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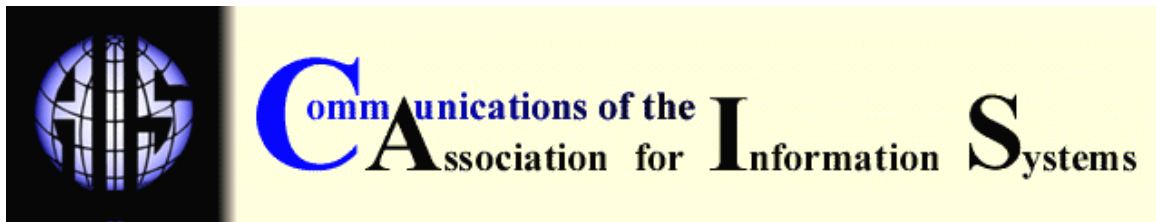
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INTERNATIONAL EXAMPLES OF LARGE-SCALE SYSTEMS - THEORY AND PRACTICE II: A CASE STUDY OF MANAGING IT OUTSOURCING PARTNERSHIPS IN ASIA

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ABSTRACT

This case study describes an Asian Information Technology (IT) outsourcing partnership in the discrete manufacturing industry. Interviews with business and IT executives of both the Outsourcing Company and the IT Services Supplier provided the necessary insights. Nowadays many organizations in discrete manufacturing move their plants to Asian countries or other lower wages countries. Most IT services suppliers in Asia are relatively inexperienced with the management of IT outsourcing relationships. However, not only are the IT services suppliers inexperienced, the outsourcing companies do not have a track record in managing IT outsourcing relationships. Cultural issues also play an important role, especially power distance and collectivism. Contrary to the level of experience, cultural factor do not change over a few years. This article aims to provide a better understanding of managing IT outsourcing partnerships in developing Asian countries on the basis of an IT outsourcing partnership model.

Keywords: IT outsourcing, partnership relationships, culture, power distance, individualism/collectivism, Asia.

I. PROBLEM SPECIFICATION

Asia is a growth market for IT services. In 2000, Gartner Group forecast a general higher average growth for the Asian IT market in 2001 than the 10% yearly growth for the rest of the world [Hayward, 2000]. However, Asia's level of experience with the management of IT outsourcing is low compared to the rest of the world [Kitzis, 1998] [Lacity and Willcocks, 2001]. The most mature IT outsourcing partnerships are found in the US. The UK and Australia follow closely. The rest of

Western Europe is behind the UK and Australia. The rest of the world, including Asia, is far behind.

Furthermore the Asian culture affects business relations [Chen, Lopez-Gelormino, and Shaw, 2001]. As Hofstede says about culture:

“The collective programming of the mind distinguishes the members of one group or society from those of another. ...Management within a society is very much constrained by its cultural context, because it is impossible to coordinate the actions of people without a deep understanding of their values, beliefs and expressions.” [Hofstede, 1980].

Cultural differences make it very hard for Western companies to prosper in their business relationships in Asia [Hsieh, 1996]. Steinbart and Nath confirm the impact of culture for Information Technology [Steinbart and Nath, 1992]. Culture also impacts managing IT outsourcing partnerships [Chen, Lopez-Gelormino, and Shaw, 2001].

To analyze the impact of culture we apply Hofstede’s framework [Hofstede, 1980], which was initially built on five dimensions:

- power distance,
- individualism,
- masculinity,
- uncertainty avoidance, and
- Confucian dynamism (long term orientation).

The strength of the Hofstede framework is that the dimensions were quantified for a large number of countries all over the world (see Table A1 in Appendix I). When comparing the Asian culture with that of the US, UK, and Western Europe, the power distance and individualism dimensions show significant differences. Power distance is defined by the extent to which the members of a society accept that power in instructions and organizations is distributed unequally [Hofstede, 1984]. The Asian culture, in particular is characterized by a large power distance [Hofstede, 1984]. Individualism can be characterized as a preference for a loosely knit social framework in societies in which individuals are supposed to take care of themselves and their immediate families only: the I-concept [Hofstede, 1984]. The opposite of individualism is collectivism, which can be characterized as a preference for a tightly knit social framework in which individuals can expect their relatives, clan, or other in-group to look after them in exchange for unquestioning loyalty: the WE-concept [Hofstede, 1984]. The Asian countries are examples of countries with high collectivism (Table A1 in Appendix I).

The question addressed in this paper is how IT outsourcing partnerships can be managed properly in these inexperienced, high power distance, and collectivist countries. We discuss an in-depth case study of an Asian IT outsourcing partnership in the discrete manufacturing industry, with which we aim:

- to describe an IT outsourcing partnership in Asia, and
- to derive lessons learned for managing Asian IT outsourcing partnerships

The structure of this paper is as follows. Section II discusses the theoretical foundations and the conceptual framework, the IT outsourcing partnership model, which was used to structure the research. Section III describes the Asian IT outsourcing partnership case. Section IV provides analyses and observations. The Appendices provide more details of the Hofstede framework and definitions of IT services and different types of IT outsourcing decisions.

II. TOWARDS A FRAMEWORK TO STUDY IT OUTSOURCING PARTNERSHIPS

IT OUTSOURCING PARTNERSHIP

The literature on IT outsourcing contains several contributions to the question on how to manage IT outsourcing partnerships [Beulen 2000; Lacity and Willcocks, 2001; McKeen and Smith, 2000]. Lacity and Hirschheim characterize an IT outsourcing partnership by:

- the 'Outsourcing Company',
- the 'IT services supplier(s)', and
- by the existence of a 'Relationship' [Lacity and Hirschheim, 1993].

In addition, Willcocks and Choi bring up the element of 'Experience' in managing IT outsourcing partnerships [Willcocks and Choi, 1995]. The outsourcing company and the IT services supplier(s) are bound by a (contractual) relationship regarding the provision of IT services.

The Companies Involved

The Outsourcing Company is the company that decides to start a long-term contractual relationship with one or more IT Services Suppliers to provide all or part of its IT services. The IT Services Supplier is responsible for the delivery of the IT services to the Outsourcing Company.

The Relationship

Two elements determine the relationship between the Outsourcing Company and the IT Services Supplier:

- the type of IT sourcing decision and
- the type of services involved [Chen, Lopez-Gelormino, and Shaw, 2001; Lukacs, 1998; Willcocks and Choi, 1995].

Currie and Willcocks distinguish four types of IT sourcing decisions [Currie and Willcocks, 1998, Willcocks and Choi, 1995]:

- insourcing,
- multiple selective sourcing,
- total outsourcing,
- alliance/joint venture.

These arrangements are defined in Appendix II. The last arrangement is not relevant in Asia [Dataquest, 1999].

For the type of services, IDC provides the following distinction based on the impact of IT outsourcing on the business organization [Lukacs, 1998]: Information Systems Outsourcing, Processing Outsourcing, Business Processing Outsourcing [see Appendix II for definitions].

Experience

In this article, experience is defined as the level of experience of both the Outsourcing Company and the IT Services Suppliers in managing IT outsourcing partnerships in the Asian region. Most of the outsourcing companies and the IT Services Suppliers in the Asian countries do not have a very large track record in managing IT outsourcing partnerships [Kitzis, 1998; Lacity and Willcocks, 2001]. As suggested by Currie and Willcocks [Currie and Willcocks, 1998; Willcocks and Choi, 1995] and IDC [Lukacs, 1998] the required level of experience and the types of sourcing and type of services are related. In general the higher the degree of client/supplier interdependence, and the higher the level of complexity of the IT services involved in the relationship, the higher the required level of experience in the management of the relationship will be [Willcocks and Choi, 1995; Lukacs, 1998] (Table 1).

Table 1. Needed Experience in Managing IT Outsourcing Partnerships

		Needed experience in managing IT outsourcing partnerships
Type of IT sourcing decision	In sourcing	Low
	Selective multiple sourcing	Medium
	Total sourcing	High
Type of services	Information Systems outsourcing	Low
	Processing outsourcing	Medium
	Business process outsourcing	High

Sources: Currie and Willcocks, [1998], Lukacs [1998], and Willcocks and Choi[1995].

THE ANALYTICAL FRAMEWORK

Based on the foregoing discussion we propose an analytical framework composed of the following elements:

- Endogenous variables: outsourcing company, relationship, and IT services suppliers;
- Exogenous variables: power distance, individualism, and experience.

Figure 1 is a representation of this framework.

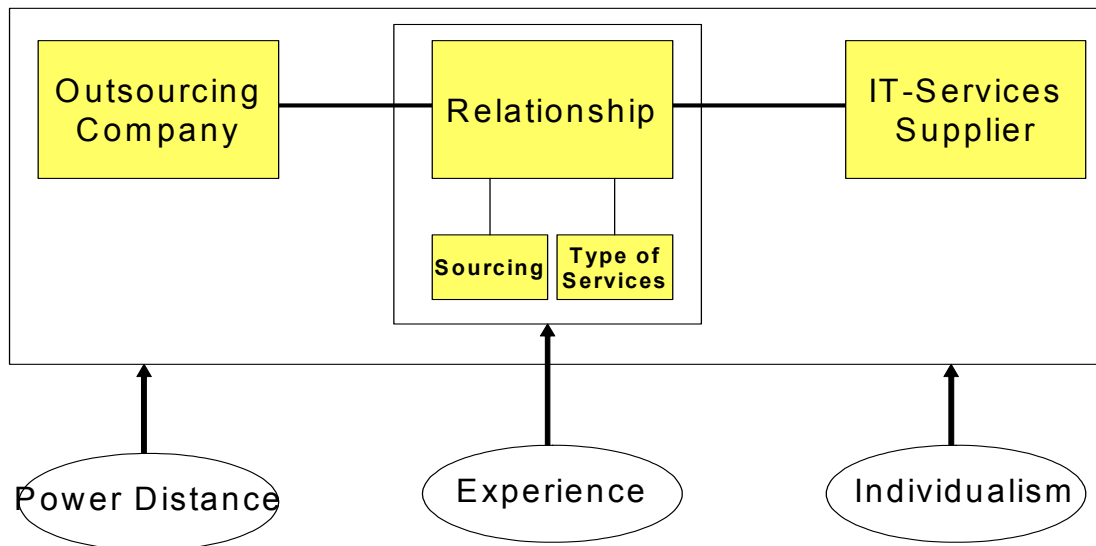


Figure 1. The IT Outsourcing Partnership Model and the Influences of Power Distance, Individualism and Experience

III. AN ASIAN IT OUTSOURCING PARTNERSHIP

This section discusses the case of a successful Asian IT outsourcing partnership. The IT outsourcing partnership model will help to position the case study. The results of the interviews are projected onto the descriptive model. The nature of this type of research is explorative. We used the case study method, because it enables “reality” to be captured in considerably greater detail than other methods, and because it allows analysis of a considerable greater number of variables [Yin, 1989].

The case description is based on interviews of 1½ hour each with the IT director of the business unit of the Outsourcing Company and the service delivery director of the IT Services Supplier (Sidebar 1). The interviewees provided insight in the factors, which they thought to have a major impact on IT outsourcing relationships in Asia. The interviews are based on a structured questionnaire (Appendix III) with open questions related to the elements of the IT outsourcing partnership model. We also analyzed relevant reports and obtained archival data. We first provide the context and the introduction to the case investigated and then discuss our findings.

CONTEXT

The IT outsourcing partnership is situated in Asia. Two locally managed subsidiaries of European companies began their relationship in 1998, on the basis of a five-year outsourcing contract. The IT Services Supplier, employing more than 1200 people in Asia, is a global service provider. It offers full services and runs a regional data center connected to other regional datacentres to guarantee world-wide services 24 hours a day. The Outsourcing Company is in discrete manufacturing for over 25 years and employs more than 3500 people. It is a subsidiary of a globally active company that is quoted on several stock exchanges. As a business unit, it is part of the global company's division for business-to-business markets, whose products are mainly sold to third parties.

The division's value chain consists of three segments: semi manufactured products, assembly and testing, and technical marketing. Separate business units are set up worldwide for each part of this value chain. They operate by region. Assembly and testing is labor-intensive and involves high volumes and low added values. Its business units are mainly located in countries with lower wages. The Asian assembly and test business unit runs major plants in three countries as well as a large number of offices in various countries. The IT outsourcing partnership studied applies to one country only.

SIDEBAR 1

THE PEOPLE INTERVIEWED

The Outsourcing Company's IT director is responsible for IT at her company's Asian assembly and test business unit. Hers is an expatriate assignment. She heads the local information management office of about 8 employees. In addition she is a member of the business unit's management team, hierarchically at the level of plant managers. She is responsible for about 30 % of the business unit's entire IT budget for strategic applications.

The IT Services Supplier's service delivery director, like his client, works for his company's Asian subsidiary. The contract studied here is part of his responsibilities. He is a member of the Asian management team and operates at senior management level.

The relation of these two companies may be characterized as information systems outsourcing and selective multiple outsourcing (Table 2)

Table 2: Model Based Positioning of the Case Study

Relationship	<ul style="list-style-type: none"> • Information systems outsourcing • Selective multiple outsourcing
Outsourcing Company	<ul style="list-style-type: none"> • Global manufacturing company with operations in Asia • Business-to-Business market • Labor intensive • High volume • Low added value
IT Services Supplier	Global service provider

At first, the contract involved about 20 Full Time Equivalents (FTEs), all deployed in the client's largest factory. In addition to 17 transferred employees three employees of the IT supplier who were previously assigned to other customers were assigned at the outsourcing contract at the start of the contract. The three employees were involved in new projects. In time, the contract was expanded to 35 FTEs and involved several plants. The IT outsourcing partnership is about a transformation of a mainframe platform into a client-server architecture. This transformation project was not finished at the time this case was written and still requires the IT Services Supplier's attention. The IT Services Supplier is also responsible for the maintenance and operation of this infrastructure and its corresponding applications, on a 7 x 24 hours' basis. The supplier's activities focus on applications (ERP and Shop Floor Control systems). These activities include new release creation, changes, bug solving, and support.

Table 3. Key Characteristics of the Outsourcing Contract

Start contract	1998
Duration of the contact	5 years
Size of the contract at time of writing	35 FTE's
Transferred people	17
Goals of the outsourcing relationship	<ul style="list-style-type: none"> • Change from a mainframe platform to a client-server architecture. • Operation and maintenance of infrastructure and applications

The local market in which these two companies operate is similar to the European market of 10 years ago. The many small players focus mainly on the development of tailor-made applications. Only a few large local companies offer ERP package implementation. A few very large Asian conglomerates offer limited IT services to Asian markets through their internal IT departments. Some global service providers, like the IT Services Supplier in this case study, maintain subsidiaries in this local market. Such a scattered and immature market presents difficulties to those who are active in it. The lack of IT professionals experienced with business process-oriented work limits the professional services these companies can offer.

WHY OUTSOURCE

The present owner of the Outsourcing Company bought the plants only a few years ago, and is now in the process of integrating them into his existing organization. This integration makes innovation in business processes necessary and requires a new IT platform. Moreover, IT is considered to be of strategic importance. The company's business and the changing environment in which it operates simply makes performance and quality improvements necessary and thus calls for the transformation.

The main argument for contracting to the IT Services Supplier was the low maturity level of the IT department. It needed the outside support to realize the transition from a mainframe platform to a

client-server platform. Therefore, the outsourcing relation began with application and infrastructure transformation. Since this transformation involved much business re-engineering it eventually influenced the entire business unit.

RELATIONSHIP

The interviews indicate that the three most important elements related to the relationship are

1. business improvement,
2. contract structure and
3. contractual obligations.

Business improvement represents the goals, which the Outsourcing Company is pursuing through the outsourcing relationship [Currie and Willcocks, 1998]. The IT outsourcing partnership is framed into the contract structure and contractual obligations [Lacity and Hirschheim, 1993]. As an introduction to the discussion, Table 4 provides a brief overview of how these elements affect the relationship, and whether (indicated with 'Y') they relate to power distance, experience, and/or individualism. In terms of relationships, only experience matters.

Table 4. Relationship Characteristics in the Case Study

Relationship Characteristics	What was Important?	Power Distance	Experience	Individualism (Collectivism)
Business Improvement	Backward position of Outsourcing Company; ambitious business transformation program necessitates a change to a state of the art IT – environment.		Y	
Contractual Obligations	Suppliers' input obligations; KPI and Gentlemen's agreement.		Y	
Contract Structure	Layered contract structure could not fully be applied.		Y	

Y = effect on relationship characteristic

Business Improvement

The region in which this business unit operates is normally chosen for its inexpensive workforce. The average educational level in these parts of the world is not very high and most employees are monolingual. These factors limit the potential for ambitious investments within the context of a multinational company. On the other hand, there is usually little need for ambitious projects, precisely because of these low wages. These two conditions enforce the backward position of the business unit in our study. The management recognized this backward position and initiated a remarkable ambitious business program, which necessitates a change of the IT-environment. The IT Services Supplier introduced state-of-the-art applications with a major impact on the plant's operation.

"For the plant's employees these new IT services constitute a move from the Stone Age to the year 2000. They really mean a big change for everyone involved". [Service Delivery Director]

In this specific situation such major investments are justified because the consequent business re-engineering turns the old-fashioned factory into an up-to-date plant. As a result of the new IT investments, instead of lagging the plant now takes a leading position, with short lead times and low stock levels. In this company's business that is a serious advantage, and it improves its competitive position significantly. Ultimately, the plan is to use the experience gained here to achieve the same improvements in the business unit's other two plants. Reaching this goal requires a large effort from both the Outsourcing Company and the IT Services Suppliers. The Outsourcing Company must adapt their business processes to bring their organization to a higher maturity level.

Contractual Obligations

The outsourcing contract revolves around the supplier's input obligations. The IT Services Supplier is not rewarded for extra output or for improving the level of its services. Thus there is no long-term stimulus to make any extra effort. The IT director of the Outsourcing Company is fully aware of this problem.

"Our IT services supplier really wants to deliver good services. The value for money they offer is the result of their staff working very hard, often during extremely long working hours. One explanation for this dedication is that their staff has a great sense of responsibility. The problem, however, is that they cannot be expected to go on making such long days indefinitely." [IT Director, Outsourcing Company].

When the contract was drawn up, neither party had any outsourcing experience. Therefore, they agreed that rewards for extra effort or improvements were unnecessary. The IT director believes this arrangement may change.

"We have gained a clear insight into our supplier's efforts, output and deliverables; our partnership has become mature. When we signed the present contract we agreed to revise it when needed. Now might be time to do so." [IT Director, Outsourcing Company].

She explains why output definitions were left out of the original contracts:

"Before we signed the contract I showed the draft to a couple of people. They all recommended adding extra output-related clauses. But I argued this is impossible if you start from scratch. I stuck to my point and I don't regret it. Of course I expect output, but how could I know how much it was reasonable to expect? And how should such output be measured?" [IT Director Outsourcing Company].

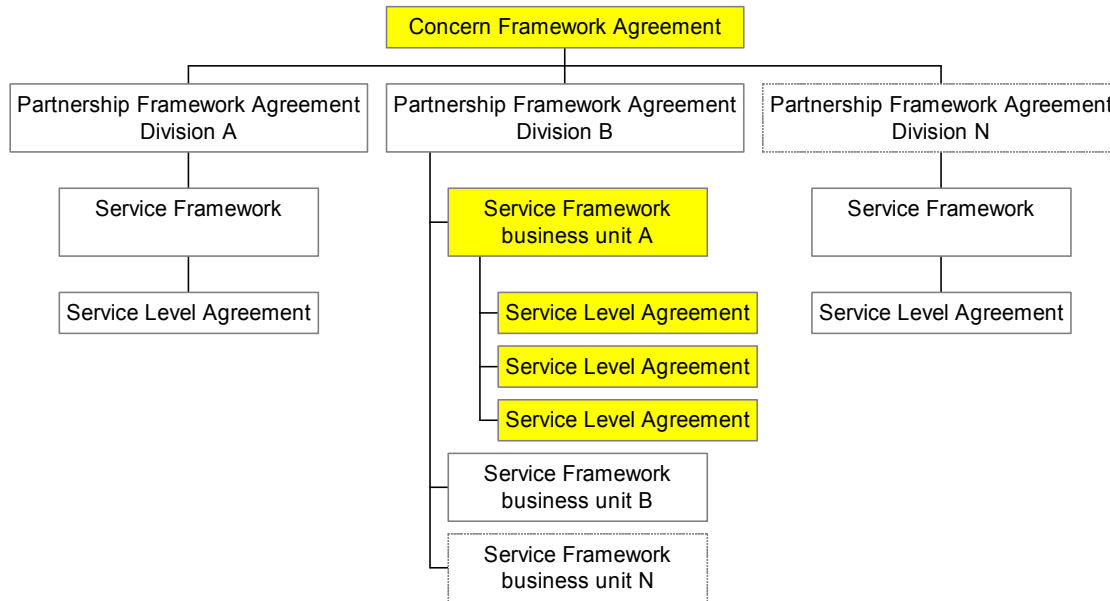
Ultimately, of course, measuring output is the only way to go.

"For this contract countless hours were spent on defining the input for each function point - quite irrelevant, really. It's just that measuring output is so difficult!" [IT Director Outsourcing Company]

The current contract also contains a number of Key Performance Indicators (KPIs), in addition to the gentlemen’s agreement according to which the IT Services Supplier ensures that its clients’ plants will function properly. These KPIs focus on the availability, reliability and on-time delivery of the modules that constitute the software development projects.

Contract Structure

The Outsourcing Company and its IT Services Supplier established global outsourcing relations. These relations are laid down in their Corporate Framework Agreements, which provide the general terms and conditions for division-level Partnership Framework Agreements as well as Service Framework Agreements at the business unit level. The individual service contracts are Service Level Agreements that fit within the Service Framework Agreements of their business units. In them, tasks and responsibilities - input obligations - are specified. These tasks include the capability levels of the supplier’s staff and the capacity required, with a guaranteed minimum and an upper limit. The Outsourcing Company must, of course, inform the supplier on time if any capacity changes are needed. Figure 2 illustrates the contractual relationship.



Note: Only the shaded boxes are applicable to the IT outsourcing partnership.

Figure 2: IT Outsourcing Partnership Contract Structure

In the relationship it became clear that the lack of experience in IT outsourcing partnerships hindered the process of bringing about the final contract. This inexperience could have been compensated by the presence of a Partnership Framework Agreement at division level. However, in this case, the existing Partnership Framework Agreement could not be applied because of the specifics of agreement.

OUTSOURCING COMPANY

The interviewees indicated that the three most important factors related to the Outsourcing Company are

1. IT strategy,
2. Information management and
3. IT-budget.

The IT strategy supports the business and the changes in the business [Baker and Faulkner 1991; Henderson and Venkatraman, 1993]. Information management is responsible for implementing the IT strategy and for managing the IT outsourcing partnerships [Lowery, 1996]. The IT budget is available to spend on IT services. The IT budget should be part of the total budget of a profit and loss responsibility business unit [Dvorak et al., 1997]. Table 5 is an overview of the Outsourcing Company

Table 5: Outsourcing Company Characteristics in the Case Study

Outsourcing Company Characteristics	What was Important?	Power Distances	Experience	Individualism (Collectivism)
<i>IT Strategy</i>	Ample room for local strategies; Implementation by expatriate Western-European Manager	Y	Y	Y
<i>Information Management</i>	New Information Management team with business affinity appointed		Y	
<i>IT Budget</i>	Part of budget under direct responsibility of IT director to enforce position	Y		Y

Y = effect on Outsourcing Company characteristic

IT Strategy

In most outsourcing companies, centrally determined, enterprise-wide IT strategies provide guidance for the IT strategies at lower levels (e.g. SBU level) of the organization. In our case study company, the business unit enjoys a larger degree of freedom to determine its own IT strategy. The division and its parent company supervise the business unit, but not very closely, leaving the IT director of the business unit much freedom with respect to her IT strategy. Her freedom is increased still further because the division's IT strategy is not updated frequently.

The absence of a guiding division IT strategy enables the business unit to focus its IT strategy on an ambitious business process-reengineering program. To implement this IT strategy, a powerful and capable IT director is required. In this specific case, the IT director is a Western European expatriate manager with a large track record in implementing business process-reengineering programs. She was attracted because of the lack of local skills. Although, in general, the firm tends towards "virtual" assignments, she was asked to commit herself to a long-term international assignment. "Virtual" assignment employees combine roles in their home organization and abroad. The virtual arrangement increases flexibility; it increases the willingness of individual employees to agree to an international assignment and saves costs [Remedios, 2000]. However, in this specific case, a "virtual" assignment would not work. The expatriate manager needs to be present on a full-time basis because of the size and the impact of the long-term transformation project. The introduction of a Western European manager solved the problem of power distance and collectivism. This manager is expected to develop and drive new initiatives independently to

achieve the goals of the ambitious program in co-operation with her local staff. Her acceptance by the local staff contributed to the realization of the program goals.

Information Management

The Outsourcing Company's information management staff consists of about 8 FTE, headed by the IT director. This team is responsible for the business unit's IT strategy and the functional specification of the applications. Originally, the information management team consisted of its manager and the technically oriented people. But this team had little affinity with business issues, and consequently encountered difficulties in their communication with the plants for which they were working. The transition project was too important to take such risks. Therefore, a solution was found in appointing new information managers and in adding business people of just below management level to the team. Because these start-up problems, the information management team has not yet achieved much. But both the Outsourcing Company and its IT Services Supplier stress the importance of proper information management, especially for medium-term and long-term planning.

"We are really trying to support the information management team. They can help make IT a strategic tool. But it's hard for our client to find qualified people, who have the right managerial and conceptual capabilities. This is not, by the way, an issue in this Outsourcing Company only." [Service Delivery Director, IT Services Supplier]

IT Budget

In most companies, the business units are responsible for profit and loss. This policy results in a decentralized IT budget for the business units. The IT director of this case study is responsible for 30 % of her business unit's IT budget; the other 70 % is decentralized to the plants. Such a split is unusual; in most outsourcing companies the entire IT budget is decentralized. Leaving the full responsibility for spending the IT budget with the plants might have resulted in a lack of initiatives due to the high power distance.

The IT director's position is strengthened by her 30%. This centralized slice of the budget enables her to achieve efficiency by standardization and supports the ambitious goals of the business process re-engineering program of the business unit. The plants' budgets, on the other hand, allow customization by fitting IT services to their specific needs. It is difficult to establish whether splitting 30/70 is the right proportion, but some kind of split certainly seems to contribute to the governance of the IT outsourcing partnership and the alignment of business and IT.

IT SERVICES SUPPLIER

The most important factors related to the IT services supplier mentioned in the interviews were:

1. contract and account management,
2. service delivery and
3. human resources

Contract and account management is responsible for managing the IT outsourcing relationship with the Outsourcing Company [Beulen, Roos, and Ribbers, 1994; McKeen and Smith, 2000]. Service delivery is responsible for providing the contracted IT services to the Outsourcing Company [Beulen 2000]. Human resources are one of the most important issues in managing IT outsourcing partnerships because of the worldwide shortage of IT professionals [Magee 1998]. Table 6 serves as an overview of the IT Services Supplier.

Table 6: IT Services Supplier Characteristics in the Case Study

IT Services Supplier Characteristics	What was Important?	Power Distance	Experience	Individualism (Collectivism)
<i>Contract and Account Management</i>	Long contract cycles to gain trust and consensus; Special awareness sessions with Outsourcing Company's business managers	Y	Y	Y
<i>Service Delivery</i>	Mix of global processes and local solutions		Y	
<i>Human Resources</i>	Mix of Outsourcing Company's staff and new people to support transformation	Y	Y	Y

Y = effect on IT Services Supplier characteristic

Contract and Account Management

Sales cycles in Asia are longer than the sales cycles in the Western world [Hsieh, 1996].

"Once you have done a successful project you easily get another project from the same customer. We have some promising first projects with new customers but there is still a lot to do." [Service Delivery Director, IT Services Supplier]

In the Asian culture, trust is important [McKeen and Smith, 2000] which, together with collectivism and a large power distance, increases the length of the sales cycle. All the people involved need to agree prior to signing a contract. The large power distance results in formal negotiation procedures.

In our case study company, a symposium is organized every year to maintain and develop the IT outsourcing partnership further. This approach matches the collectivism and the large power distance. The symposium contributes to creating group support for the current and the future services of the IT Services Supplier.

The large power distance is overcome by inviting the responsible managers of the Outsourcing Company. The symposium focuses on relevant developments in business and IT, addressing real issues facing the Outsourcing Company's senior business and IT managers. The topics chosen reflect new and innovative opportunities, such as e-business. To show its commitment, the supplier always asks senior managers from outside the country to attend the symposium.

"these symposia illustrate our general pro-active mode. We actively offer value propositions that will improve their business." [IT service delivery director]

Service Delivery

The IT Services Supplier's local organization uses its parent company's global processes to increase the effectiveness and efficiency of its service delivery process. However, not all global processes are implemented; only those that really result in benefits for the Outsourcing Company. Such a mix of global and local solutions is necessary because of the limited size of the contract. For example, implementing tooling for monitoring IT operations is costly and will not pay off in such a limited environment.

"In Asia we deliver services to three different plants. One is completely serviced by us, on the basis of a long-term outsourcing contract. The second is partly serviced by us, on the basis of project and secondment contracts. And the third plant is serviced entirely by the client's own IT departments. Implementing all our global processes would lead to conflicts with these departments, which is why we mix processes from both our organizations. The result is a smoother, harmonized co-operation." [IT Services Director, IT Services Supplier]

He realizes that the mix doesn't please everyone.

"Of course neither our corporate organization nor that of our client is very pleased with this solution. It isn't the standard way of doing things. But I don't care. Our customers are satisfied, it works. And that's what counts." [IT Services Director, IT Services Supplier]

Asked for an example, he tells us about their corporate helpdesk.

"It really works well. But it's too heavy and too sophisticated for our local situation. So we set up a limited, local helpdesk of our own, on the basis of these corporate helpdesk processes. When I presented this solution at a meeting at which our client's corporate IT managers were present they objected that this was not the standard method. But their business people cut the discussion short. This was what they needed." [IT Services Director, IT Services Supplier]

This limited solution works because of its combination of local touch and western service levels [Dvorak et al., 1997].

Human Resources

According to the contract, 17 people were transferred to the IT Services Supplier from the Outsourcing Company. Although these people are monolingual, with limited IT skills and hardly any business skills, they possess knowledge about the Outsourcing Company. Realizing the change by the IT Services Supplier in the outsourcing organization requires an influx of new people. These new people need higher IT and implementation skills. Bringing in new people also enable the IT supplier to transfer existing staff. To keep the best-qualified staff, opportunities for experience and skill improvement were created. It is advisable to transfer the best-qualified people to other customers because it is not always possible to meet their levels of ambition by employing them on the outsourcing contract with their former employer. This way of working of IT

suppliers is on one hand counterculture in Asian. The Asian culture is a group-oriented culture: collectivism. On the other hand this arrangement fits within the Asian culture by managing your way to the top: power distance. In this way a balanced combination is realized to provide services to the Outsourcing Company, to integrate the transferred employees and to stretch their growth potential. The current contract involves 35 FTE of the total of 1200 employees of the Asian organization of the IT Services Supplier. Figure 3 shows the allocation of people from different sources.

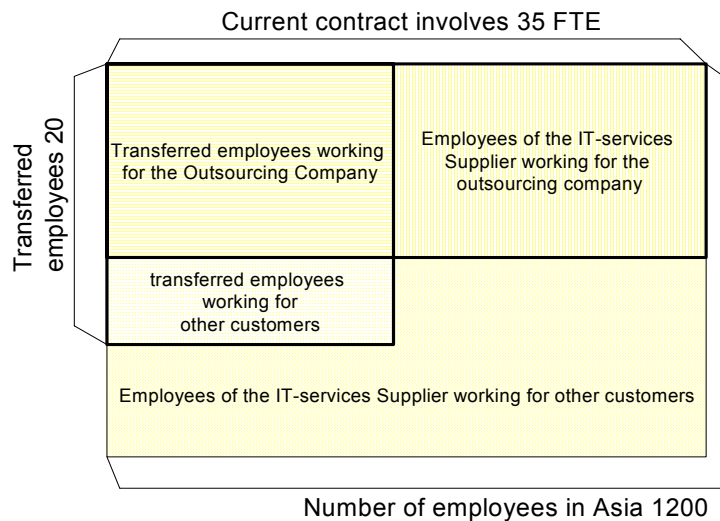


Figure 3. Sourcing from the Perspective of the Asian Organization of the IT Services Supplier

IV. ANALYSIS & OBSERVATIONS

The case describes a successful IT outsourcing partnership in an environment characterized by lack of experience in managing IT outsourcing partnerships of the Outsourcing Company and the IT Services Supplier, high power distance, and collectivism. The outsourcing contract included an ambitious program involving IT and business-related changes. This program had to bring the client organization from a low level situation to a high performing organization according to today's standards. The following factors contributed to the success of the relationship:

1. Because of the lack of experience in managing IT outsourcing partnerships, the initial contract was based on input obligations including key performance indicators but no service levels. This observation is not a specific observation for managing IT outsourcing partnerships in Asia.
2. The IT-transformation, as part of the overall program, was the responsibility of a Western European IT director. This arrangement helped to overcome the problems with high power distance. The IT director was expected to develop her own initiatives and drive the changes. It would have been questionable whether these skills could be expected from a local IT director. Especially within the context of a business unit located in Asia, which is part of a multi-national company, a more 'wait and see' policy, due to the high power distance, was to be expected.
3. Allocating a substantial part of the IT budget to her enforced the position of the IT director. The partly central IT-budget prevents spending IT budget on projects that interfere by different business units. It also helped to overcome problems related to a

lack of initiative, which could have been the consequences of the large power distance and the collectivism of the local staff.

4. The IT services supplier invested in the relationship by organizing joint workshops with senior business and IT management of the client. The workshops helped to overcome the problems related to high power distance and contributed to obtaining collective [the collectivist aspect of the culture] support for the changes. In general, organizing joint workshops contributes to improving the IT outsourcing relationship in Asia.
5. The IT services supplier defined global processes and tools to enable service delivery. However, in this case, the services consist of a mixture of global processes and tools with local specific solutions. This approach helped to align to the changes required by the customer. This observation is not only true for IT outsourcing partnership in Asia but is true for all IT outsourcing partnerships of a limited size.
6. The IT services supplier established a mix of staff in order to support the client. This mix consisted of staff which was previously on the payroll of the Outsourcing Company and new staff coming from the IT services supplier. This mixture contributed to developing the transformation in the Outsourcing Company. The former Outsourcing Company's staff possessed specific knowledge of the company. The new staff possessed specialized IT and implementation skills. This observation is generally applicable to all IT outsourcing partnerships. However, in this particular situation, it is even more relevant because of the large power distance and collectivism characterizing the local staff. This observation is not only true for IT outsourcing partnership in Asia but is true for all IT outsourcing partnerships of a limited size.

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APPENDIX I. HOFSTEDE'S MODEL

Table A-1. Factors in Determining the Culture of the US, UK, Australia, Western Europe and Asian Countries

	PDI	IDV	MAS	UAI
Australia	36	90	61	51
Austria	11	55	79	70
Belgium	65	75	54	94
Denmark	18	74	16	23
France	68	71	43	86
Germany	35	67	66	65
The Netherlands	38	80	14	53
Switzerland	34	68	70	58
UK	35	89	66	35
US	40	91	62	46
Average	38	76	53	58
	PDI	IDV	MAS	UAI
China	80	15	55	40
Hong Kong	68	25	57	29
India	77	48	56	40
Indonesia	78	14	46	48
Malaysia	104	26	50	36
Philippines	94	32	64	44
Singapore	74	20	48	8

Thailand	64	20	34	64
Average	80	25	51	39
PDI = Power Distance	UAI = Uncertainty Avoidance			
IDV = Individualism	MAS = Masculinity			

Source: Hofstede [1984]

Hofstede provides the following definitions [Hofstede, 1984]:

PDI: 'The extent to which the members of a society accept that power in instructions and organizations is distributed unequally.'

IDV: 'A preference for a loosely knit social framework in societies wherein individuals are supposed to take care of themselves and their immediate families only'; the opposite of individualism is collectivism: 'a preference for a tightly knit social framework in which individuals can expect their relatives, clan or other in-group to look after them in exchange for unquestioning loyalty.'

MAS: 'The dominant values in society are achievement and success'; the opposite "Femininity" indicates that: 'the dominant values in society are caring for others and quality for life.'

UAI: 'The extent to which people feel threatened by uncertainty and ambiguity and try to avoid such situations.'

Hofstede distinguishes a fifth factor, 'Confucian dynamism': the extent to which a society exhibits a pragmatic future-oriented perspective rather than a conventional historical or short-term point of view. Because the value of CDI for a large number of countries is not available, we did not include this factor in the present study.

As can be seen from Table A1, the most significant differences between the Western and Asian cultures are related to power distance and individualism. The Asian countries are examples of countries with a large power distance. The US, UK, and Australia and most Western European countries can be characterized as small power distance societies and as individualistic societies. The Asian countries are examples of countries with collectivism.

APPENDIX II. DEFINITIONS OF IT SOURCING DECISIONS AND IT SERVICES

TYPES OF IT SOURCING DECISIONS

Based Currie and Willcocks [1998] we determine four types of IT sourcing decisions:

1. Insourcing: The most restricted type, it is a relationship with the internal IT-department.
2. Multiple selective sourcing: A more comprehensive type, it describes a relationship with one or more IT services suppliers for only parts of the IT services.
3. Total outsourcing: The most comprehensive type, it describes a relationship for all IT services, with one or more IT services suppliers.

4. Alliance/joint venture. Not used in Asia.

TYPES OF IT SERVICES

For the four type of services IDC provides the following definitions [Lukacs, 1998].

The type of service with the smallest impact on the outsourcing company is information systems outsourcing. These services are the traditional IT services such as infrastructure services, desktop services, and application management services. These IT services support the business processes but are not an integral part of the business processes.

The type of service that includes parts of the business processes results in larger impact: processing outsourcing. These services are a coherent set that are part of and interact with business processes.

The type of service that has the largest impact is the total service offering of the IT services supplier to the outsourcing company: business processing outsourcing. This type of service also includes non-IT functions.

APPENDIX III. QUESTIONNAIRE: THE IMPACT OF CULTURE ON MANAGING IT-OUTSOURCING CONTRACTS

This interview is based on previous research for the PhD. thesis of Erik Beulen supervised by Prof. dr. Pieter Ribbers and Prof. J. Roos.

In the interview the governance factors will be discussed for one particular IT-outsourcing case in your country. But feel free to put on the table your relevant experience related to other IT-outsourcing cases. During the interview, the interviewers will explain each of the governance factors.

This interview will take 1 ½ hour.

General information to be investigated on the IT-outsourcing case:

1. Start of the contract
2. Duration of the contract
3. Size of the contract (TCV + number of FTE involved)
4. Back ground of the outsourcing company

Governance factors:

1. The attention being given to IT by the various business functions.
2. A clear IT strategy.
3. Information management is the intermediary between the business functions and the IT supplier.
4. The Chief Information Officer performs adequately.
5. Trust between the outsourcing company and the IT supplier.
6. Experience with entering into and maintaining IT outsourcing relationships.
7. Efficient and effective IT outsourcing contracts.
8. Clear responsibility for the IT suppliers.
9. Adequate contract and account management.
10. Adequate IT business functions.

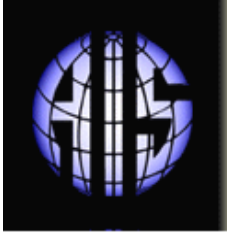
11. The availability of human resources at the IT suppliers.

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Erik Beulen is associated with Tilburg University in the Netherlands, and is an international business development manager with Atos Origin. He obtained his Ph.D. from Tilburg University. His research concentrates on outsourcing and management of outsourcing relationships. His papers appear in the Proceedings of the Hawaii International Conference on System Sciences. He is the author and co-author of various Dutch language books on the subject of IT outsourcing.

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