing financial institutions when the latter are in the initial stages of entering a new product base or market segment (Ngamkroekjoti and Johri 2003).

BPO processes for banks and financial institutions mostly concern back office processing functions. These functions, if managed effectively, are key contributors to competitive advantage. Faced with the pressure of cost-effective management, outsourcing back office functions has been the primary cost-reduction strategy for many banks (Tohmatsu 2004; Wang et al. 2003; Gewald 2010). Furthermore, many of the overseas banks that initiated the wave of offshoring are attracted to countries with low operating costs, high-quality human resources and fluency in the English language. Most of them have built wholly owned units of the organisation as new enterprises to handle these processes. Pioneers such as Citigroup have seen significant success as a result of relocating back office processing to lower-cost countries. This is one of the reasons for Citigroup's costs having grown only one-third as quickly as its revenue over the past 5 years, enabling it to become one of the world's most profitable companies. Outsourcing decision is often seen as a rational decision by management (Lacity et al. 2009) and in this sense offshoring also offers operational advantages such as enhancing business continuity and upgrading service quality (Eduardo et al. 2003).

In general, the processes that can be considered for offshoring are those that are technology-enabled and do not require face-to-face interactions. Banks began with IT functions and call centres, but later included core banking operations such as cash, fund transfer, trade finance, security services, accounting, reconciliation, documentation review, account opening, user profile administration, credit administration and other back office activities (Bunmi et al. 2004; Eduardo et al. 2003; Jain and Natarajan 2011).

2.2 Partnership quality

The decision to outsource has become more popular because banks and financial institutions need diverse and high-quality information services to survive and excel in the rapidly changing external environment (Kok and Richardson 2003). However, building successful partnerships in outsourcing is becoming a problem for banks. They lack the know-how to select their outsourcing vendors, and there are also concerns about how they should manage the outsourcing relationship (Gounaris et al. 2003; Parker and Russell 2004). 'Partnership' in this study is defined as an inter-organisation to achieve the shared goals of the participants (Lee and Kim 1999). It involves two parties or more, namely a service receiver and a service provider. When banks and financial institutions venture into the outsourcing business as either the suppliers or the service providers, three general parties are involved in the outsourcing process, namely external customers, internal customers (service receivers) and suppliers (service providers).

- i. External customers are the customers who use the services provided by the banks and financial institutions. These customers can be either corporations or individuals.
- ii. Internal customers (service receivers) are the entities, units or employees acting as the interface between the service providers and the ultimate customers, regardless of their physical location (whether at head offices or remote branch offices).
- iii. Suppliers (service providers) are the parties to which the processes are outsourced.

This relationship is clearly shown in Fig. 2.

This study measures the success of BPO from the perspectives of service receivers (internal customers). External customers were not used as respondents in this research because it is unlikely that they would be able to differentiate between whether or not the services were performed through the outsourcing method. By contrast, service receivers are the decision makers and executives who have the best insight into how the outsourcing functions are run. They are assumed to have the most holistic view of the outsourcing functions (Bunmi et al. 2004).

The relationship between service providers and service receivers, as explained in Fig. 2, is an interesting topic to study. This is because the concept of partnership is not new and it has long been explored in marketing and inter-organisation systems research (Lee and Kim 1999; Ooi 2005). Furthermore, there are different views on how to implement successful relationships. The two schools of thought that have emerged from the previous research refer to the transactional- and partnership-style relationships. A transactional relationship is developed through a formal contract, whereas a partnership is formed through a relationship exchange that involves risk and benefit sharing. Lee (2001) stated that in the 1990s many organisations had trouble forming and managing successful outsourcing relationships. This problem caused a shift from contractual relationships to partnership relationships in the outsourcing industry.

A partnership allows two organisations to achieve their key organisational objectives and build competitive advantage in their respective industries (Grover et al. 1996). Therefore, it is interesting to study whether outsourcing success is affected by the quality of the partnership. Quality can be described as fitness for use. Partnership quality exists when the relationship serves its intended function and meets the objectives of both parties. A partnership is affected by organisational, human and environmental factors. According to Ren et al. (2010), to build satisfied

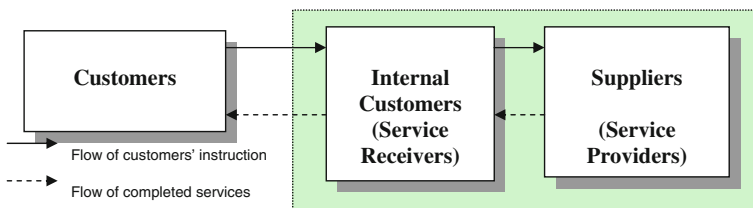


Fig. 2 Parties involved in the business outsourcing process

relationship with a service provider, organisations need to equip themselves with necessary knowledge and relationship management capabilities. Moreover, Lee and Kim (1999) proposed that a partnership has its own factors to represent quality. They found that several variables influence the degree of partnership quality, and that the degree of partnership quality is related to outsourcing success. They identified five factors that make up partnership quality, which are trust, business understanding, benefit and risk sharing, conflict and commitment. Anderson and Narus (1990) also found that variables such as trust, communication and top management cooperation lead to higher-quality partnerships. In addition, Anderson and Weitz (1989) examined a subset of the many factors—such as trust, congruent goals and good communication—that stabilise relationships in the channels of distribution. The age of the relationship is also an important element; older relationships seem to be more stable than new ones.

In a similar vein, Henderson (1990) and Chakrabarty et al. (2008) posited that the active participation of the partnership members plays a major role in enhancing the suitability of their partnerships over time. Indeed, close information sharing and top management support were found to be related positively to successful outsourcing partnerships. Moreover, Morgan and Hunt (1994) showed the importance of partnership elements such as commitment, trust and cooperation to outsourcing success. Blumenberg et al. (2009) highlighted that commitment actually refers to an implicit and explicit pledge of relational continuity between partners, while communication refers to the efficiency and effectiveness of the information exchange between partners. They also advocated that business understanding is one of the crucial factors in the context of partnership quality because it comprises the degree of agreement and understanding at a deep level.

Grover et al. (1996) also explained that trust, cooperation and communication are essential for outsourcing success. Lee et al. (2008) described partnership quality and demonstrated its effect on outsourcing success. Likewise, Parker and Russell (2004) examined behavioural issues such as power, trust and understanding in the context of partnership quality, which positively influence outsourcing. In their seminal paper on successful outsourcing relationships, Goo and Nam (2007) found trust and commitment to have a positive influence on outsourcing success. Table 1 summarises the previous studies on working partnerships.

Based on this previous literature on partnership quality, elements such as trust, business understanding, commitment, communication, year of service and top management support were identified as factors that should be embraced in the context of quality relationships and partnerships. These elements were thus used as the variables to test the relationship between the partnership quality and the success of a BPO strategy. The definitions of these variables are summarised in Table 2.

2.3 Outsourcing success

Successful partnerships enable organisations to achieve organisational objectives and build competitive advantage (Khong 2005; Han et al. 2008). Lee and Kim (1999) suggested that outsourcing success can be measured in terms of outsourcing's impact on business performance and customer satisfaction. Business

Table 1 Summaries of selected studies on working partnership

Author (s)	Study sample (s)	Instrument	Factor structure or other key finding (s)
Anderson and Narus (1984)	Distributor firms and manufacturer firms in USA	Developed a model of distributor firm and manufacturing firm working partnership	Both manufacturer and distributors actively manage their working relationships. Factors like trust, communication and cooperation improve partnership qualities
Anderson and Weitz (1989)	Firms selected from Electronic Representatives Association (ERA) in USA	Model developed according to three major elements: continuity of relationship, trust and communications	Examined many factors: trust, congruent goals and good communication that stabilize relationships in channels of distribution Older relationships appeared to be more stable than new ones
Morgan and Hunt (1994)	Automobile tire retailer in USA selected from National Tire Dealers and Re-traders Association (NTDRA)	Model relationship commitment and trust as key mediating variables (KMV) and compare against rival that does not allow the function	Commitment, trust and cooperation were “qualitative outcomes” – contribute to overall network performance. Initial test of KMV model of relationship commitment and trust in the context of a channel of distribution had been encouraging
Henderson (1990)	Technology infrastructure in USA	Explore the concept of building partnerships as a management strategy by creating a descriptive model focus on both external and internal partnerships (between line managers and information systems managers)	Positive relationship resulted from close information sharing, top management support to successful outsourcing partnership
Kim and Chung (2003)	Firm with IS outsourcing relationships in USA	Examine the success in IS outsourcing in terms of satisfaction and perceived benefits. The independent variables were relational exchange and task characteristics	The following variables were found to be significantly, positively related to predicting the success of IS outsourcing: partnership, flexibility and monitoring of vendor
Parker and Russell (2004)	Multinational organization (MNO) in the financial services sector in Australia	Identify the importance of addressing strategic issues and inter/intra relationships between parent company team members and their outsource counterpart	Behavioral issues such as psychological contracts within inter/intra work groups, power and trust were highly significant managerial issues in the success or failure of an outsourcing strategy

Table 1 continued

Author (s)	Study sample (s)	Instrument	Factor structure or other key finding (s)
Moore (1998)	Logistic USA firms listed in the 1995 Council of Logistics Management (CLM)	Theoretical model of logistics alliances identifying hypothesized relationship commitment and seven other constructs	Trust and relationship commitment were important elements in logistics alliances. The relationship between commitment and effectiveness were influenced by negative outcomes associated with conflict than by positive outcomes associated with trust
Lee and Kim (1999)	Organizations with outsourcing IS services in South Korea	Establish partnership quality as a key predictor of outsourcing success, distinguishing between its components and its determinants	Partnership quality might serve as a key predictor of outsourcing success. Partnership quality was found to be positively influenced by factors such as participation, communication, information sharing, and management support and negatively affected by age of relationship and mutual dependency
Grover et al. (1996)	IS companies in the US	Empirical study on IS outsourcing. Studied the component of outsourcing functions and examine their relationship with outsourcing success	Both service quality of the vendor and elements of partnerships such as trust, cooperation and communication were important for outsourcing success

performance can be measured by assessing the degree of achievement of the strategic, economic and technological benefits of outsourcing. Customer satisfaction can be viewed as the level of fitness between a customer's requirements and outsourcing outcome. By contrast, Grover et al. (1996) identified outsourcing success as the benefits from outsourcing gained by an organisation as a result of deploying an outsourcing strategy. Among the items they suggested for measuring the success of outsourcing were the core business focus, enhancement of IT competence, access to skilled personnel, economies of scale in human and technology resources, control of information systems expenses, risk reduction in technological obsolescence and increased access to key information technologies.

Lacity et al. (2009) identified seven generic competencies to transform back offices: service excellence, people development, technology enablement, process improvement, slick physical facilities, efficient third-party outsourcing and implementation management. In their research, discussions were carried out to explain

Table 2 Operational definitions for partnership quality variables

Variables	Operational definition	Key supporting literature
Business understanding	Degree of understanding of behaviors, goals, and policies between partners	Lee and Kim (1999) Morgan and Hunt (1994) Henderson (1990) Anderson and Weitz (1989)
Commitment	Degree of pledge or promise of relationship continuity between partners	Kim and Chung (2003) Moore (1998) Morgan and Hunt (1994)
Communication	Degree of accuracy, timeliness, adequacy, and capability of communication process between parties	Parker and Russell (2004) Lee and Kim (1999) Moore (1998) Morgan and Hunt (1994)
Age of relationship	Period of relationship between partners	Lee and Kim (1999) Anderson and Weitz (1989) Anderson and Narus (1984)
Top management support	Degree of top managers' understanding of the specific benefits and endorsement to the strategy	Lee and Kim (1999) Henderson (1990), Anderson and Narus (1984)

how innovative companies such as BAE Systems, Bank of America, Barclays Bank and Lloyds of London actually transformed their back offices into commercial enterprises. According to this study, back offices can be transformed using many capabilities such as better employee management, redesigned processes, customer-centric servicing, enabling technology and new facilities. The results were impressive: lower costs, better service and revenue generation.

Outsourcing is successful when there is an increase in the effectiveness of the processes of the system. In this case, factors such as the organisation's motivation, advantages and risks are considered to be the key drivers of outsourcing success (Hsu et al. 2005). In fact, organisations turn to outsourcing for reasons such as technological considerations, cost savings, strategic considerations, human resource considerations and strategic goals. Therefore, success can be measured along with multiple dimensions of economic, technological, strategic and overall satisfaction (Saunders et al. 1997).

In summary, in order to benefit from partnerships organisations should try to enhance their partnership quality to reflect the extent of intimacy between their partners. Thus, it is apparent that the success of an outsourcing engagement should meet the goals of three parties: outsourcers, outsources and end-users.

2.4 Theoretical perspective and hypothesis development

To analyse the business outsourcing process, relevant economic theories such as transaction cost theory and resource dependence theory were reviewed. Transaction cost theory states that there are costs involved in executing transactions: operational costs, start-up costs, testing costs, coordination costs and overhead costs, to name a

few. Economies of scale occur when production is at a higher level, which allows specialisation and better utilisation of resources. Service providers' achievement of economies of scale provides competitive advantage through effective cost management. Operational efficiency can also be attained through resource specialisation.

Resource dependence theory views firms as collections of production resources—human, financial, capital, technology and natural—that can be transformed to deliver goods and services as demanded by customers. Owing to the scarcity of resources, firms have to maximise their efficiency through resource utilisation. When firms need resources, they can acquire them from resource (production factors) markets. For example, if additional human resources are required because of increased demand and expanded production, more staff can be hired from the labour market to work for the firm. The theory also suggests that acquisition is not the only solution to resource shortages. Using the resources of a vendor or supplier to complement one's existing resources can also bridge the resources gap. One of the methods to achieve this is through BPO (Grover et al. 1996; Lee 2001).

The relationship between organisations and service providers is a dynamic process through specific sequential interaction in which they implement activities toward one another (Lee and Kim 1999). Nevertheless, a good relationship does not always give both parties their desired results (Khong 2005). Therefore, it is imperative to understand what determines the success of an outsourcing project. Many organisations believe that an intimate relationship with their service providers will result in outsourcing success. According to Willcocks and Chong (1995), the active participation of outsourcing members and greater cooperation play important roles in developing and enhancing strategic alliances over time. In fact, cooperative partnerships are positively related to successful outsourcing (Lee 2001; Lee and Kim 1999). Other researchers also confirm the notion that partnership quality should be distinct from outsourcing success as it contains its own unique set of elements. The first element addresses the issue of whether the quality possesses the features that meet the customer's needs and the second element focuses on the extent to which the products are free from deficiencies.

From this starting point, high partnership quality may be a necessary condition for outsourcing success, but not a sufficient condition. For example, if the main objective of outsourcing was cost reduction, but the service providers failed to meet this objective, the outsourcing project would be a failure regardless of the partnership quality between the service providers and the organisation. Therefore, it is important to distinguish the concept of partnership quality from that of outsourcing success and to explore whether outsourcing is successful when high-quality partnerships exist. From the literature, it is apparent that partnership quality includes elements such as business understanding, commitment and communication. It also includes the age of the partnership and top management support for the outsourcing initiative. These elements were thus used to test the hypothesised relationship between partnership quality and BPO success.

Outsourcing success is motivated by business understanding in which both parties have the ability to understand each other in terms of operational dealings, behaviours, goals, business procedures and policies (Hsu et al. 2005). In addition, commitment

plays a critical role in the development of a long-term relationship and in facilitating an exchange relationship. These relationships must contain a certain degree of sincerity, pledge or promise of continuity between the partners. Therefore, commitment is the basic concept of partnerships, and these factors increase the confidence in the relationship, in turn leading to outsourcing success (Lee 2001; Moore 1998). In a similar vein, communication quality plays an effective role in partnerships. Effective communication between partners is essential in order to achieve the intended objectives. In fact, this leads to the parties being better informed, which in turn should make each party more confident about the relationship and more willing to maintain it successfully (Lee and Kim 1999; Lee et al. 2008).

In addition, support from the top management is a prerequisite for all successful outsourcing partnerships (Anderson and Weitz 1989). The top management has to play an important role in overcoming the inevitable divergence of interests between participants and sharing an understanding of the benefits of collaboration (Rai et al. 1996). Finally, the age of the relationship also plays an important role in the partnership quality. When an organisation embarks on an outsourcing relationship and selects a particular service provider, the organisation must be ready to maintain this relationship over time. This requires a long-term relationship based on trust. Both parties need to believe one another in order to perform actions that will result in positive outcomes for the organisations (Lee and Kim 1999; Willcocks and Chong 1995).

In short, partnership quality helps foster cooperative relationships based on business understanding, commitment, communication, the age of the relationship and top management support, which are critical to the success of outsourcing, particularly in the context of banks and financial institutions. Figure 3 exhibits these relationships.

From the proposed framework below, hypotheses were formed to examine the relationship between the elements of partnership quality and outsourcing success in banks and financial institutions.

H1 There is a positive relationship between partnership quality and the success of BPO.

There are three categories of partnership quality: those with dynamic, static and contextual factors. Hypotheses 1a, 1b and 1c were developed to test the dynamic factors, namely business understanding, commitment and communication.

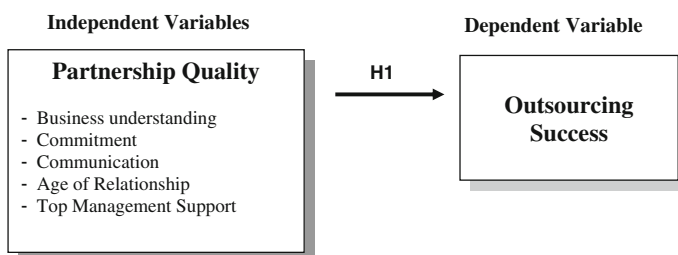


Fig. 3 Research framework

Hypothesis 1d tested the static factors of the age of the partnership and hypothesis 1e tested the contextual factor of top management support.

H1a There is a positive relationship between business understanding and the success of BPO.

H1b There is a positive relationship between commitment and the success of BPO.

H1c There is a positive relationship between effective communication and the success of BPO.

H1d There is a positive relationship between the age of the partnership and the success of BPO.

H1e There is a positive relationship between top management support and the success of BPO.

3 Methodology

3.1 Population and sample

The sampling frame consisted of the banks that currently outsource their processing operations to centralised processing centres. The sampling units were the bank executives, managers and officers in these banks for which the centralised processing centres provided services (Bunmi et al. 2004). Firstly, the banks and financial institutions that run their operations via centralised processing centres were identified. Nine banks with centralised processing centres were identified from the total number of banks in the Association of Banks in Malaysia. Secondly, these banks were contacted to ascertain their willingness to participate in this survey. The bank executives, managers and officers who interact with their centralised processing centres were the best people to interpret the successes of their outsourced operations. These decision makers and executives have the right information on how outsourcing functions are run as they live and breathe the process every day.

This research used judgement (purposive) sampling to select the respondents, whereby the contacts for the respective banks were briefed on the appropriate characteristics required for the sample units. The respective contacts were closely followed up to ensure a smooth data collection process.

3.2 Measurement instrument

The respondents were required to indicate the types of services that they outsourced to service providers. The list of services that the respondents were provided with were account opening, customer contact, foreign exchange, money market, cash and credit card, fund transfer, stock/security, credit administration, deposits and loans and trade finance.

3.2.1 Outsourcing success

Outsourcing success was measured by the outsourcing's impact on business performance and customer satisfaction. For business performance, the suggested questionnaire items mentioned in the research by Grover et al. (1996) were adopted to assess the degree of achievement of the strategic, economic, operational and technological benefits of outsourcing. The suggested questionnaire items mentioned in the study by Lee and Kim (1999) were modified to suit the context of this research. The questionnaire was designed using a five-point Likert scale (1 = strongly disagree and 5 = strongly agree).

3.2.2 Partnership quality

The operational definitions of partnership quality are summarised in Table 2. The measurements for the variables used in the questionnaire were adopted from Lee and Kim (1999). In this study, the perceptual measure of the variables of partnership quality was employed. A five-point Likert scale was also used to measure the multi-item constructs for partnership quality, such as business understanding, commitment, communication, age and top management support.

4 Analysis

4.1 Profile of the respondents

A total of 105 responses were received at the end of the data collection process. Based on the initial expectation of 200 respondents from the nine banks involved, the response rate was approximately 52.5 %. The profiles of the respondents can be analysed according to three aspects, namely personal particulars, working experience and company profile.

Firstly, 59 % of the respondents were female and more than 65 % held middle or senior management functions in their corporations. In terms of their education level, 59 % had completed undergraduate studies. The working experience of the respondents ranged between 1 and 31 years with a mean of 10.30 years. The mean tenure in the current company was 5.40 years (Table 3).

In terms of the company profile, 70.5 % of the respondents worked in the corporate banking sector and the remainder worked in consumer banking. All the banks selected for this project hired more than 1,000 employees. About 59 % of the companies generated a monthly revenue of RM5 million or less but 16.2 % generated more than RM10 million monthly (Table 4).

5 Results

To analyse the data collected, the partial least squares (PLS) method was used. The reasons for using this technique were as follows:

Table 3 Personal profiles of the respondents

Profile	Description	No. of respondents	Percentage
Gender	Male	43	41
	Female	62	59
Corporate title	Senior management	35	33.3
	Middle management	34	32.4
	Lower management	36	34.3
Education level	STPM/Diploma and below	43	41
	First degree	42	40
	Postgraduate and above	20	19
Overall working experience in year (s)	Mean = 10.30, Standard deviation = 5.71		
Number of years work in current company	Mean = 5.40, Standard deviation = 4.36		

Table 4 Company profile

Profile	Description	No. of respondents	Percentage
Type of service	Consumer banking	31	29.50
	Corporate banking	74	70.50
Number of employee	More than 1,000 employees	105	100.00
Monthly revenue (in RM)	Below 5 million	62	59.00
	5–10 million	26	24.80
	More than 10 million	17	16.20

1. PLS is known for its ability to handle both reflective and formative factors (Chin 1998);
2. PLS places minimal restrictions on distributional characteristics and sample size; and
3. PLS is a better means for an exploratory approach (Chin 2000).

The Smart PLS M2 Version 2.0 and two-step analysis approach as suggested by Anderson and Gerbing (1988) were adopted to analyse the data. Following the suggestions of some studies (Chin 1998; Gil-Garcia 2008), the bootstrapping method (200 resample) was also carried out to determine the significance levels for the loadings, weights and path coefficients. Figure 4 demonstrates the research model.

5.1 Measurement model

5.1.1 Convergent validity

First, the convergent validity, which is the degree to which the multiple items that are used to measure the same concept are in agreement, was tested. As suggested by Hair et al. (2010), the factor loadings, composite reliability and average variance

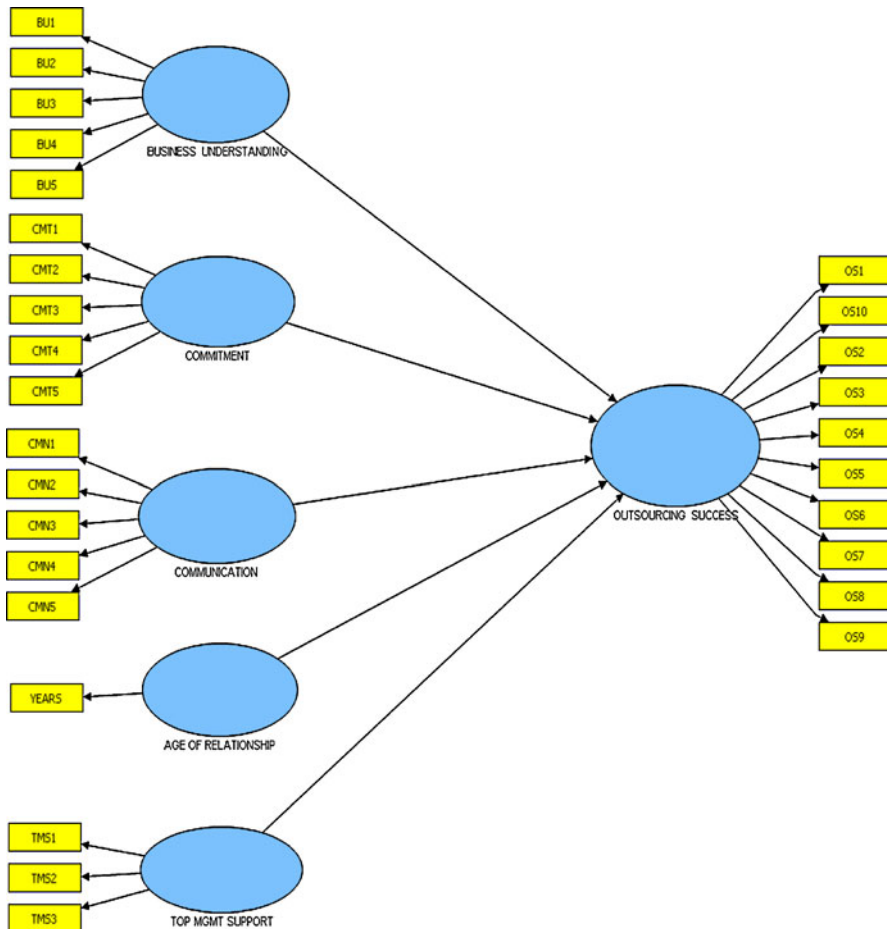


Fig. 4 Research model

extracted were the indicators used to assess the convergent validity. The loadings for all the items exceeded the recommended value of 0.6 (Chin et al. 1997). The composite reliability values (see Table 3), which depict the degree to which the construct indicators indicate the latent construct, ranged from 0.854 to 0.926, which exceeded the recommended value of 0.7 (Hair et al. 2010). The average variance extracted, which reflects the overall amount of variance in the indicators accounted for by the latent construct, were in the range of 0.503 and 0.714, which exceeded the recommended value of 0.5 (Hair et al. 2010). Table 5 depicts the results of convergent validity.

5.1.2 Discriminant validity

Discriminant validity is the extent to which the measures do not reflect other variables and it is indicated by low correlations between the measure of interest and

Table 5 Factor loadings and reliability

Items	Loadings ^a	CR	AVE	Cronbach α
BU1	0.825	0.926	0.661	0.743
BU2	0.792			
BU3	0.822			
CMN1	0.759	0.854	0.621	0.794
CMN2	0.870			
CMN3	0.728			
CMN4	0.827			
CMN5	0.747			
CMT1	0.721	0.859	0.550	0.846
CMT2	0.822			
CMT3	0.775			
CMT4	0.712			
CMT5	0.669			
OS1	0.734	0.890	0.503	0.859
OS10	0.643			
OS2	0.711			
OS3	0.745			
OS4	0.718			
OS7	0.714			
OS8	0.712			
OS9	0.692			
TMS1	0.745	0.881	0.714	0.797
TMS2	0.883			
TMS3	0.898			
Years	1.000	1.000	1.000	1.000

CR composite reliability, AVE average variance extracted

^a Standardized loading

Table 6 Inter-construct correlation

S. no.		1	2	3	4	5	6
1.	Age	1.000					
2.	Business understanding	0.022	0.813				
3.	Commitment	0.002	0.380	0.742			
4.	Communication	0.033	0.402	0.555	0.788		
5.	Outsourcing success	0.007	0.343	0.405	0.468	0.709	
6.	Top Mgmt commitment	0.012	0.226	0.302	0.411	0.422	0.845

Note Diagonal elements are the square root of the AVE of the reflective scales while the off diagonals are the squared correlations between constructs

the measures of other constructs (Cheung and Lee 2010). Discriminant validity can be examined by comparing the squared correlations between the constructs and the variance extracted for a construct (Fornell and Larcker 1981). As shown in Table 6, the squared correlations for each construct were less than the square root of the average variance extracted by the indicators measuring that construct, indicating adequate discriminant validity. In total, the measurement model demonstrated adequate convergent and discriminant validity.

5.2 Structural model

The structural model indicates the causal relationships among the constructs in the model (Sang et al. 2010), which includes the estimates of the path coefficients and the R^2 value, which determine the predictive power of the model. Together, the R^2 and path coefficients (loadings and significance) indicate how well the data support the hypothesised model (Chin 1998; Sang et al. 2010). Table 7 and Fig. 5 show the results of the structural model from the PLS output. Business understanding ($\beta = 0.162$, $p < 0.05$), commitment ($\beta = 0.175$, $p < 0.05$), communication ($\beta = 0.249$, $p < 0.05$) and top management support ($\beta = 0.316$, $p < 0.01$) were positively related to outsourcing success, explaining 58.6 % of the variance, thus supporting H1, H2, H3 and H5 of this study. The age of the relationship ($\beta = 0.051$, $p > 0.05$) was not a significant predictor of outsourcing, thus H4 was not supported. A closer examination revealed that top management support was the key predictor of outsourcing success, followed by good communication.

6 Discussion

As mentioned in the introduction, this study aims to understand the components of partnership quality for banks and financial institutions in Malaysia and to describe

Table 7 Summary of the structural model

Path	Description	Hypothesis	Path coefficient	<i>t</i> value	Results
BU → OS	Business understanding pressure → outsourcing success	H1a	0.162	1.671*	Supported
COMMIT → OS	Commitment → outsourcing success	H1b	0.175	1.967*	Supported
COMMN → OS	Communication → outsourcing success	H1c	0.249	1.898*	Supported
AGE → OS	Age of relationship → outsourcing success	H1d	0.051	0.957	Not supported
TMGMT → OS	Top management support → outsourcing success	H1e	0.316	3.577**	Supported

** $p \leq 0.01$

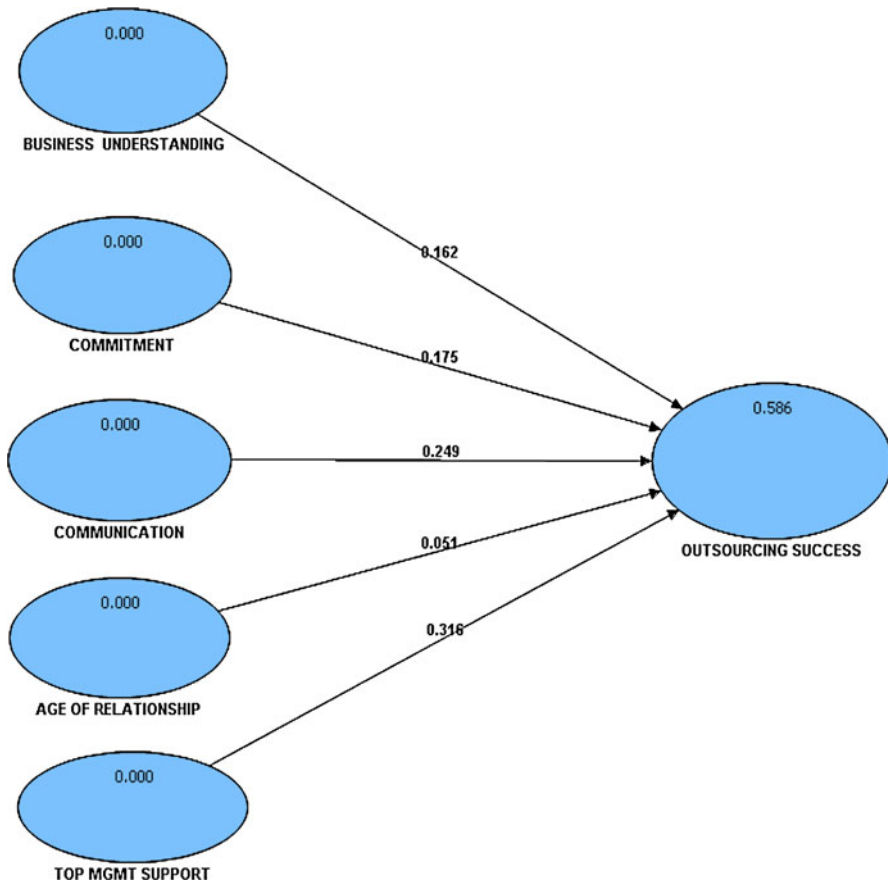


Fig. 5 The structural model

how this relates to outsourcing success. As shown in Table 7, four of the five components of partnership quality demonstrated a significant relationship with outsourcing success. However, the age of the relationship between the vendors and the organisations was found to be not significantly related to outsourcing success.

Business understanding was found to be related to outsourcing success. This indicates that the mutual dependencies between service providers and receivers will increase as the level of business understanding improves. In addition, business understanding is an important factor in an outsourcing agreement because of the shared responsibility, benefits and risks involved in the process. Essentially, the organisation's profit partly depends on the ability of its outsourcing partner to support its business operations. Understanding clients' expectations and knowing the organisation's capability to provide these services will lead to a viable partnership (Lee and Kim 1999). Since business understanding includes the shared responsibility concerning the benefits and risks of the process, it was apparent that

the higher the business understanding, the greater is the impact on outsourcing success.

In addition, commitment was shown to have a significant relationship with outsourcing success. This demonstrates that commitment plays a critical role in the development of a long-term relationship and in facilitating an exchange relationship. These relationships must contain a certain degree of sincerity, pledge or promise of relationship continuity between partners. Therefore, commitment is the basic concept in partnership-style relationships, and these factors increase the confidence in the relationship, which in turn leads to outsourcing success.

Moreover, communication had a significant relationship with outsourcing success. This signifies that communication is a critical activity that allows information flow between different parties during different stages of outsourcing activity (Galanaki and Papalexandris 2005). In essence, communication skills assist the organisation to communicate its wants and needs accurately to its service providers, which allows actions to be performed correctly the first time. This practice will prevent the wastage of resources, thereby leading to a better outsourcing outcome. Therefore, meaningful discussion is vital in planning, goal setting, implementing, coordinating and performing evaluation. In short, it is assumed that intensive communication will lead to better-informed parties, which in turn increases their confidence in the relationship and prevents misunderstandings.

As predicted, top management support was significantly positively related to outsourcing success. The top management can create effective partnerships through education, team building, shared goals and culture cultivation that address staff at all levels of the firm. As Henderson (1990) pointed out, the ability to establish effective partnership relationships across organisations and functions requires top management endorsement. In fact, outsourcing can often be the decisions and strategies that the top management chooses to improve the operational results. Once the management has decided on the approach, the focus and emphasis will definitely be given to ensuring that outsourcing achieves the benefits as claimed.

Contradicting the findings of Anderson and Weitz (1989) that older relationships seem to be more stable than new ones, the present research concluded that there is no relationship between relationship age and outsourcing success. The average age of relationships for this research was 4.33 years, with approximately 50 % lasting for 3 years or fewer. In total, 80 % of the respondents indicated a relationship age of 5 years or below. BPO as an operational strategy is still relatively new among banks and financial institutions. For many, it is probably still in its infant stage in terms of its potential benefits.

7 Conclusions and implications

This study makes several contributions. First, top management has the strongest impact, which confirms the original expectation that in order for outsourcing to be successful, the top management must cultivate the right working environment to encourage effective working partnerships between service providers and receivers. At times, outsourcing strategies might not be viewed positively by service receivers

because of the fear of losing control over the process. It takes time for service providers and receivers to build the relevant partnership qualities that are essential to outsourcing success. The process involves collective learning by the organisation, especially regarding its ability to coordinate diverse processes and integrate various aspects of production such as people, processes, technology, common goals and objectives.

The second contribution of this study is that business understanding is another aspect of partnership quality that requires close management attention and focus. Business understanding can be achieved through the clear definition of roles and responsibilities between service providers and receivers. Most service provider–receiver relationships are governed by service-level agreements. Although most service centres established by banks and financial institutions are affiliates or wholly owned units of the same organisation, these service-level agreements serve as internal guidelines for process efficiency.

In addition, organisations must understand that there should be open and frequent communication between service providers and receivers because proper communication facilitates negotiation and the transfer of information and resolves possible conflicts in any outsourcing relationship. Managers should therefore insist on timely and creditable communication channels.

Finally, this study also shows the managers of banks and financial institutions that commitment and an intimate relationship with service providers result in outsourcing success. Managers should foster commitment in terms of encouraging more integrating activities such as the sharing of long-range plans, benefit and risk sharing, mutual problem solving and information exchange. This will improve the working relationships and the degree of commitment between financial institutions and service providers, which will influence outsourcing success.

In summary, BPO in banks and financial institutions is a relatively new topic. While the potential benefits are promising, BPO poses significant questions that management must address. It is important for the process to be right the first time, because if it fails to produce the expected returns, it becomes more difficult to try again. This study aims to assist organisations considering Malaysia as a destination for relocating their business functions and processes.

8 Limitations and future research

There are a few limitations to this study. Firstly, because of the limited research conducted on BPO in banks and financial institutions, the research had to focus on the findings and approaches used by other industries, mainly from information systems. To overcome this limitation, we studied how banks and financial institutions measure their performance improvements and improve customer satisfaction. Future research might be conducted by taking into consideration the extensiveness of the outsourcing activities involved. As discussed by Heywood (2001), banking processes are made up of sub-processes that can be segmented and outsourced to different extents. It will be interesting to study whether any relationship exists between the extent of outsourcing and outsourcing success.

Secondly, the sample size is small because of the low response rate and the time constraints. Obtaining more robust results would require a larger sample size. Thirdly, this research focused on core banking operations. Future research might consider a broader scope covering other financial operation activities if BPO is the strategy used.

In addition, it would be interesting to extend this research by analysing the relationship between partnership quality and outsourcing success from the service providers' perspectives. It is also suggested that longitudinal research could be carried out to investigate the dynamic features of outsourcing partnerships, as this might provide a more robust result than snapshot research does. Finally, more variables could be examined as an extension to this study. Other variables reflecting factors such as the firm environment, strategic orientation, corporate philosophy, culture and organisational practice could be included.

In summary, this research provides insights into the partnership quality and outsourcing success of banks and financial institutions and offers selection guidelines for them when considering the wide choice of service providers.

Appendix

Section A

Please share with us your business perspectives on the current BPO (*centralization of functions into service centers*) situation in your company.

Outsourcing Success	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. We have been able to focus on core business.					
2. We have enhanced our processing competency.					
3. We have increased access to skilled personnel.					
4. We have enhanced economies of scale in our operation.					
5. We have enhanced our effectiveness in cost management.					
6. We have reduced our operation risks.					
7. We have increased our access to latest technologies.					
8. We are satisfied with our overall operation benefits.					
9. We observe strict financial security and confidentiality in our services.					
10. Our customers are satisfied with our services.					

Section B

The following statements are designed with the intention to understand the working relationship between the Service Provider(s) and Receiver(s) WITHIN your company.

Note:

- **Service Provider** can be defined as the **service centre** that handles the BPO functions.
- **Service Receivers** can be defined as *bank branches, customers’ relationship management teams, marketing groups and other front office users that interface between the service centers (providers) and ultimate customers.*

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Business Understanding					
1. We understand our business process well.					
2. We have good understanding on each others roles and responsibilities of the process.					
3. We perfectly understand the company business objectives.					
4. We share the risk that can be occurred in the process of business.					
5. We have collective responsibility of benefit and risk of the process.					
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Commitment					
6. We are committed to deliver the best of each other.					
7. We always keep each other’s promises.					
8. We participate in our business with positive attitude.					
9. We are interested in each others problems.					
10. We discuss and share our long range plan.					
Communication					
11. Our manner and methods of communication are timely.					
12. Our manner and methods of communication are creditable.					
13. We solve most exceptional problems through mutual discussion.					
14. We exchange information and business knowledge of core business processes.					
15. We are able to manage any conflict due to different culture, opinions and local practices of the business.					
Top Management Support					
16. We have all the support and resources we need from top management.					
17. Our management is serious about our working relationship.					
18. Our management considers our working relationship as an important thing in the organization level.					

Section C

The following are some personal questions about you and your company that will be used for statistical purpose only. Your response will be strictly confidential.

1. Gender

Male Female

2. Working Experience

Overall: _____ years

In current company: _____ years

3. What is your corporate position? (e.g. Vice President, Assistant Vice President, Manager, Assistant Manager, Senior Executive, Executive, Senior Officer, Officer etc)

4. Highest education level achieved

STPM/Diploma or below First Degree
 Postgraduate Others, Please specify _____

5. How many staff is there under your supervision (including your downlines)?

Less than 5 6 – 15 16 – 30
 31 – 50 51 – 100 Over 100

6. Types of services being performed

<input type="checkbox"/> Account Opening	<input type="checkbox"/> Cash	<input type="checkbox"/> Credit Admin
<input type="checkbox"/> Customer Contact	<input type="checkbox"/> Credit Card	<input type="checkbox"/> Deposit
<input type="checkbox"/> Foreign Exchange	<input type="checkbox"/> Fund Transfer	<input type="checkbox"/> Loans
<input type="checkbox"/> Money Market	<input type="checkbox"/> Stock / Security	<input type="checkbox"/> Trade Finance

Others, Please specify _____

7. What is the size of your company?

a) In terms of employees (full time and part time included)

Less than 20 21 – 50 51 – 100
 101 – 200 201 – 500 501 – 1000
 Over 1000

b) In terms of average **monthly** transaction volume processed

Less than 1,000 1,000 – 5,000 5,001 – 10,000
 10,001 – 20,000 20,001 – 50,000 Over 50,000

c) In terms of **monthly** revenue generation (in Ringgit)

Less than 500,000 500,001 – 1million 1 – 2.5 million
 2.5 – 5 million 5 – 10 million Over 10 million

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