

**A STUDY ON THE EFFECT OF PARTNERSHIP QUALITY
ON BUSINESS PROCESS OUTSOURCING FOR
BANKS AND FINANCIAL INSTITUTIONS
IN MALAYSIA**

Ooi Ee

(Joshua)

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I began to work on this project in August 2004, not too long after we learned that my father had been diagnosed with stomach cancer. This is also my dedication to my beloved father who passed away during the working of this research.

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ABSTRAK

Penyelidikan ini bertujuan untuk mengkaji kesan kualiti hubungan perkongsian dengan penyumberluaran proses preniagaan bagi pihak bank dan institusi kewangan di Malaysia. Kerangka penyelidikan telah direkabentuk untuk menguji kesan kualiti hubungan perkongsian sebagai faktor kejayaan yang kritikal bagi proses penyumberluaran. Terdapat lima pembolehubah bagi menganalisa kesan kualiti hubungan perkongsian iaitu persefahaman perniagaan, komitmen, komunikasi, bilangan tahun perhubungan dan sokongan pihak pengurusan atasan. Selain daripada itu, kepercayaan juga diperkenalkan sebagai pembolehubah pencelahan. Ujian hipotesis telah dilakukan kepada 105 responden yang diterima daripada 9 bank. Keputusan telah membuktikan bahawa kepercayaan, persefahaman perniagaan dan sokongan pihak pengurusan atasan mempunyai kesan yang signifikan terhadap kejayaan penyumberluaran proses perniagaan daripada perspektif pencapaian perniagaan and kepuasan pengguna.

ABSTRACT

This research studied the effect of partnership quality on business process outsourcing for banks and financial institutions in Malaysia. A theoretical framework was developed to test partnership quality as critical success factors to outsourcing success. There were five partnership quality variables in the proposed model – business understanding, commitment, communication, age of relationship and top management support together with partnership trust level as mediating variable. Hypotheses were tested with 105 respondents received from 9 banks. It was found out that trust, business understanding and top management support had significant effect on outsourcing success from the perspective of business performance and customer satisfaction.

Chapter 1

INTRODUCTION

1.1 Introduction

Business process outsourcing (BPO) has emerged as a critical mechanism to deliver excellent services to customers for bank and financial services community. Banks and financial institutions have been facing the pressures on higher return on capital, effective drive on cost management, increasing market requirements and tougher competitions from other market players. In order to sustain competitive capabilities, banks and financial institutions have been looking for ways to reengineer internal processes and improve service level. There are increasing trends that banks and financial institutions outsource their operations to off site processing location to improve business performances. Many global banks or financial institutions had set up their offshore frontier in South East Asian countries like Malaysia, Australia and Singapore to handle their operations.

1.2 Background

Outsourcing functions started earlier focusing on IT (Information Technology) development but other industries had fast adopted this effective operation strategy. Many businesses are now considering process outsourcing as the strategy to strengthen core competencies and improve performance. Quinn (2000) considered outsourcing as an innovative strategy by using the most current technologies and management techniques to put companies in sustainable leadership position.

Leading consulting firm Booz Allen Hamilton in their consultant report entitled *Business process outsourcing and offshoring*, stated examples of companies that achieved large savings through traditional business process outsourcing alone. Among the companies that benefited from this were:

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

Although the above examples were largely happened in India, many multinational companies are now looking at other East Asian countries that offer equal if not better advantages than what India has to offer. Among the common considerations for potential business process outsourcing locations are: stable political climate, excellent telecommunication and IT infrastructure, availability of talented human resources with widespread use of English and major Asian dialects, relative low cost of labor, positive support from the government on start up investment with relevant tax incentives. Isn't Malaysia meeting almost all the criteria? How does Malaysia fare in this?

During the preparation of the proposal for this research, *Business Times* (August 2004) reported that Malaysia is currently ranked the 3rd most attractive offshore location for shared services and outsourcing. The Malaysia government is also realizing the potential of outsourcing's contribution to our economy. According to Minister of Science, Technology and Innovation Datuk Dr. Jamaludin Jarjis (in the same report), the outsourcing industry in Malaysia has so far captured investments of more than RM1 billion. The growth of the global outsourcing industry for recent years has been significant that the shared services are forecasted to worth RM1.9 trillion with 60,000 job creations by 2008 in this country.

Figure 1.1 summarized attractiveness of Business process outsourcing sites for various East Asian countries.

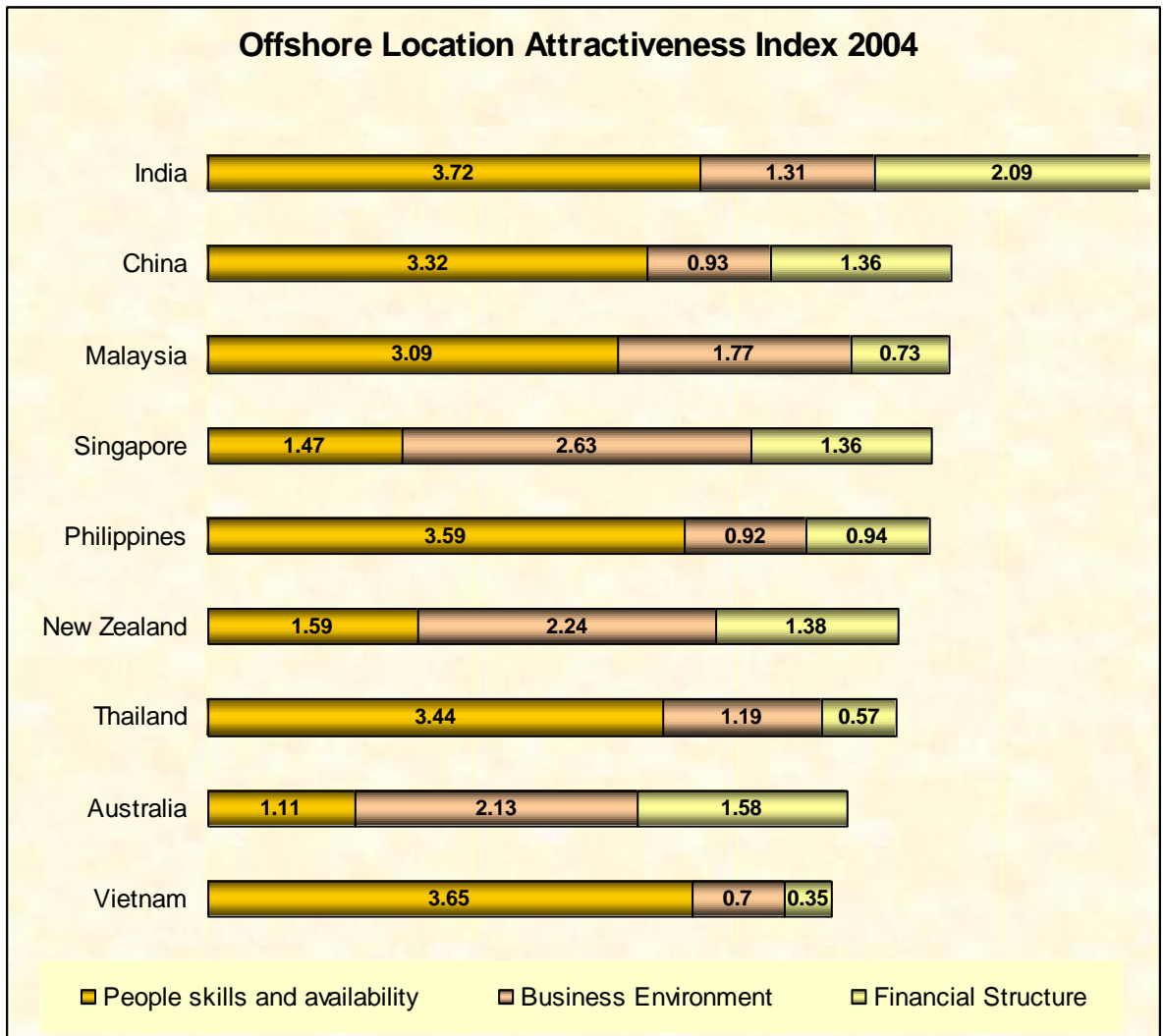


Figure 1.1 Offshore Location Attractiveness Index 2004. (Source: A.T. Kearney Consulting.)

The latest development is that many banks and financial institutions have set up their affiliate outsourcing centers in East Asian countries particularly in Malaysia. Figure 1.2 captures some of the initiatives by the global names from banking and financial industry happening in our homeland. These foreign banks are adopting the outsourcing operations concept by setting up centralized processing centers in Malaysia to handle their local and overseas operations to achieve the benefits of outsourcing. The local banks in the country have also implemented the same

operations strategy with various key regional processing centers established across the country to handle their nation wide operations.

Is the concept of centralized service center work for the banks? How successful is this operations strategy in harvesting the benefits as claimed? This is what this research is keen to find out.

1.3 Problem Statement

The research is to identify whether business process outsourcing operations is a success strategy for banks and financial institutions operating in Malaysia. The study investigates whether the operations set up as mentioned in Figure 1.2 is as successful as claimed. It is also the focus of this study to establish whether there is any relationship between partnership quality and outsourcing success for bank and financial operations.

1.4 Research Objectives

The objective of this study is to understand the components of existing outsourcing partnership quality of banks and financial institutions in Malaysia and how this is relating to its success. The relationship between partnership quality and outsourcing success will be examined through an integrated theoretical framework on outsourcing partnership.



“Malaysia hosts Citigroup’s largest world class trade processing center (known as Citigroup Trade Service (M) Sdn. Bhd.) as, one of only four globally, from which its global customers’ trade finance needs are serviced. The center uses state-of-art imaging technologies to achieve paperless transaction processing and has a Six Sigma Quality methodology for developing processes and performance indicators to achieve process timeliness and accuracy”.

Finance Asia, November 2003.



“HSBC is set to shift a significant number of jobs from Britain to its new operations headquarters (known as “HSBC Electronic Data Processing Center (M) Sdn. Bhd.) in Cyberjaya, its largest in the region.

Malaysia’s excellent high-tech telecommunications infrastructure, strong labor market with good language skills and cost advantages as reasons for locating one of its global centers in Cyberjaya.”

StarBiz, 18 October 2003



“Many international banking giants are moving towards centralizing their banking functions into global service centers to capitalize on cost savings, as well as to enhance service levels, and Standard Chartered Bank is no exception. StanCharts’s Kuala Lumpur Global Shared Service Center (GSSC), one of the only two operates worldwide, was officially opened in November 2003 at Technology Park, Malaysia”.

StarBiz, 5 January 2004

Figure 1.2 Snapshots of Recent Deals in Malaysia.

1.5 Research Questions

This study intends to answer the following questions:

- 1 Is business process outsourcing a success strategy for banks and financial institutions operations in Malaysia?
- 2 What are the components of partnership quality between service receivers and providers in business process outsourcing for banks and financial institutions?
- 3 Is there any relationship between partnership quality and outsourcing success?

1.6 Definitions of Key Terms

The following are the key words and phrases used in this research with its definitions within the context of this document.

- i. *Banks*: Organizations that offer financial services to corporations and general public. This terminology is interchangeable with “Financial Institutions” throughout this document.
- ii. *Business process outsourcing (BPO)*: Centralizing of functions into service centers to capitalize on cost savings, operational efficiency and economies of scale processing. It is also similar to *offshoring*, which means relocating business functions and processes to lower cost locations.
- iii. *Success of outsourcing*: Satisfaction with benefits from outsourcing gained by an organization as a result of deploying an outsourcing strategy.
- iv. *Partnership quality*: Degree of service providers and receivers’ satisfactions on their relationships established considering factors such as trust, mutual business understanding, commitment, cooperation, benefit and risk sharing.

1.7 Significance of Study

Business Process Outsourcing in banks and financial industries is a relatively new topic. The research intends to provide some insights on the success of this strategy and the partnership quality of the players in Malaysia contexts.

This research has also identified a set of measures for outsourcing success by identifying areas of expected benefits and improvements that will translate to improved service and customer satisfaction. These items can be considered as performance indicators for continuous monitoring and improvement. The study is done hoping that the research findings can provide relevant inputs to policy and decision makers in banks and financial institutions to revisit their current strategies to ensure the right focus is in place.

1.8 Organization of Remaining Chapters

The report consists of five chapters. Chapter 1 starts as introduction giving an overview of the research and its background set up. The problem statement is defined along with the key objectives that the research would like to achieve.

Chapter 2 presents the literature reviews on elements relating to this research such as outsourcing as an operation strategy, business processes management for banks and financial institutions, service performance of banks and financial institutions, outsourcing success and partnership quality. The theoretical framework and hypotheses are also defined in this chapter.

Chapter 3 explains the methodology used in this research, questionnaire development, measures, sampling design, data collection, coding and analysis.

Chapter 4 presents the profile of the respondents and the descriptive analysis on the research data. The chapter also explains the detailed analysis performed and the

hypothesis testing with the summary of findings, statistical results and relationship between variables.

Finally, the paper concludes with Chapter 5 on the results interpretation and discussion. The findings from the study are discussed in the context of its implication and contribution. Any limitation observed is also reviewed with recommendations and suggestions on how similar future research can be improved.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

Many are convinced that business process outsourcing is the right strategy. The need for outsourcing has grown over the last two decades due to increasing factors of global competition, downsizing, move to flatter organizations, cost reduction, improved quality, improved service delivery and stronger focus on core competencies (Fan, 2000 and Huber, 1994). But, how does this strategy work for banks and financial institutions?

2.2 Review of Literature

2.2.1 Theoretical Perspective

To analyze the business outsourcing process, some relevant theories like transaction cost theory, resource dependence theory from the economic viewpoint is reviewed.

Transaction cost theory states that there are costs involved in the transactions execution. The costs involved are operation costs, start-up cost, testing costs, coordination costs, overhead costs to name a few. Economies of scale happen when production is at a higher level which will allow specialization and better utilization of resources. The advantage of business process outsourcing is to achieve the benefit of economies of scale processing by the service providers. This will provide a competitive advantage through effective cost management. Operations efficiency can also be achieved through resources specialization.

Resource dependence theory views firms as collection of production resources – human, financial, capital, technology, natural – and transforming them to deliver goods and services as demanded by customers. Due to scarcity of resources, firms have to maximize their efficiency in resource utilization. When firms are in need of

resources, they can acquire from resource (production factors) markets. For example, if additional human resources are required due to increased demand and expanded production, more staff can be hired from the labor market to work for the firm. The theory also suggested that acquisition is not the only solution to resolve the resource shortage. Using the resources of the vendor or supplier to complement with one's existing resources can also bridge the resources gap. One of the methods to achieve this is through business process outsourcing (Lee, 1999 and Grover, 1996).

2.2.2 Business Process Outsourcing for Banks and Financial Institutions

According to Lacity, Willcocks and Feeny (2004), innovative companies were transforming their back office function into commercial enterprise. Back office function for banks were often viewed as high costing, low contributing and slow in responding. Yet, the back office executives were claiming that they can do better with the outsourcing and strategic partnership. Back offices process can be transformed through various approaches shared in the paper such as people development, process improvement, service excellence, technology enablement and slick physical facilities. The owner of this transformation was always the question. The paper suggested the organization could do it themselves by participating as a supplier (or service provider) in the outsourcing market. Banks that succeeded in the outsourcing process will see immediate outcomes such as lower costs, better service and shared revenues even after first year of operations. Banks were outsourcing their operations through centralization into service centers to achieve the benefits of operations efficiency, effective cost management and economies of scale processing.

Heywood (2001) in his book *The Outsourcing Dilemma* indicated that banking industry has gone through the most internal process change to improve its

performance as compared to other industries. According to Heywood, 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. This leads to the idea that some existing banks might eventually reposition themselves as service providers. Given this unique situation, some banks had set up their own centralized processing center to handle the bulk of activities at the same time attaining the benefits as claimed by the outsourcing strategy. The move is not only confined to their own processing as some banks even provide processing services to other competing financial institutions when the later are in the initial stage of entering into a new product base or market segment.

Business process outsourcing process for banks and financial institutions are mostly concerning back office processing functions. These functions, if manage effectively, are key contributors to competitive advantage. Face with the pressure of cost effective management, outsourcing of the back office functions has been the primary cost reduction strategy for many.

Deloitte Touche Tohmatsu (2004) in the report on the outlook of global banking and financial services industry identified offshoring or business process outsourcing as one of the top ten issues. Many oversea 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 build wholly own units of the organization as new enterprises to handle the processes.

Pioneers like Citigroup have seen significant success as a result of relocating back-office processing to lower cost countries. This has been one of the reason that Citigroup's costs grown only one-third as quickly as its revenue over the past five years, enabling it to become one of the world's most profitable company. Offshoring

also offers operational advantages such as enhancing business continuity and upgrading service quality.

In general, processes that can be considered for offshoring are those technology-enabled and not requiring face-to-face interactions. Banks began with IT functions and call centers, but later included core banking operations like cash, fund transfer, trade finance, security services, accounting, reconciliation, documentation review, account opening, user profile administration, credit administration and others back-office activities.

As this research is to study the success of outsourcing strategies for banks and financial institutions, it is appropriate to review previous studies conducted on service performance of banks and financial institutions. Key findings from selected studies conducted relating to this interest are summarized in Table 2.1.

Table 2.1
Summaries of Selected Studies on Performance and Service Quality for Banks and Financial Institutions

Author(s)	Research Setting(s)	Study Sample(s)	Instrument	Analysis	Factor structure or other key finding(s)
Kok and Richardson. (2003)	Malaysia	Banks and finance companies in Malaysia.	Used 10 variables, each measuring the aspect of Business Performance and Customer Service respectively.	Reliability analysis, composite reliability, factor analysis, correlation value.	Customer Service Quality strongly affected the business performance with success implementation of Business Process Reengineering Initiatives.
Jamal and Naser. (2003)	Pakistan	Retail banking sector in Pakistan.	Identified major factors contribute to customer satisfaction and service quality.	Factor analysis, Pearson correlation coefficient variables employed in regression, regression analysis,	Identified determinants of customer satisfaction in the retail banking. Results indicated a strong relationship between service quality and customer satisfaction. The paper also discussed implication of bank management.

Author(s)	Research Setting(s)	Study Sample(s)	Instrument	Analysis	Factor structure or other key finding(s)
Ngamkroeckjo and Johri. (2003)	Thailand	Financial services industry in Thailand	Management of environment scanning process and maintain business performance from the impact of 1997 financial crisis.	Case research and desk research combined with interview to minimize research bias.	In financial industry, leaders' behaviors were able to redefine industry benchmark and improve their performance by following proactive approach.
Gounaris, Stathakopoulos and Athanassopoulos. (2003)	Greece	Banks in general area of Athens, Greece.	The major hypothesis of the study was that perceived service quality was a function of factors pertaining to both the service provider and receiver of the service.	Pearson correlation between alternative dimensions of perceived quality, factor analysis, reliability and validity assessment.	Perceived service quality was indeed a function of customer and company specific antecedents.
Wang, Lo and Hui. (2003)	China	Bank branches in one big city in Northern China	Integrated framework on service quality and product quality, their distinctive contributions to the performance, given much emphasis to the importance of a positive bank reputation.	Composite reliability, Chi-square differences, standardized path coefficient,	Both service quality and product quality had significant influence on bank reputation.
Jabnoun and Al-Tamimi. (2003)	United Arab Emirates (UAE)	Commercial banks in UAE.	Developed a modified SERVQUAL for measuring service quality in the UAE commercial banks.	Factor analysis, predictive validity.	The paper developed and tested an instrument measuring service quality in the UAE commercial banks based on SERVQUAL. The instrument included 30 items that belong to SERVQUAL.
Leal and Pereira. (2003)	Portugal	Financial institutions in Portugal.	A specific methodology proposed to analyze the failure and complaints, with the ultimate goal of articulating internal (operational factors) and external measure of banks performance.	Statistical analysis of relationship, coefficients, regression modeling, component analysis, Kaiser criterion, exponentially weighted moving average (EWMA)	Provided useful identification of the drivers to be taken into account in service recovery strategies. Also focused on internal and external measures as insights on service quality research.
Parasuraman, Zeithaml and Berry. (1985)	USA. (Exploratory qualitative study undertaken to investigate the concept of service quality.)	Service categories chosen for investigation: retail banking, credit card, securities brokerage and product repair and maintenance.	Identified 10 evaluative dimensions or criteria as service quality determinants.	Focus group interviews with consumers and in-depth interviews with executives.	A conceptual service quality model that served as a framework for further empirical research in this area.
Parasuraman, Zeithaml and Berry. (1988)	USA.	Banks, Credit Card Co., Repair and Maintenance Co., L.D. Telephone Co..	Described the development of a multiple-item scale for measuring service quality (called SERVQUAL).	Evidence of the scale's reliability, factor structure and validity on the basis of analyzing data from 4 independent samples.	Development of 22-item instrument called SERVQUAL for assessing customer perception of service quality in service and retailing organization.

2.2.3 Outsourcing Success

To study the success of outsourcing, literatures relating to success implementation of outsourcing in various operations functions were reviewed to identify the success factors of this strategy.

Grover, Cheon and Teng (1996) in their research on outsourcing of Information Systems (IS) functions identified outsourcing success as the satisfaction with benefits from outsourcing gained by an organization as a result of deploying an outsourcing strategy. Among the items suggested to measure success of outsourcing were core business focus, enhancement on IT competence, access to skilled personnel, economies of scale in human and technology resources, control of IS expenses, risk reduction in technological obsolescence and increase access to key information technologies.

Lee and Kim (1999) suggested that outsourcing success could be measured in terms of outsourcing's impact on business performance as well as on customer's satisfaction. Business performance can be measured by assessing the degree of achieving the strategic, economic and technological benefits of outsourcing. Customer satisfaction on the other hand can be viewed as the level of fitness between customer's requirements and outsourcing outcome.

Lacity, Willcocks and Feeny (2004) performed a study of the outsourcing of back office operations at The Lloyds Bank of London and identified seven generic competencies to transform back offices. These competencies were 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 how innovative companies like BAE System, Bank of America, Barclays Bank, and Lloyds of London actually transformed

their back offices into commercial enterprises. According to this study, back office 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 cost, better service and revenue generation.

Table 2.2 summarized key findings from selected literature reviewed relating to outsourcing success.

Table 2.2
Summaries of Selected Studies on Outsourcing Success

Author(s)	Research Setting(s)	Study Sample(s)	Instrument	Analysis	Factor structure or other key finding(s)
Grover, Cheon and Teng. (1996)	USA	IS companies in the US.	Empirical study on IS outsourcing. Studied the component of outsourcing functions and examined their relationship with outsourcing success.	Reliability and validity test. Correlation between variables, regression analysis.	Both service quality of the vendor and elements of partnerships such as trust, cooperation and communication were important for outsourcing success.
Lacity, Willcocks and Feeny. (2004)	UK	The Lloyds of London back office.	Identified 7 generic competencies to transform back offices. They were service excellence, people development, technology enablement, process improvement, slick physical facilities, efficient 3 rd party outsourcing and implementation management.	Case study.	Back office can be transformed using many capabilities described in the paper, such as better employee management, redesigned processes, customer centric servicing, enabling technology and new facilities. The results were impressive: lower cost, better service and revenue generation.
Hsu, Wu and Hsu. (2005)	Taiwan	Large enterprises in Taiwan.	Identified the constructs and practical indicators used to evaluate IS outsourcing performance.	Research data were analyzed by using SAS to determine its characteristics. Chi-square test was used to elucidate samples differences.	The paper had described the enterprise motivation, advantages, risk associated, factors critical to success to be considered in outsourcing of information system. The results imply that the outsourcing business of IS still has room to expand.
Misra. (2004)	USA	Companies with IT outsourcing.	Proposed a top down framework for outsourcing metrics use to evaluate the success of outsourcing strategy.	Empirical study.	The paper presented a strong case for the use of metrics in establishing the success of an outsourcing engagement related to information technology services. It proposed that the success of an outsourcing engagement should mean achieving the goals of 3 parties – outsourcers, outsourcees and the end users.

Author(s)	Research Setting(s)	Study Sample(s)	Instrument	Analysis	Factor structure or other key finding(s)
Saunders, Gebelt, Hu and Qing. (1997)	UK	Companies with outsourcing agreements administered at least 2 years as of spring 1995.	Identified outsourcing success in the nature of contract (tight vs. loose) and type of relationship. Success was measured along with multiple dimension of economic, technological, strategic and overall satisfaction with contract.	Interviewed 34 managers who signed and administered outsourcing agreements	Outsourcing may enhance the strategic impact of IS activities. Companies turned to outsourcing for reasons such as technological considerations, cost savings, strategic considerations, human resources considerations, mandated by head office, acquired by another company and consolidation of data center.
Elmuti and Kathawala. (2002)	USA	Organizations throughout the United States, Europe, and the Middle East.	One major hypothesis and six research questions to guide an investigation of the relationships between global outsourcing programs and organizational effectiveness.	Analysis of variance, F-ratio, multiple regression value.	The results showed that organizations generally considered themselves successful at global outsourcing. The results of the study suggested that by understanding and managing the major risk factors identified in the survey, managers could view global outsourcing as a useful tool to enhance their competitive positions in an increasingly global market place.
Lee and Kim. (1999)	South Korea	Organizations with outsourcing IS services in South Korea.	Established partnership quality as a key predictor of outsourcing success, distinguishing between its components and its determinants.	Reliability and validity test. Factor analysis. Correlation between variables, regression analysis.	Result indicated that 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, management support and negatively affected by age of relationship and mutual dependency.

2.2.4 Partnership Quality

It is also important to explain the parties involved in the process of business outsourcing for banks and financial institutions. When banks venture into the outsourcing business either by being the suppliers or service providers, there are three general parties 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 service provided by the banks and financial institutions. The customers can either be corporations or individuals.
- ii. Internal customers (service receivers) are the entities, units or employees who act as interface between the service providers and the ultimate customer, regardless of their physical location whether at head offices or remote branch offices.
- iii. Suppliers (service providers) are the party where the processes are outsourced.

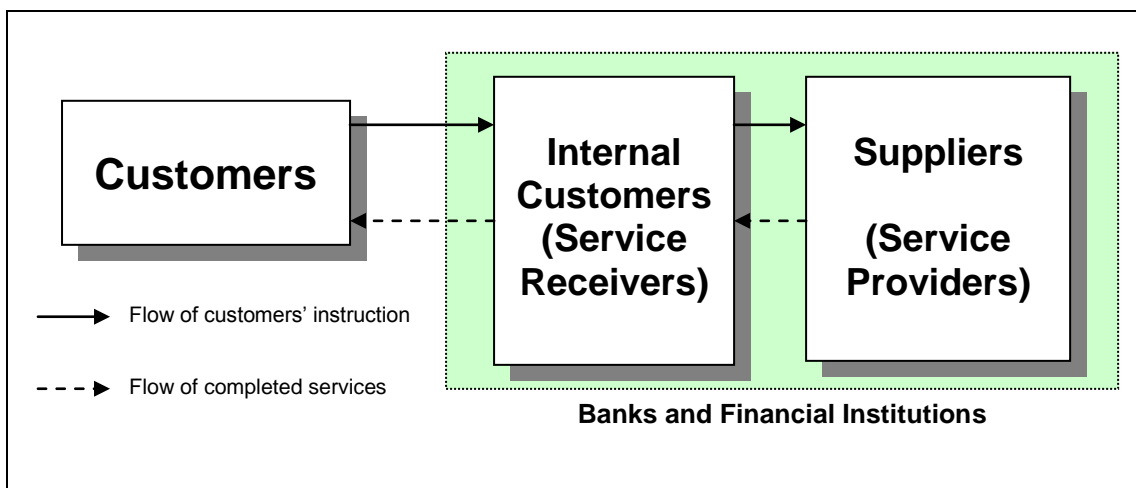


Figure 2.1 Parties Involved in the Business Outsourcing Process.

This research will measure the success of business process outsourcing from the perspective of service receivers (internal customers). External customers were not used as respondents to this research because it is unlikely for the external customers to differentiate whether the services was performed through the outsourcing method. Otherwise, it will just be another customer satisfaction survey.

On the other hand, the service receivers are the decision makers and executives who have the best insight on how outsourcing functions are being run. They are assumed to have the most holistic view on the outsourcing functions (Bunmi, Fenio & Miguel, 2004).

The relationship between the service providers and service receivers (internal customers) as explained in Figure 2.1 is an interesting topic to study. In this model, service receivers and service providers are supposed to have a common goal of meeting the organization objectives. The relationship that they have established is of interest here as they might impact the outcome of business process outsourcing from an operational perspective.

Anderson and Narus (1990) in their research model of distributor firms and manufacturer firms working relationships suggested several ways in which both firms can actively manage their working relationships. Qualitative elements researched in improving partnership qualities were trust, communication and cooperation.

Anderson and Weitz (1989) in their research *Determinants of Continuity in Conventional Industrial Channel DYADS*, examined a subset of the many factors such as trust, congruent goals and good communication that stabilize relationships in channels of distribution. The same research also suggested older relationships appeared to be more stable than new ones.

According to Henderson (1990) in his article *Plugging into strategic partnerships*; active participation of the partnership members plays a major role in enhancing the suitability of their partnerships over time. The paper concluded close information sharing and top management support were found to be positively related to successful outsourcing partnership.

Table 2.3
Summaries of Selected Studies on Working Partnership

Author(s)	Research Setting(s)	Study Sample(s)	Instrument	Analysis	Factor structure or other key finding(s)
Anderson and Narus. (1984)	USA	Distributor firms and manufacturer firms.	Developed a model of distributor firm and manufacturing firm working partnership.	Employed a multiple-informant research method.	Research findings and the follow-up qualitative research suggested several ways in which both manufacturer firms and distributor firms can actively manage their working relationships. Among the elements suggested in improving partnership qualities were trust, communication and cooperation.
Anderson and Weitz. (1989)	USA	Firms selected from Electronic Representatives Association (ERA).	Model developed according to three major elements: continuity of relationship, trust and communications.	Used correlation matrix and estimation results	Examined a subset of the many factors such as 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)	USA	Automobile tire retailer 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.	Testing of KMV using Correlation / Covariance Matrix. Analysis of competing structural models	Commitment, trust and cooperation were “qualitative outcomes” that 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)	USA	Technology infrastructure.	This paper explores 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).	Used interview approach.	The paper concluded on the finding of positive relationship resulted from close information sharing, top management support to successful outsourcing partnership.
Kim and Chung (2003)	USA	Firm with IS outsourcing relationships	Propose research model looking at success in IS outsourcing in terms of satisfaction and perceived benefits. The independent variables were relational exchange and task characteristics.	Reliability test and regression analysis.	The following variables were found to be significantly, positively related to predicting the success of IS outsourcing: partnership, flexibility and monitoring of vendor.

Author(s)	Research Setting(s)	Study Sample(s)	Instrument	Analysis	Factor structure or other key finding(s)
Parker and Russell. (2004)	Australia	Multinational organization (MNO) in the financial services sector.	Identified the importance of addressing strategic issues and inter / intra relationships between parent company team members and their outsource counterpart.	Used action enquiry method. Completed questionnaires were analyzed by adopting the methodology of Miles and Huberman (1984).	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. Recognition and strategies need to be developed to accommodate the importance of cooperation, frequency and type of communication, approachability and trust.
Moore. (1998)	USA	Logistic firms listed in the 1995 Council of Logistics Management (CLM).	Theoretical model of logistics alliances identifying hypothesized relationship commitment and seven other constructs.	Used two-step covariance structure analysis approach described by Anderson and Gerbing (1988) to analyze the data.	Result indicated that both trust and relationship commitment were important elements in logistics alliances. The result also indicated that relationship commitment and effectiveness were influenced more by negative outcomes associated with conflict than by positive outcomes associated with trust.
Lee and Kim. (1999)	South Korea	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.	Reliability and validity test. Factor analysis. Correlation between variables, regression analysis.	Result indicated that 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, management support and negatively affected by age of relationship and mutual dependency.
Grover, Cheon and Teng. (1996)	USA	IS companies in the US.	Empirical study on IS outsourcing. Studied the component of outsourcing functions and examine their relationship with outsourcing success.	Reliability and validity test. Correlation between variables, regression analysis.	Both service quality of the vendor and elements of partnerships such as trust, cooperation and communication were important for outsourcing success.

Base on the literature studied, elements such as trust, business understanding, commitment, communication, year of service and top management support were identified as factors that contribute to organizational relationship and partnership. These elements suggested here will be used as the variables to test the relationship of

partnership quality to the success of business process outsourcing strategy. The explanations of these variables are summarized in Table 2.4.

Table 2.4
Operational Definitions for Partnership Quality Variables

Variables	Operational Definition	Key Supporting Literature
Trust	Degree of confidence and willingness between partners.	Parker and Russell (2004) Grover (1996) Morgan and Hunt (1994) Anderson and Weitz (1989) Anderson and Narus (1984)
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) Grover (1996) 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)

2.2.5 Partnership Trust

Trust is defined as degree of confidence and willingness between partners (Table 2.4). Anderson and Narus (1990) in their model of working partnership had made trust as a core construct. The article defined trust “as the firm’s belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm.”

Therefore, trust was considered as an implication of a firm's action. The same research had illustrated that, at any point in time, communication causes trust given the nature of communication as a construct. Anderson, Lodish and Weitz (1987) contended that communication leads to trust.

Morgan and Hunt (1994) in the article *The commitment-trust theory of relationship marketing* labeled a key mediating variable (KMV) model. The KMV model hypothesized trust as a construct positioned as mediating variable with three important antecedents (i.e., shared values, communication, and opportunistic behavior) and three outcomes (i.e., cooperation, functional conflict, and decision making uncertainty).

Base on the information obtained from the various studies, there is a high possibility that other partnership quality variables (Table 2.4) will impact partnership trust level. Partnership trust level can be constructed as mediating variable with components of partnership quality as antecedents and outsourcing success as business outcomes.

2.3 Theoretical Framework

The research model can be developed as per schematic diagram in Figure 2.2. In the diagram, success of business process outsourcing for banks and financial institutions is the dependent variable, the variable that is of primary interest of this research to find out.

Next, we have the components of partnership quality as independent variables. Partnership quality is segregated into three categories: dynamic, static and contextual factors. Dynamic factors cover elements like business understanding, commitment and communication. Static factor is the tenure of partnership relationship (age of

relationship). Top management support to the outsourcing initiative is also look at as contextual factor.

Partnership trust level is also introduced as mediating variable in the model with the intention to test the relationship between the components of partnership quality and partnership trust level (KMV model as mentioned in section 2.2.5). At the same time the effect of partnership trust level to outsourcing success can be tested as well.

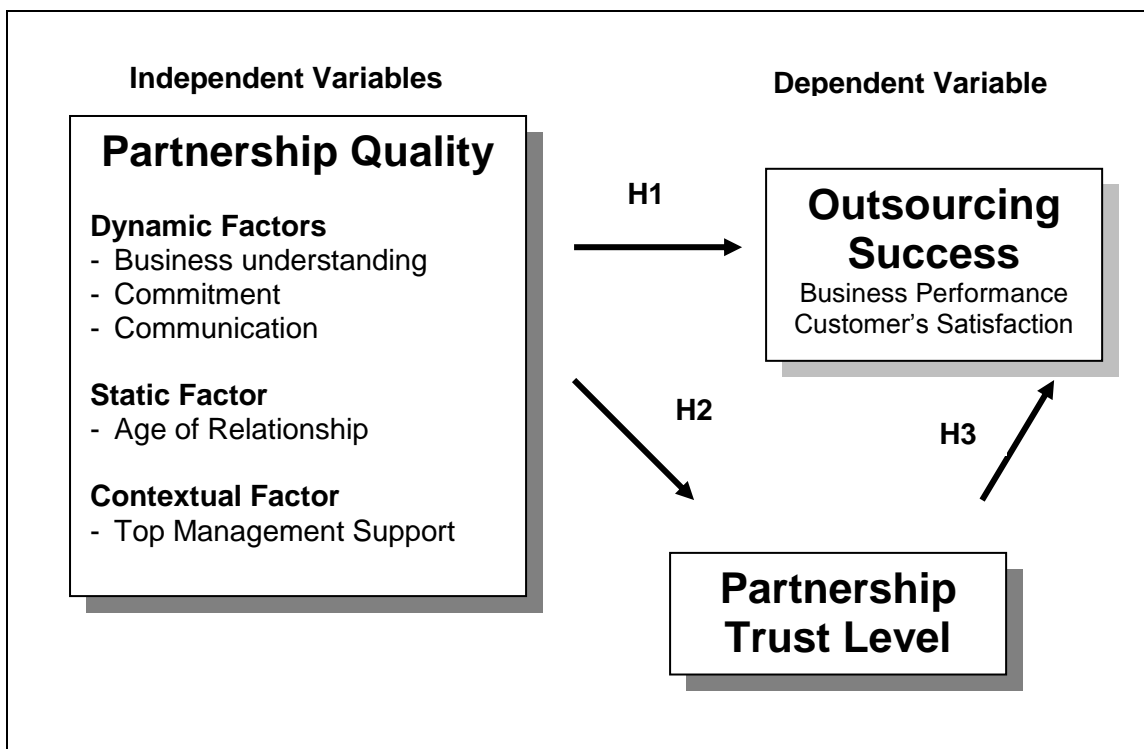


Figure 2.2 Research Model.

2.4 Hypothesis Generation

Based on the research model, three groups of hypotheses can be formed. The first group focuses on the relationship between partnership quality and outsourcing success. The second group is developed to test the relationship between partnership quality and partnership trust level. The third group is formed to test the effect of partnership trust level as a mediating variable in the model.

2.4.1 Partnership Quality and Outsourcing Success

The first group of hypotheses which can be considered as the basic model is developed to study the relationship between partnership quality and outsourcing success in banks and financial institutions.

H1: There is a positive relationship between partnership quality and the success of business process outsourcing for banks or financial institutions.

There are three categories of partnership quality: dynamic, static and contextual factors. Hypothesis 1a, 1b and 1c are developed to test the dynamic factors namely business understanding, commitment and communication. Hypothesis 1d is to test the static factor of age of partnership and hypothesis 1e to test the contextual factor of top management support.

H1a: There is a positive relationship between partnership business understanding level and the success of business process outsourcing for banks or financial institutions.

H1b: There is a positive relationship between partnership commitment level and the success of business process outsourcing for banks or financial institutions.

H1c: There is a positive relationship between partnership effective communication and the success of business process outsourcing for banks or financial institutions.

H1d: There is a positive relationship between age of partnership relationship and the success of business process outsourcing for banks or financial institutions.

H1e: There is a positive relationship between top management support and the success of business process outsourcing for banks or financial institutions.

2.4.2 Partnership Quality and Trust Level

The second group of hypotheses is developed to study the relationship between partnership quality and trust level.

H2: There is a positive relationship between partnership quality and partnership trust level.