

An outsourced offshore information processing model for
Japanese finance sector multinationals.

by

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Abstract

The complexity and pace of technology, combined with the strategic importance of technology, has created a dilemma for most organisations. The requirement is to be able to take advantage of the latest technology and state-of-the-art practices. So, instead of trying to be experts in both their core business and technology, executives focus their attention on the core business and rely on others to provide the technology expertise.

Healthy and profitable Japanese companies are beginning to view outsourcing as an essential part of their business strategy. They are looking for outsourcers to deliver key components of data processing, supply-chain management, warehousing, logistics, human resources, accounting, and other vital components of their business. By divesting themselves of these non-core activities, companies are realising they can focus their energy on areas where they have the competitive advantage, differentiate themselves from their competitors, and take advantage of the cost-savings from the outsourced functions.

Outsourcing relationships, however, demand the same care and attention to sound management principles and practices as in-house operations. Managed well, continuous improvement, increasing value, and constant innovation can be expected. Managed poorly, the services and overall relationship deteriorates resulting in higher costs, operational disruption and lost business opportunities.

The dramatic structural and economic changes in the Japanese finance sector over the past decade have created opportunities for multinational corporations to leverage their best practices and economic value creation into the market.

Japanese multinational information technology executives in this e-business economy must thus deliver information technology services and systems as seen in an environment of changing business opportunities and challenges, accelerating technologies, short product delivery cycles and ever-growing business demands for e-business, e-commerce, ERP, ASP and other applications.

Like no other time in Japanese history, outsourcing strategies and practices, and effective relationship management are critical to business success. Properly crafted and managed, an outsourcing relationship can increase flexibility, improve performance and permit a better focus on core competencies.

To bridge the gap between the ideal state and the present state as determined by the empirical study, a SG offshore information processing outsourcing model is proposed.

The SG model and principles deliver a framework and structure for outsourced offshore information processing services to the Japanese finance sector multinationals.

The SG model supports three different roles within an organisation, namely as a support to business strategy, as the implementer of business strategy, and as the driver of business strategy.

Chapter 1: Nature and scope of the study

1.1 Introduction

If the information technology function is not seen as "core" to adding value but only is seen as a cost-reduction mechanism or a support service, then it should be considered as a prime candidate for outsourcing (Green, 2000:14).

In short, outsourcing is a collection of services integrated under a single, long-term contract with one vendor responsible for its operation and management.

Outsourcing is a concept that is almost as old as business itself. It is a relationship in which one company is responsible for performing an entire business or operations function. Outsourcers provide services that take advantage of economies of scale to provide services more efficiently or more effectively than internal resources. An electric utility can provide electrical power far less expensively than if a company were to generate its own power.

The Input Group (2000:2) suggests that the growth and proliferation of information technology outsourcing in Asia has grown out of two key trends.

1. The commodisation of technology. Technology is becoming more of a commodity, and the hardware and software technology being implemented across organisations is becoming increasingly similar. Whereas customised applications developed in-

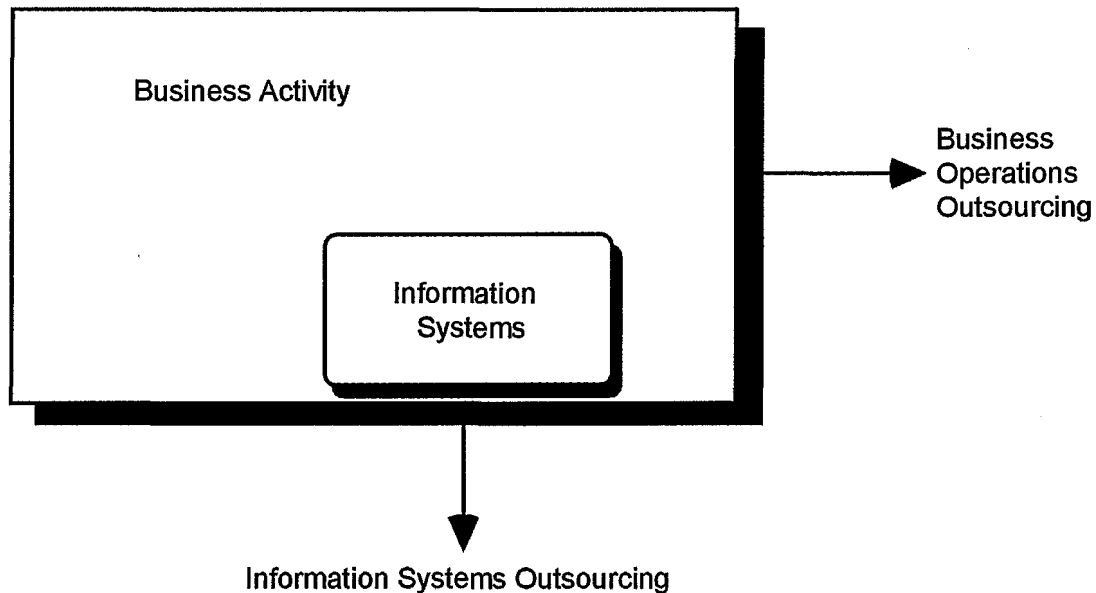
house were the norm in the 1970s and 1980s, packaged applications and industry standard platforms are the norm in the 1990s. For example, the average desktop environment in almost any organisation is an Intel-based PC running Microsoft Windows and Microsoft Office.

2. The complexity and pace of technology. The pace of change in technology is growing at exponential rates, and becoming ever more complex. At the same time, technology is being integrated into the entire business process, making it an essential part of almost any successful business.

The commodisation of technology has created many areas where outsourcing vendors can leverage economies of scale to deliver quality services at an attractive cost. For example, with the proliferation of similar desktop configurations, an outsourcer can provide effective, efficient and state-of-the-art help desk facilities at a cost-effective fee.

The complexity and pace of technology, combined with the strategic importance of technology, has created a dilemma for most organisations. They need to be able to take advantage of the latest technology and state-of-the-art practices, but it is difficult to find or keep the necessary skills internally. So, instead of trying to be experts in both their core business and technology, they focus their attention on the core business and rely on others to provide the technology expertise. Figure 1.1 defines the difference between information systems outsourcing and business operations outsourcing.

Figure 1.1: Business operations outsourcing



Source: INPUT (2000:2)

1.1.1 Traditional Asian outsourcing model

Switching to an outsourcing standard in Asia has been a tedious process, which has been dubbed as the “penguin effect”: penguins gather on the edges of ice floes, each trying to jostle the others in first, because although all are hungry for fish, each fears there might be a predator lurking nearby (Green, 2000:14).

According to Fisher (2000), in the traditional Asian outsourcing model, contracts are usually put together in haste. The outsourcer takes over a distressed situation in which service levels cannot easily be agreed upon. Consequently, very few meaningful service levels are defined. The outsourcer provides limited information to the customer in terms of its cost for providing services, and any inquiries made by the customer are given the cold shoulder. The

result is a poorly understood relationship in which both parties blame each other for increasing levels of non-performance in terms of service and cost reductions.

Fisher (2000) further explains that these relationships historically result in a win/lose adversarial type of relationship where both parties seek to win at the loss of the other. The customer seeks to reduce the outsourcer's profits, and the outsourcer seeks to maximise its profit structure in opposition with the customer.

These contracts tend to be commoditised in nature and focus on a single element of a process such as the data centre. Once the pricing is determined, normally at the start of the contract, it only changes to adjust for the cost of living adjustment. For example, a company outsources its data processing department in which it is spending \$20 million a year, and the outsourcer agrees to do the same functions for less—\$15 million a year.

However, costs rise with inflation and increased usage. Over the next three or four years, it creeps back to \$20 million or more because there are no requirements for continuous improvement in technology, best practices and pricing. The pricing is stated in technical terms that are difficult to relate back to the business. These contracts tend to be long term—between five and ten years—and have significant early termination costs.

Firth (2000) explains that service levels are typically not well articulated in outsourcing contracts.

Firstly, they tend to be defined on highly technical parameters, which are not well understood by the customer. Secondly, they often have no consequences associated with failure to meet minimum standards. Thirdly, they are negotiated between the parties and are usually not up to the customer's standard. Finally, the customer's needs change during the term of the contract, but the outsourcer is reluctant to change the contract without concessions or price increases. This makes outsourcers frustrating to the Asian customer community and of limited value over the life of the contract.

1.1.2 Background to the issues facing Japan: Competing on operational effectiveness

How can Japan's apparent competitive success on the one hand be reconciled with its low profitability, limited array of competitive industries, and inability to sustain competitiveness on the other? The answer seems to lie in making the distinction between approaches to competition.

In the 1970s and 80s, the Japanese set the world standard for operational effectiveness – that is, for improving quality and lowering cost in ways that were widely applicable to many fields. Japanese companies taught the world an array of approaches, such as total quality management, just-in-time inventory management, lean production, and cycle time reduction that could improve productivity in nearly every company in every industry (Furstenburg, 1974:25).

Japanese companies were so far ahead on operational effectiveness that they defined the frontier of productivity. We can think of this frontier as the maximum buyer value that a company can deliver at a given cost, using the best available technologies, skills, management techniques, and purchased inputs. In essence, the productivity frontier is the sum of all best practices in an industry at any given time (Porter *et al.*, 2000:79).

According to Porter *et al.* (2000:78), in the 1970s and 80s, Japanese companies pushed the productivity frontier well beyond the capabilities of many Western companies. Far more operationally effective, they could beat Western competitors (including offshore information processors) on both cost and differentiation. In successful industries, numerous Japanese rivals competed fiercely, rapidly matching one another's moves and driving operational improvement even faster.

Initially, there was room for all to grow. Although one Japanese company rarely stayed ahead of the others, as a group they gained share in international markets – at least during the decade it took for the rest of the world to catch up.

Starting in the mid- to late 1980s, however, the gap in operational effectiveness between Japanese and Western companies began to narrow. Then, having successfully emulated Japanese operational practices, companies in the rest of the World began to push the frontier outward themselves, especially through the use of information technology. New packaged-software solutions, laptop computers,

mobile communications, and the use of the Internet are some of the ways in which multinationals began to redefine best practices and dramatically shift the productivity frontier. In addition, multinationals particularly in the United States and Europe embraced concepts such as supply chain management and outsourcing, facilitated by information technology improvements, which radically transformed their efficiency (Porter *et al.*, 2000:79).

As stated by Firth (2000), not only did companies outside Japan catch up operationally but, as international competition had intensified, they have thus also been far more aggressive in restructuring. As Japanese companies had discovered, then, sooner or later competitors can imitate best practices. The most generic operational improvements – that is, those involving widely applicable management techniques, process technologies and input improvements – diffuse the fastest.

There is a deeper problem with the Japanese approach to competing, however. Relentless and single-minded efforts to achieve best practice tend to lead to competitive convergence, which means that all competitors in an industry compete on the same dimensions. The more rivals source from world-class suppliers (often the same ones), the more similar they become. As rivals imitate one another's improvements in quality, cycle time, or supplier partnerships, competition becomes a series of unwinnable races down identical paths. Because Japanese companies think of competition only in terms of operational effectiveness – improving

quality and cost simultaneously – they have made it impossible to maintain success. The more benchmarking companies do, the more they look alike. Little real innovation occurred (Porter *et al.*, 2000:81).

As the Nikkei Sangyo stated (Anon, 1998:15), the Japanese effort is directed to a monolithic static system whereas the CitiBank approach is entirely directed to a dynamic system and everything is a constant of change, speedily responding to new requirements.

Competition based on operational effectiveness alone is mutually destructive, leading to wars of attrition. An absolute improvement in operational effectiveness does not translate into relative improvements anymore. If every company offers more or less the same mix of value, customers are forced to choose on price. This inevitably undermines price levels – and devastates profitability. At the same time, competitive convergence leads to duplicate investments and a strong tendency to over-capacity (Porter *et al.*, 2000:82).

Porter *et al.* (2000:82) goes on to explain that competing on operational effectiveness alone has another, subtler, consequence. The profitability of any company is partly the result of the structure of its industry, which determines the average return of all industry participants.

Any industry structure consists of five basic competitive forces, namely:

- The power of the customers;
- The power of the suppliers;
- The threat of a new entry;
- The pressure of substitutes; and
- The nature of rivalry (Porter, 1980:25.)

The Japanese approach to competition not only eliminates the differences between competitors but also undermines the entire industry.

1.2 Basic hypothesis / central theoretical argument

The Asian dilemma for the outsourcing customer is; "How to turn an outsourcing relationship into an ongoing asset? How to I make it a source of value that drives ongoing benefit to the company and the value chain? To answer these questions, it is necessary to first reflect on how the outsourcing industry has changed over the past years, and then to examine the traditional model.

Laidlaw (2000) explains that most outsourcing relationships created over the first five to ten years of the Asian outsourcing industry were by companies that were in financial trouble and that were not doing a good job in the areas they outsourced.

As has been explained by Fisher (2000), these old structured relationships tended to favor the outsourcer and were based on a win/lose model. The

company was distressed and required a significant investment by the outsourcer. The outsourcer then used that leverage to insist on long contracts with high returns, which were inherently inflexible. The result? The outsourcer wins and the customer loses.

Hermann (2000) explains that the trend however, has changed. Healthy and profitable companies are beginning to view outsourcing as an essential part of their business strategy. They are looking for outsourcers to deliver key components of data processing, supply-chain management, warehousing, logistics, human resources, accounting, and other vital components of their business. By divesting themselves of these non-core activities, companies are realising they can focus their energy on areas where they have the competitive advantage, differentiate themselves from their competitors, and take advantage of the cost-savings from the outsourced functions.

As stated by Corbet (1997), outsourcing relationships demand the same care and attention to sound management principles and practices as do in-house operations and valued employees. Managed well, continuous improvement, increasing value, and constant innovation can be expected. Managed poorly, the services and overall relationship deteriorates resulting in higher costs, operational disruption and lost business opportunities.

While the reasons for outsourcing have changed, the structure of most outsourcing contracts has unfortunately not. There is a movement toward a new paradigm based on a win/win model where the

company comes to the outsourcer as an equal partner. The outsourcer is a key component of the company's delivery structure, and both must evolve to meet the company's needs. So rather than getting the company out of a difficult situation, the outsourcer is an integral part of an ongoing business strategy. The result as stated by Hanafi (2000), outsourcers must add value, and customers and outsourcers must develop a more equal relationship.

Japanese information technology executives in this e-business economy must thus deliver information technology services and systems as seen in an environment of changing business opportunities and challenges, accelerating technologies, short product delivery cycles and ever-growing business demands for e-business, e-commerce, ERP, ASP and other applications (Dvivedi, 2000).

Dvivedi (2000) further explains, like no other time in history, outsourcing strategies and practices, and effective relationship management are critical to business success. Properly crafted and managed, an outsourcing relationship can increase flexibility, improve performance and permit a better focus on core competencies. However, to achieve its potential, outsourcing requires that careful attention be given to what to outsource, why to outsource, with whom to outsource, and how to establish the relationship, nurture the relationship and improve performance over time.

Japanese information technology outsourcers seem to have lost their decisive lead in operational effectiveness. This combined with slower growth

and competitive convergence leaves a void and in so doing creates opportunities for multinational outsourcers.

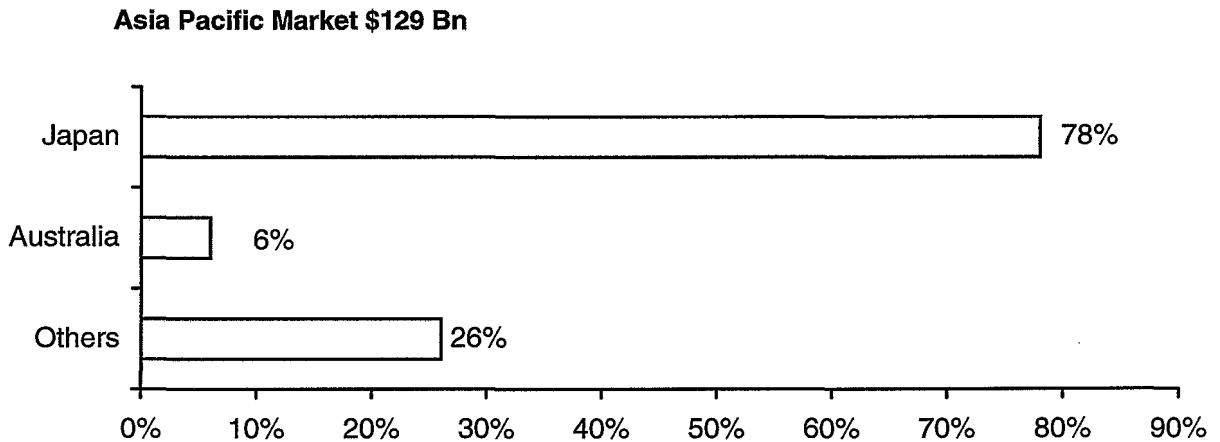
1.3 Motivation for the study

The driving factor contributing to the study is the entry of Sema Group into the Japanese outsourcing marketplace. Sema Group will, through this Japanese market entry, start to providing offshore processing services for a finance industry multinational organisation in Japan. The medium term strategy is intended to grow the Sema Group client and services base in Japan.

However, the cultural, political and business environment in Japan have also brought new management challenges to the Group.

As seen in figure 1.2, the Japan information technology software and services market represents about 78% of the Asia Pacific market, and is, by far, the largest market in the region (INPUT, 2000:42) and provides opportunities for well formulated strategies.

Figure 1.2: Asia pacific information technology market



Source: INPUT (2000:4)

Sema Group (London Stock Exchange: SEM, Nasdaq: SEMA, Paris Bourse: 14151) is one of the world's leading information technology and business service companies with over 21,000 staff currently working across 160 sites worldwide. The Group's 1999 turnover was £1.41 billion, showing a 20 percent increase compared with 1998. Turnover has more than doubled over the past five years (Sema Group, 2000)

It has been an objective of this study to implement an offshore outsourcing management process model that would ensure the success of the Sema Group Japanese market entry.

1.4 Objectives of the study:

1.4.1 Primary objective

- Develop a model ("SG model") and principles to deliver and structure outsourced offshore

information processing to Japanese finance sector multinationals.

1.4.2 Secondary objectives

- Examine the growth of multinationals in Japan as a result of deregulation;
- Examine the current multinational finance sector inclination toward outsourcing in Japan;
- Define what factors would result in a successful offshore outsourcing model ("SG model"); and
- Determine the best practices of offshore information processing and applying the lessons learnt from empirical research.

1.5 Field of study

Due to the extent of the field of research, it is necessary to limit the study with regard to geography, industry and service.

1.5.1 Geographical

The study will be geographically limited to a Japanese outsourcing user base and Hong Kong as an offshore outsourcing information processing service centre.

1.5.2 Industry

The study will be limited to the Japanese multinational finance sector industry, due to the rapid growth of this industry sector and its traditional use of outsourcing services.

According to Church (2000:26) there are a total of four multinational trust banks, 89 multinational ordinary banks and a total of 45 life insurers (including multinationals and joint ventures) in Japan.

1.5.3 Service

Due to the varying service dynamics of business process outsourcing, application outsourcing and desktop outsourcing, this study is limited to platform and network operations in terms of information system outsourcing.

1.6 Research methodology

1.6.1 Literature study

A literature study, detailed in Chapter 3, will be performed to understand the current status of deregulation in the Japanese multinational financial and telecommunications industries.

Additionally the literature study will investigate best practices in the worldwide outsourcing industry and how these could apply to an offshore information processing model.

The literature study will be supported by various interviews performed and will be documented by the author.

1.6.2 Empirical field investigation

1.6.2.1 Data gathering

A target population of fifty will be identified for completion of the offshore processing survey (refer to appendix 1). The population will comprise of various multinational finance industry representatives, as well as multinational service providers.

1.6.2.2 Analysis of the data

The survey response will be analysed by using a weighted factor, where required. The full analysis of results, will be interpreted in chapter 4.

1.7 Terminology clarification

SG model	An offshore information processing model for Japanese finance sector multinationals.
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Type I Telecommunications Business	Telecommunications carriers for which foreign ownership was authorised as of April 1985 under provisions of the Telecommunications Business Law. Type I telecommunications businesses provide telephone, telegraph and other basic services as well as value-added network (VAN) services by establishing their own telecommunications circuits and facilities.
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The maximum foreign capital investment restriction (one-third) was abolished in 1998, meaning that foreign-owned companies are completely free to enter the market or invest in Japanese companies. The system of authorisation for rates was also abolished, and was replaced basically with a prior notification system under which carriers are free to set their own rates with one week's advance notice to the Minister of Posts and Telecommunications (JETRO, 2000:7).

Type II Telecommunications Business	Type II telecommunication businesses, as defined by the Law, provide telecommunications services by leasing telecommunications circuits and facilities from Type I carriers. Typical examples include value-added network (VAN) services and communications circuit resellers. Type II telecommunications business is further subdivided into Special Type II and General Type II telecommunications business. Special Type II carriers provide voice services for an unspecified number of subscribers through the interconnection of both ends of
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leased circuits with public switched networks or by leasing international leased circuits. General Type II carriers provide services to general (i.e. small) or particular subscribers. There is no foreign ownership restriction for either subcategory (JETRO, 2000:7).

Outsourcing

The delegation to a third party of the continuous management responsibility for the provision of an information technology service under a contract that includes a service level agreement (Anon, 2000a:2).

Offshore outsourcing

The delegation to a geographically remote third party of the continuous management responsibility for the provision of an information technology service under a contract that includes a service level agreement.

1.8 Layout of the study

Chapter 1 introduces the nature and scope of the study. The first chapter also states the primary and secondary objectives, as well as the scope of the study. In chapter 2 the finance and telecommunication industry and the impact of deregulation on these market segments are examined. Subsequently the effect of deregulation on the availability of cost effective offshore information

processing service providers will be examined. A short analysis of finance sector multinationals that have entered the Japanese market is also detailed.

In the literature study (chapter 3) the ideal state based on available outsourcing research is examined. The ideal state is supported with various interviews performed and documented by the author.

The empirical research (chapter 4) is an interpretation of the results from the survey (appendix 2) conducted. The offshore outsourcing survey is included in appendix 1.

The literature study and empirical research are then utilised as input to design an outsourced offshore information processing model for Japanese finance sector multinationals (chapter 5: "SG model").

Chapter 2: Causal factors to the study

2.1 Introduction

2.1.1 The history of deregulation in Japan

Japan has long been governed by a bureaucracy-led system of administration that imposed a variety of official restrictions and regulations in an effort to avoid excessive free competition that was thought to pose a danger to the social order. In the economic sphere this system functioned particularly efficiently after the Second World War, and in just thirty years it helped Japan rise to the rank as one of the leading nations of the world.

According to Porter *et al.*, (2000:60), in the 1980s the Japanese government began undertaking deregulation measures as a part of administrative reform efforts, based on the premise that regulation was actually inhibiting vigorous economic growth. The principal measures taken in the early 1980s consisted of simplification and rationalisation of permission and approval processes to reduce the burdens on the citizenry, to simplify administrative processes, and to provide support for private initiative. From 1987 onward, additional deregulation measures had been instituted for a wide range of purposes, including improving the quality of life of the citizens, altering the structure of declining industries, improving market access, and expanding new business activity.

Finally, in the 1990s deregulation became one of the centrepieces of economic policy, as a means of

expanding domestic demand and promoting imports, as well as of expanding new business and shrinking the price differentials between Japan and other markets. As a result, a fundamental reassessment of official regulation took place. In 1995 a Deregulation Promotion Plan was adopted in an annual plan format as a way of actively and deliberately encouraging the deregulation process (Porter *et al*, 2000:62).

According to the White Paper on Deregulation (JP, 1998:54), Deregulation Promotion Plans for the fiscal years 1995 through 1997 sought to achieve fundamental change in the economic and social structure of Japan by opening Japan to international competition and creating a free and fair economic society resting on the principles of own-risk and market competitions. In order to achieve this goal, the Plans identified 1,091 deregulation measures in 11 sectors (expanded in March 1996 and March 1997 to 2,823 measures in 12 sectors). Major successes were achieved in the form of increased openings of large retail stores and the invigoration of the telecommunications market. Thereafter, the Three-Year Deregulation Promotion Plan for the fiscal years 1998 through 2000 took up deregulation steps in 14 sectors, including competition policy, finance sector, securities and insurance, and information and telecommunications.

Fourteen sectors targeted for deregulation

- Information, telecommunications;
- Distribution;

- Standards, certifications, imports;
- Transportation;
- Finance Sector, securities, insurance;
- Energy;
- Hazardous materials, disaster prevention, public safety;
- Education;
- Housing, land, public works;
- Legal services;
- Medical care, welfare;
- Competition policy;
- Employment and labour; and
- Pollution, hazardous wastes, environmental protection (JETRO, 2000:1).

2.1.2 The Finance Sector industry

After the amended Foreign Exchange and Foreign Trade Law went into effect in April 1998, the major element of the Japanese Big Bang was the implementation of the Financial System Reform Law, most of which went into effect in December 1998. Japan was making every effort to fundamentally reform its financial system to conform to the three principles of “free,” “fair,” and “global” (JETRO, 2000:1).

2.1.2.1 The Japanese Big Bang

The term “Japanese Big Bang” refers to the elimination of boundaries between different types of financial service businesses. Its goal is to revitalise the Japanese financial market, which has struggled with the disposition of bad debts, and to restore Tokyo to a place of importance as an international financial market comparable to that of New York and London by the year 2001 (JETRO, 2000:1).

The Japanese government decided in November 1996 to proceed with the financial system reform program that came to be known as the Japanese Big Bang. The government steadily moved to hammer out the various policy and program components. These included allowing banks, securities firms and insurance companies to enter one another's lines of business, deregulating stock brokerage commissions, and making changes in accounting systems to conform to international standards. The Financial System Reform Law was adopted in June 1998. This Law is the centrepiece of the package of legal and regulatory changes designed to bring about fundamental reform in the Japanese financial system. The new system makes it possible to distribute and market a range of financial service products in Japan based on international standards. In the process, Japan has moved to create a financial service market on par with the major markets of the United States and Europe (Porter *et al.*, 2000:63).

2.1.2.2 The boom in mergers and acquisitions between Japanese and western financial institutions

Japanese financial institutions have only a scant track record in individual financial asset investment management, and little expertise in derivative transactions (JETRO, 2000:2).

According to JETRO (2000:2) this has prompted a number of mergers and strategic alliances with European and American financial institutions, which have much greater experience in these fields. Japanese financial institutions hope in the process to absorb the experience and expertise of their Western counterparts, in an effort to improve their competitiveness and help them survive.

Deregulation has also given European and American financial institutions an unprecedented good opportunity to move into Japan and develop financial services products without hindrance. Table 2.1 details some multinational finance sector entrants into the Japanese finance marketplace. The main appeal for them lies in the enormous individual financial assets of the Japanese, which are said to exceed ¥1.2 quadrillion in value. These multinational finance sector entrants form possible candidates for the use of an offshore information processing model.

Table 2.1: Examples of Japanese market entry by foreign financial institutions

Joint stock holding, business tie-up 1. Bankers Trust Co. (U.S.A.) -- The Nippon Credit Bank, Ltd. Acquisitions 2. Merrill Lynch & Co., Inc. (U.S.A.) -- (former) Yamaichi Securities Co., Ltd. (bankrupt) 3. Société Générale Securities Corp. (France) -- (former) Yamaichi Investment Counselors (bankrupt) Transfer of Control 4. New LTCB Partners (Netherlands) -- The Long-Term Bank of Japan, Ltd (now Sinshei, Ltd.) 5. Aozora Bank Limited (Softbank Corp-led consortium) -- Nippon Credit Bank (NCB). Joint Ventures 6. GE Capital Corp. (U.S.A.) -- (former) Toho Mutual Life Insurance Co. (bankrupt) forming GE Capital Edison Life 7. Traveler's Group (U.S.A.) -- The Nikko Securities Co., Ltd. forming Nikko Solomon Smith Barney Securities Ltd. 8. Daihyaku Mutual Life Insurance Company (bankrupt) forming Manulife Century Life Insurance Company (Canada)

2.1.3 Principal trends in the finance sector

The three principles of the Japanese big bang and deregulation were:

- To create a free market under market principles;
- A transparent and credible market; and
- An international and innovative market (adapted from JETRO, 2000:1).

The impact of these measures and the inflow of finance sector multinationals can be seen in Table 2.2 (adapted from JETRO, 2000:5). The company trends serve as an indicator as to the regulatory reasons for Japanese market entry by foreign finance sector multinationals.

Table 2.2: Principal trends in the Japanese finance industry

	Month	Deregulation measures	Month	Main company trends
1996	4	• New Insurance Business Law authorised bilateral market entry between life and non-life insurance companies. • Initiation of the Japanese Big Bang	7	• Invesco Investment Trusts and Invesco Investment Management consolidated into Invesco Asset Management (Japan) Ltd. • American Home Direct starts mail order sales of automobile insurance.
	11		10	
1997	3	• Insurance products of life insurance company switched to prior notification system. • Prohibition lifted on unlisted stock sales by securities companies.	2	• Mitsubishi Trust and Banking Corp. merges with AIG (American International Group) of the U.S.A.. – AIMIC (American International Management Investment Corp.) founded
	7	• Restrictions lifted on banks' hours of business, authorising 24-hour banking.	4	• Citibank N.A., Japan Branch begins 24-hour banking.
	12	• Banks begin direct sales of investment trusts. • Financial service firms authorised to implement online settlement for corporate bonds, etc.	12	• Merrill Lynch & Co., Inc. acquired Yamaichi Securities Co., Ltd. (Merrill Lynch Japan Securities started operations in July 1998)
1998	4	First stage in the Japanese Big Bang	2	• Toho Mutual Life Insurance Co. and GE Capital Corp. form joint venture subsidiary.
		• Implementation of the amended Foreign Exchange and Foreign Trade Law (Deregulating domestic and foreign capital transactions and entry into the foreign exchange business)	4	• All city banks begin offering foreign currency exchange service. • 9 major city banks enter securities trading.
		• Partial deregulation of stock brokerage commissions for stock transaction exceeding ¥50 million • Deregulation of premium rates on fire insurance and voluntary automobile insurance	6	• Major city banks and regional banks begin selling investment trust products. • E*Trade Group, Inc. of the U.S. forms business partner-ship with Softbank Corp. • Traveler's Group of the U.S. enters complete business partnership with The Nikko Securities Co., Ltd.
		Second stage in the Japanese Big		

Month		Deregulation measures	Month		Main company trends
1 9 9 9	6 12	Bang • Implementation of the Financial System Reform Law (enacted in June) • Corporate type investment trusts introduced. • Privately placed investment trusts introduced. • Complete lifting of the ban on securities derivatives in the OTC (over-the-counter) market • Deregulation of OTC sales of investment trusts at banks, etc. • Entry into securities business shifted basically to registration system from license system • Listing procedures on a stock exchange shifted from approval system to prior notification system. • Implemented bilateral market entry between insurance business and securities business.	10		• The Sanwa Bank, Ltd. opens in-store banks at stores of the Daiei, Inc.
	1 4 5 10	• Deregulation of electronic transactions on brokerage commissions for commodities futures transactions • Expanded applicability of corporate bond issuance registration system. • Reviewing of firewall regulations in securities subsidiaries • Simplified disclosure content of financial statement related to the status of consolidated subsidiaries. • Shift from attaching importance to parent-only earning results to consolidated earning results on the earnings of financial enterprises • Implementation of the Money Broker Corporate Bond Issuance Law • Shift from permission system to prior notification system for sales of insurance products • Lifting a ban on pension trusts • Comprehensive liberalisation of stock brokerage commissions	4 5 6 8 9 10		• Daihyaku Mutual Life Insurance Company forming Manulife Century Life Insurance Company. • 36 companies newly enter the securities business. • Monex, Inc. starts operations, forms partnership with Sony Corp. for online securities trading. • Founding announced of NASDAQ Japan. • IBM Signs up Suruga and Sixteen for Netbanking (Church:151) • Control over The Long-Term Bank of Japan, Ltd. Transferred to New LTCB Partners (Netherlands) • Citibank acquires Nippon Diners Club (Church:155) • Charles Schwab Co., Ltd. (U.S.A.) sets up online securities company as joint venture with Tokio Marine and Fire Insurance Co., Ltd. • The Sakura Bank Ltd. enters

Month	Deregulation measures	Month	Main company trends
	• Implemented market entry from insurance business to banking business. • Deregulation of bilateral market entry between banks and securities companies, and of business rules		partnership with Deutsche Bank AG.
2000	• Fixed contribution type pension scheme (so-called 401(k) plans) expected to be introduced.	8	• Yasuda Fire and Marine, Japan's second biggest non-life insurer plans an alliance with Dai-Ichi Mutual Life. (Anon., 2000b:68)
		11	• American Insurance Group emerges as a potential buyer for Chiyoda Life. (Anon., 2000c:66)

It should be noted that both CitiBank (Van der Lee, 2000) and American Insurance Group (McIlwham, 2000) utilise offshore processing services.

2.2 The information and telecommunications sector

2.2.1 Introduction

In the information and telecommunications sector, the Japanese government eliminated regulations that restricted market entry by foreign-owned entities (such as Sema Group). This prompted a number of leading foreign telecommunications carriers to enter the Japanese market. The ensuing transformation has sometimes been called the “telecommunications big bang,” after the similar expression used in reference to the financial service sector (JETRO, 2000:6).

Telecommunications is a major service and cost component of offshore information processing and the transformation of this industry sector is key to the delivery of effective offshore information processing services (Aitken, 2000).

Of these international carriers services are now utilised by Sema Group, CitiBank and American Insurance Group for cost efficient offshore information processing.

Explosive growth in portable telephones and other forms of mobile communications, along with the expansion of the Internet, has brought about new business opportunities and has made the Information Age more of a reality than anyone ever imagined.

The technology revolution and deregulation of foreign ownership also led to major changes in the broadcasting industry. Expectations are particularly strong that digital satellite broadcasting and cable TV (CATV) will provide further impetus to the development of advanced information networking (JETRO, 2000:6).

2.2.2 The changes in the Japanese telecommunication industry

The Japanese telecommunications industry had been the exclusive province of just two companies: Nippon Telegraph and Telephone Corp. which had a monopoly on domestic telephone service, and KDD Corp., with its monopoly on international service. When the Telecommunications Business Law went into effect in April 1985, it authorised the entry of other carriers into the Type II telecommunications businesses. Gradually the principle of competition was introduced into the telecommunications sector. Nevertheless, foreign capital ownership of Japanese telecommunications businesses was limited to less than 20% in the case of Nippon Telegraph and

Telephone Corp. and KDD, and to less than one-third in the case of other Type I telecommunications businesses (JETRO, 2000:6).

Subsequently, in February 1997, agreement was reached in World Trade Organisation (WTO) negotiations on liberalisation of basic telecommunications services. To comply with the provisions of that agreement, the Japanese government amended the Telecommunications Business Law in June 1997 to revoke restrictions on foreign ownership of Type I telecommunications business, effective as of February 1998 (JETRO, 2000:6).

This opened the door for foreign telecommunications carriers to enter the market and invest in Japanese telecom enterprises. U.S.-based WorldCom Inc. and British Telecommunications plc (BT) moved quickly to acquire Type I telecommunications business permission. WorldCom has deployed a fiber optic network in the business districts of central Tokyo, and plans to launch international service during 2000 (JETRO, 2000:6).

In May of 1998, the KDD Law was repealed, leaving NTT as the only remaining carrier subject to foreign ownership restrictions. Nippon Telegraph and Telephone Corp. itself was broken up in July 1999 (JETRO, 2000:6), touching off a wave of consolidation between both Japanese and foreign-affiliated carriers.

2.2.2.1 Foreign Multinational entry: Cable and Wireless.

It is common in the United States for one company to take over another by publicly announcing its offer price and the number of shares it plans to acquire, and purchasing large numbers of shares directly from shareholders outside of stock exchanges. But Cable & Wireless plc's take over bid of International Digital Communications Inc., one of the new carriers to emerge in the post-1985 era of telecommunication competition, was unprecedented in the industry in Japan. Cable and Wireless's opponent in the take over bid was Nippon Telegraph and Telephone Corp., and the two engaged in a heated campaign to acquire IDC stock (JETRO, 2000:6).

This episode shows, therefore, that the spirit of global standards for transparent business dealings was making inroads into the Japanese industry as well. Cable and Wireless's outlay for the acquisition totalled some ¥52.2 billion (JETRO, 2000:7), and gave it the distinction of becoming the first major foreign telecommunications carrier.

2.2.2.2 Foreign Multinational entry: AT&T

On April 27, 1999, American telecommunications industry leader AT&T Corp. announced it was entering into a business partnership with Nippon Telegraph and Telephone Corp.. This represented the first time that Nippon Telegraph and Telephone Corp. had formed a true partnership with a major overseas telecommunication carrier. The stated goal of the partnership was to establish a joint venture firm to

build international data communications networks for multinational companies and operate solution businesses (JETRO, 2000:7).

AT&T also announced on April 25, 1999 a joint capital investment with Japan Telecom Co., Ltd., which is affiliated with the JR Group, and with British Telecommunications plc (BT). Under terms of the arrangement, the three have agreed to share telecommunication circuits. AT&T was focusing its business strategy on the Asia-Pacific region after its acquisition of the IBM Global Network (IGN), which has network operations in 59 countries around the world. The strategic alliance with Nippon Telegraph and Telephone Corp. was part of this strategy, and it represents an effort to enter the solutions business arena in Japan (JETRO, 2000:7).

2.2.3 Principal trends in the information and technology sector

In the information and telecommunications sector, the Japanese government eliminated regulations that restricted market entry by foreign-owned entities (JETRO, 2000:6). The impact of these measures in terms of lowering the costs of international circuits and the inflow of telecommunication sector multinationals is depicted in Table 2.3 (adapted from JETRO, 2000:13).

Table 2.3: Principal trends in the Japanese telecommunications industry

Month	Deregulation Measures	Month	Main Company Trends
1 9 9 6	3 • Permission system changed to prior notification system for mobile communications fees. • Connection authorised between privately-owned long-distance leased circuits and NTT local circuits, effectively eliminating the prohibition on new entry into the long-distance communications business.	6	• PerfecTV starts broadcasting service.
1 9 9 7	5 • Permission system changed to prior notification system for satellite broadcast viewing fees (effective in October 1997) • Satellite broadcasting service provision conditions eased (effective in November 1997; enabled offering of on-demand content and other new forms of broadcast programming)		
6	• Three new statutes enacted as part of second round of telecommunications liberalisation (first round: privatisation of NTT in 1985) • Amended NTT Law enforced (ordering break-up and restructuring in 1999) (deregulation of entry into international telecommunications) • Amended KDD Law enforced (deregulation of entry into domestic telecommunications) • Amended Telecommunications Business Law enforced (removes restrictions on foreign ownership of telecom carriers other than NTT and KDD)	9 10	• NTT sets up international telecommunications division. • Merger between Japan Telecom Co., Ltd. and International Telecom Japan, Inc. (forming the new Japan Telecom Co., Ltd.)
11	• Restrictions eased on Type I telecommunications business (carrier that owns circuit facilities)		
12	• Deregulation of connection between international circuits and domestic PSTN authorised foreign entry into international	12	• DirecTV starts broadcasting service.

Month		Deregulation Measures	Month	Main Company Trends
		telecommunications		
1998	2	• Restrictions eliminated on foreign ownership of Type I telecommunications business (carriers that own circuit facilities)		
	3	• Regulations eased that prohibited concentration of mass media ownership	3	• Restrictions eased on mass media concentration regulations for CS digital broadcasting.
	6	• Requirement eased on tariff notification system by satellite broadcasters, making it easier to set and change rates	10	• SkyTV merged with PerfecTV. • CS digital broadcasters authorised to use statistical multiplexing (efficiently combining multiple broadcast program streams in the same transponder) on programming from different broadcast program providers.
	7	• Complete privatisation of KDD		
	11	• Partial authorisation of circuit facility ownership by Type II telecommunications business (carriers that lease circuit facilities from Type I carriers) • Requirement abolished for separate authorisation for each telecommunications rate, and replaced with prior notification system	11	• British Telecom launches "Harmonix" network information service. • Teleway (Nippon Kousoku Tsushin Co., Ltd.) merged with KDD.
1999	2	• Permission system replaced with prior notification system for CATV Internet connection services		
	3	• Decision made to utilise capabilities of private-sector entities and foreign country certification bodies as part of the telecommunications equipment standards certification system, easing the process of certification for foreign telecommunications companies.		
	5	• Definition of television broadcasting changed (by the amended Broadcast Law) to allow mixed data and broadcast program transmission using digital technology.	4	• NTT and AT&T announce business partnership.
	6	• All restrictions abolished on foreign ownership of CATV broadcasters	6	• Cable and Wireless acquires IDC (International Digital Communications). • Sony Corp. announces plans to become a Type I carrier.
	7	• NTT restructured into a holding company for eastern and western Japan regional companies plus a long-distance company.	10	• NTT enters BS digital broadcasting.

2 0 0 0	Month	Deregulation Measures	Month	Main Company Trends
			9	[by the end of 2000] • Start-up scheduled for BS digital data broadcasting service. • NTT, Japan's dominant telecommunication operator cuts its long-distance call rate by an average of 40% (Nakamoto, 2000:23). • Sema Group plc registers Sema K.K. its wholly owned Japan entity.

2.3 Summary

The dramatic structural and economic changes in the Japanese finance sector over the past decade has created opportunities for multinational corporations to leverage their best practices and economic value creation into the market.

This in turn has created momentum in the outsourcing and telecommunications industries.

Chapter 3: Literature study

3.1 Introduction

Non-core functions are traditionally earmarked for outsourcing. However, as detailed by Green (2000a:16), in Asia the definition of "core" seems to be misinterpreted. A framework for business users of IT services to conceptualise whether their IT functions are in fact "core" to the business will be suggested. Fundamentally, outsourcing is only a sound proposition if it delivers to management a set of outputs, outcomes or strategic advantages which it could not achieve internally through the allocation of additional resources. Green (2000a:16-17) suggested a framework for evaluation of "core" is detailed below in 3.1.1.

3.1.1 Framework for evaluation of a core competency

A fundamental issue is whether the function that is under consideration as to outsourcing is a "core competence" of the organisation. A number of simple tests can be applied to determining what are the truly core "competencies" of an organisation. The starting point for analysis is to realise that a skill set is not likely to be a core competence in its own right and that a core product does not mean that a core competence exists. To qualify as a core competence, the technical skill or ability must span more than one product or market.

A related requirement for classification as a core competence is the height of the barrier to entry that it

poses to competitors. The more difficult it is for competitors to replicate the technology or skill, the more likely it is that management have a core competence to utilise. However today building these barriers, through the investment in information technology, has become ever more challenging since organisations operate in an environment where there are numerous competitors, a vast selection of technology, a commoditisation of technology, affordable technology. Unfortunately the technology has a relatively short sustainability.

Another test of competency is the number of attributes and the significance of those attributes to the customers' valuation of the final product. The last hurdle to qualify as a core competency is the requirement to perform and maintain this function at world-class level. Unless information technology or its use falls into these areas, it is unlikely to represent a core competence of the organisation.

The second test seeks to ascertain whether the information technology function under consideration is strategic in nature. It is well-established that a function is strategic if it provides a sustainable competitive advantage, which is, valued by customers, is unique to the business, and is difficult for competitors to replicate.

Even if the information technology function is used in a strategic manner, it is key to break it down into its constituent components. The organisation has to clearly identify the source of competitive advantage and determine why it is strategic. Does the

competence lie in the creativity of the individuals employed, the methodology used to produce a result, or the ideas of the individuals? Clearly, operational aspects - such as running a data centre - would not fall into the strategic category for many (if any) organisations.

According to Green (2000a:16-17), the third test is whether the outsourcing of the function will result in an increment to shareholder value. Shareholder value is a powerful but simple concept, which states that the actions of the firm must result in a minimum accretion in shareholder value. If the action does not result in this, accretion value is said to be destroyed. It has been empirically determined that shareholder value is significantly determined by the company's cash-generating capability.

In determining the role of information technology in this scenario, it is necessary to determine how information technology contributes to the cash-generating capability of the business. Tying the activity into the outputs or products of the company normally assists in defining the financial relationship and thus the contribution of the specific activity. For example, computers tie both the transaction recording and customer services together in the form of call centres. If the linkages are clear, critical and defined financially, the general rule is to keep control of them.

The fourth test relates to the level of incremental risk, which will be incurred by moving to an outsourced option. Moving to an outsourced solution is not

without its risks. Understanding the sources of risk and risk management techniques can help organisations to realise the anticipated benefits.

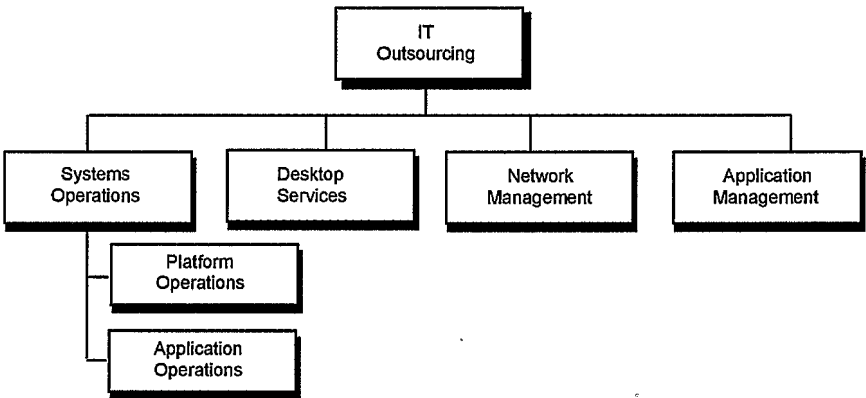
While the concept of risk is not new, the point that must be firmly established is how much extra risk (if any) the outsourcing of the function adds.

In this light, it should be recognised that while monetary compensation is available by way of legal redress for non-performance, the effect on the business or its customers might be sufficiently significant to give pause for serious thought. The common trap in the risk assessment process is to assume that the organisation has more real and effective control than it actually does.

3.2 Information technology outsourcing services categories

Information technology outsourcing can be divided into four service components (Input, 2000:2) as shown in Figure 3.1.

Figure 3.1: Information technology outsourcing services categories



Source: INPUT (2000:4)

1. Systems operations outsourcing describes a relationship in which a vendor is responsible for managing and operating a client's "computer system"/data centre (platform systems operations) or developing and/or maintaining a client's application as well as performing platform operations for those applications (applications systems operations). In some cases, this can involve the transfer of existing information technology assets to the outsourcing vendor or even the entire information technology operation, as a means of providing a cash infusion, diverting capital funds and reducing or controlling operating costs. The perception of many in Asia is that systems operations outsourcing requires turning over both assets and control to the outsourcer, and that it brings a risk to security and an abdication of management responsibility. This is not true. There is a wide range of outsourcing vendors offering a variety of services that can be tailored to suit the needs of almost any situation or organisation. The level of security and control involved with outsourcing can often be even higher than with using internal resources. Disaster recovery and business continuity services are often considered a part of systems operations outsourcing as well.

2. Desktop services is a relationship in which a vendor assumes responsibility for the deployment, maintenance and connectivity of personal computers, workstations, client/server and LAN systems in the client organisation.

3. Network management outsourcing is a relationship in which a vendor assumes full responsibility for operating and managing the client's data telecommunications systems. This may also include the voice, image and video telecommunications components. This service ensures that the organisation can focus on addressing competitive needs, without having to worry about its data network infrastructure. As data networks become both increasing complex and essential to an enterprise's very existence, more organisations are turning to Network Management outsourcing.

4. Application management is a relationship in which the vendor has full responsibility for developing and maintaining all of the application or function. This service has been growing exponentially in recent years as organisations have been implementing enterprise-wide applications, such as enterprise resource planning applications. First, organisations found that service providers were essential to the proper implementation of most enterprise applications. Now, most are finding that service providers are also important to the long-term operation and maintenance of enterprise applications. Businesses change and evolve, and so enterprise applications need to change and evolve with them. One growing trend has been for outsourcers to offer services that provide for the use of popular enterprise applications, such as SAP, Baan or Oracle, on a utility basis. With such services, small and medium sized enterprises are able to take advantage of state-of-the-art enterprise

application software that would otherwise be cost prohibitive for them.

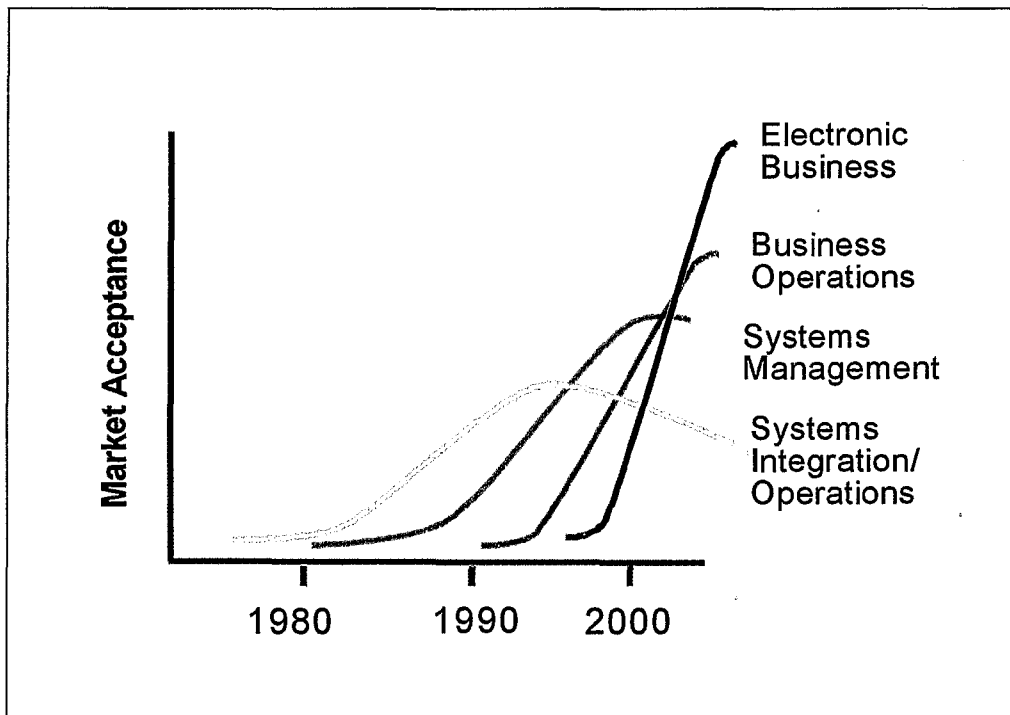
3.3 A strategic perspective: rapidly changing business needs

As outsourcing becomes more commonplace and as more organisations turn to outsourcing to meet their needs, outsourcing is increasingly viewed as yet another business tool. This has legitimised outsourcing to a wide range of senior executives resulting in continuous and rapid growth.

Although this has been especially prevalent in North America and Europe, a similar trend is occurring in Asia (Green, 1999:22).

The information technology services market is entering a new phase and this is changing the profile of demand in the outsourcing market. The changes taking place in the information technology services market are summarised in Figure 3.2.

Figure 3.2: Information technology services market waves



Source: INPUT (2000:6)

The organisations have been relatively slow to make the move from using information technology services firms primarily for systems integration to using them for systems management. This is still undertaken largely by in-house capabilities. However, it is likely that the trend towards using information technology services providers to assist in business operations and improving overall business efficiencies will not bypass Asia. The growing competitiveness of the regional and global markets, combined with the economic and market challenges, will force most Asian enterprises to turn to state-of-the-art expertise if they are to be successful (Input, 200:6).

Driven by this move to electronic business, the client requirement is already moving on, resulting in increasing expectation of vendor ability to implement

and manage Internet and Intranet based infrastructures. As stated by Green (2000b:36), the new economy is a friction free marketplace wherein buyers and sellers operate in one community. Buyer feedback can change the product offering as sellers are constantly trying to close the proximity gap between buyer expectation and product or service performance.

Intranets, in particular, are being increasingly adopted as a means of communicating both within an organisation and with key partners. At present, approximately 60% of major U.S. organisations either have implemented or are currently implementing Intranets. This will create significant opportunities in Intranet server management over the next few years (Input, 2000:7).

Consequently, one of the key issues for outsourcing vendors is that the mainframe platform, though central to many existing information technology outsourcing contracts, is no longer the principal concern of clients. Over the past few years, they have become primarily concerned with the quality of distributed systems management, including desktop services (Input, 2000:7).

These changes are creating major opportunities in distributed systems management. Many wide area networks will have to undergo fundamental changes over the next few years if they are to play an effective part in their organisation's use of information technology. However, for many organisations it requires a considerable investment to upgrade the technology of their corporate data network, with the

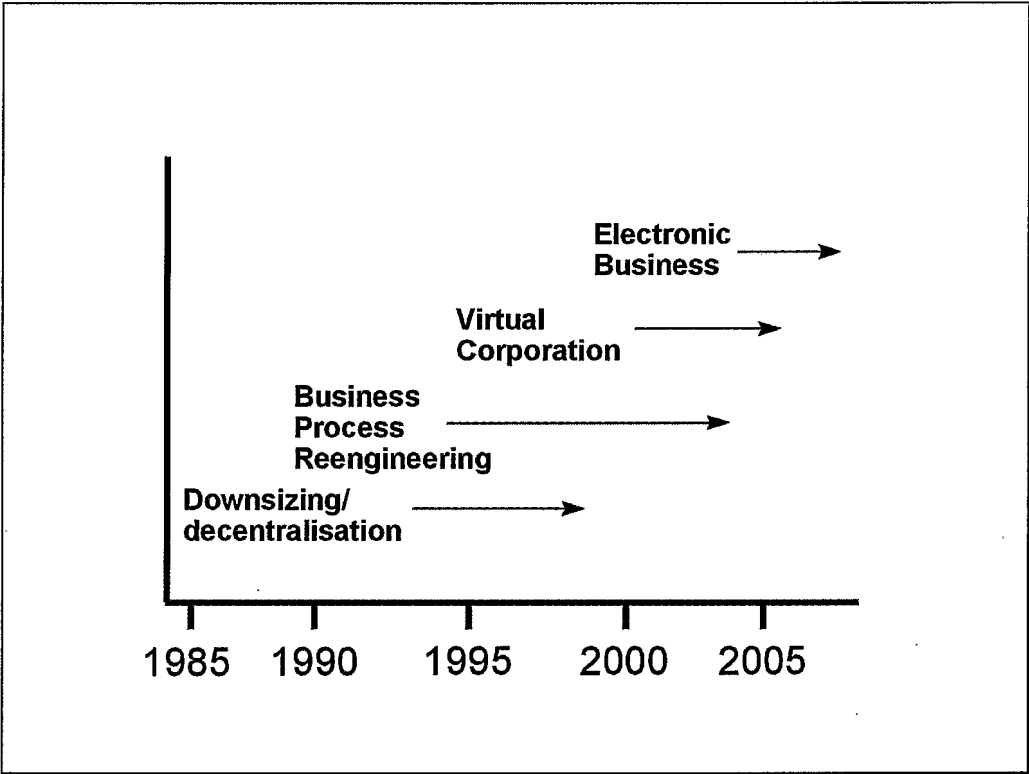
consequence that wide area network outsourcing is increasingly being seen as the answer (Input, 2000:7).

As stated by Fisher (2000), the change in technology emphasis has considerable future implications for infrastructure support. The trend is increasingly away from supporting the information technology infrastructure on a piecemeal basis with one group supporting data centres, another supporting networks and a third supporting the desktop environment.

Instead many organisations, particularly in the medium-sized deals, are increasingly recognizing the need to adopt end-to-end service management which treats the information technology infrastructure as an integrated whole.

The possibilities created by new technology are leading to an increasing belief in electronic business as a way of doing business as shown in Figure 3.3. Again, this is a trend that is increasingly prevalent in North America and Europe, and is already starting to be seen in Asia (Input, 2000:8).

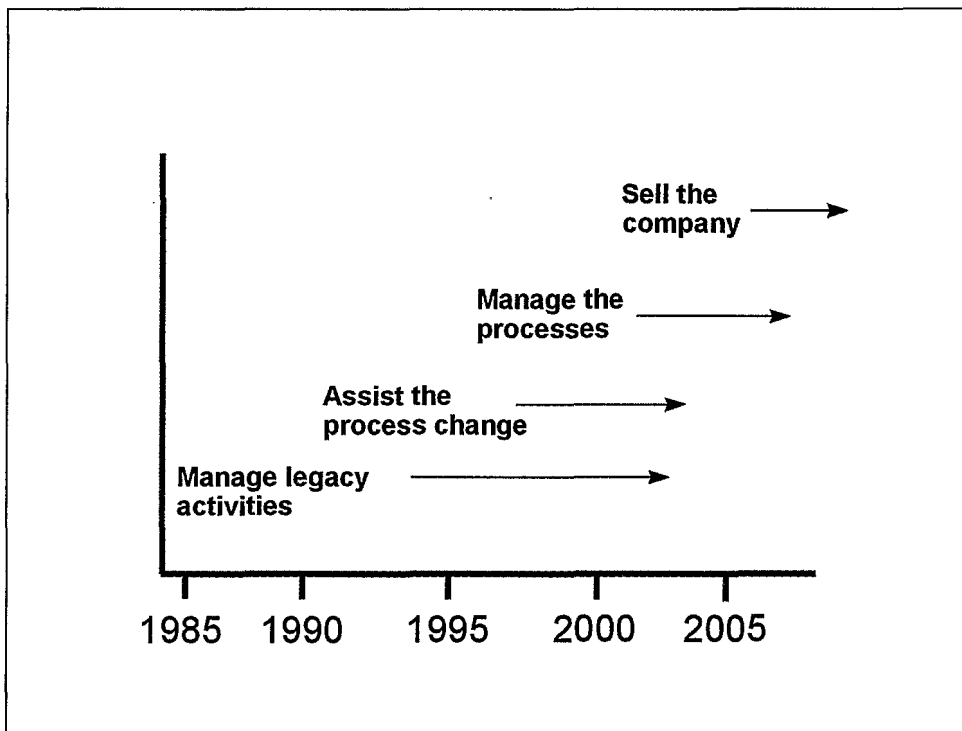
Figure 3.3: Changing management philosophies



Source: INPUT (2000:6)

However, the co-existence of a number of these philosophies is leading to a complex mix of outsourcing requirements at present, ranging from some residual management of legacy platforms through business process outsourcing, to a need to implement and manage architectures to support electronic commerce as shown in Figure 3.4 (Input, 2000:8).

Figure 3.4: Changing client outsourcing requirements



Source: INPUT (2000:7)

The speed of this change is a major issue for both buyers and vendors. This issue is now being exacerbated by a further shift in technology. At the same time the focus in the application of information technology has also shifted with organisations in many sectors such as financial services, utilities and transportation now viewing information technology as a key direct sales tool and link with their clients (Input, 2000:8).

As described by McIlwham (2000), this requires a much closer working relationship between buyers and vendors and a much more flexible contractual approach. The services, level of services provided and service pricing now all need to be reviewed by buyer and vendor in a relatively informal manner on a

regular basis. The basis of pricing is expected to change over the next few years moving away from fixed price contracts in favour of benchmarked price comparisons and utility pricing models. Indeed, the future of outsourcing is in providing utility-like information technology services to enterprises, in much the same way that an enterprise might purchase services such as power or telecommunications.

He explains that the business and technical environments in which organisations trade, are now moving extremely rapidly. This means that outsourcing vendors must become active business partners rather than support service suppliers. The outsourcing vendor must take much more responsibility for its clients' business circumstances and not just be an onlooker that provides a narrow range of agreed services. This necessitates a high level of interaction with clients.

It is critical that buyers establish open and effective channels of communication with their outsourcing suppliers. This is a two-way responsibility. It is difficult for the vendor to be responsive to the client's business needs if the client is not prepared to discuss them openly or is excessively defensive about the implications of future requirements (Laidlaw, 2000).

However as explained by Aitken (2000), this has contractual and financial implications. The most successful outsourcing contracts tend to be those where the client and vendor regularly meet to discuss future requirements, and the implications for service provision and service pricing. It is often stated that the emphasis in outsourcing has changed from cost

reduction to business change. This is largely untrue. Clients do not view cost control and reduction and delivery of business benefit as mutually exclusive. Clients would like outsourcing vendors to be more proactive but, at the same time, to supply the basic services underlying such activity at competitive rates.

3.4 Growing role of outsourcing in Asia

The use of information technology outsourcing services in Asia is on the rise. The Asian region's economic woes have accelerated the pace of this growth. Asian executives have responded to increased business, market and competitive challenges by taking a fresh look at ways of improving efficiency and competitiveness. Many are turning to outsourcing (Input, 2000:8).

Executives see their relationship with outsourcing vendors as being a partnership, with the focus on helping the enterprise improve efficiency, processes and competitiveness.

In Asia outsourcing vendors are seen as being more in the role of a key partner, a business advisor and a technology advisor, and less in the role of a supplier of agreed services or an agent of change (Input, 2000:8).

As stated by Greaver (1999:106), focused restructuring tools, such as outsourcing or mergers and acquisitions that make significant impact on the organisation can be completed in months. They are project-orientated, top-down driven initiatives, which can be used to achieve a wide variety of objectives,

from improving performance to maximising asset values, to creating more effective or efficient capital structures.

Interestingly, on one hand Asian executives are ahead of their Western counterparts in seeing a strategic role for outsourcing services, and the vendors providing those services. On the other hand, a study by Input (2000:6) found that Asian organisations are currently using outsourcing services primarily for tactical needs rather than as a strategic resource. As a general rule, enterprises tend to look to outsourcing to address support issues, such as hardware support, disaster recovery and maintenance, and have shown less of a tendency to involve them in strategic planning and business process reengineering.

3.5 Strategy killers

As mentioned by Beer and Eisenstat (2000:31), the six silent killers of strategy (e.g. like an offshore information processing model) were identified to be:

- Top-down or laissez-faire senior management style;
- Unclear strategy and conflicting priorities;
- An ineffective senior management team;
- Poor vertical communication;
- Poor co-ordination across functions, businesses or borders; and
- Inadequate down-the-line leadership and development.

In the development of an offshore information processing model ("SG model") an attempt will be made to address these issues.

3.6 Managing outsourced functions

In today's stormy Asian markets, high level technical, market-scanning, sensing and responsive skills, and a well-designed platform for continual outsourcing innovation, are key. As stated by Quinn (2000:18-25), there are certain fundamental activities to managing outsourced functions, namely:

- 1. Commitment to exciting goals.** At the core to managing outsourcing is an exciting vision that inspires internal and external people to work together with energy. Such visions are essential in outsourcing because daily line contact is impossible and technical people feel free to jump to wherever the actions and rewards look most exciting. (Quinn, 1998:71-80);
- 2. Making sure your partner benefits.** As stated by Greaver (1999:277), few things frustrate a provider more than giving excellent service and seeing it go unrecognised;
- 3. Creating internal masters of the process.** To develop the most talented staff to act as "process masters". Individual process masters (who are usually inquisitive and gregarious people with excellent specialist skills) and small groups of them become knowledge centres for all divisions in a company;

4. Develop open, interactive software models.

Almost all services are developed and tested collaboratively with customers through shared screens. Everyone shares enough interface, goal and performance criteria for a variety of independents to operate individually and to propose totally new solutions that fit the [outsourcing] systems needs (Quinn, 2000:21);

5. Establish audacious goals: figures of merit.

Adopting figures of merit, which define what winning performance really demands and specifying technical-economic performance levels that are feasible but sufficiently high to shift customers (Quinn, 2000:21). To achieve these goals, the transactional model for outside relationships – where the relationship between organisations is defined in terms of discreet transactions constantly rebid in an open marketplace – is replaced with a relationship model, where value is created through shared commitment to both organisations' goals and a balanced view of the parties' relative risks and rewards (Corbett, 1998);

6. Concentrating on what needs to be accomplished, not on how to get there. Too often buying parties insist on what processes will be used (the how) rather than focusing on the desired result (the what) (Quinn, 2000:21);

7. Sharing gains from surpassing targets. If a company offers to share with outsourced partners any gains from exceeding targets, it may realise entirely unexpected boosts in performance levels (Quinn, 2000:23);

8. A three-point system of information exchange and project execution. As described by Green (1999:22), the information technology function should be run by a great general manager, not by the traditional technology manager. No company can afford to overlook the role information technology can play in spurring organisational change and shaping core business processes. The IT function can no longer be delegated to the back office. Rather, it is a vital business within the business, run by people with commercial backgrounds who know how to make decisions that are based on ever changing competitive imperatives.

To help monitor and implement [outsourcing] innovation-creating relationships, many of the most successful companies studied utilised three points of contact to form a system of information exchange and project execution. The first contact point is one in which a few top-level managers review developing opportunities, create exciting goals and challenging figures of merit, constantly realign existing strategic priorities as external environments change and eliminate bottlenecks that may occur at lower levels. The second contact point is where champions on both sides meet – people whose careers depend on the relationship's success. The third comprises numerous interactions among those who actually develop, produce and operate the service – the people who often are the first to spot new operating needs or technical problems (Quinn, 2000:23-24). Corbett (1998) states that companies that do not focus, in a balanced way, on all three

[relationship structure, management structure and leadership skills] these areas will not be successful.

According to Tuck (2000:55), strategic capability sourcing also means realising the potential for a service or process to deliver strategic value. It means companies can approach markets in new ways with new processes and speed. And it means mutual, open, win/win relationships. Technology makes it possible for individuals across both organisations located around the world to have real-time access to the same information in ways superior to what we use to achieve within the vertically integrated, self-sufficient organisation (Corbett, 1998); and

9. Incentive systems and open, compatible information. At the heart of successful [outsourcing] innovation is a common open-information capability that places all participants on the same footing in discussions (Quinn, 2000:24).

3.7 Understanding outsourcing vendor economics

Green (2000a:15) quotes five factors that assist to understand the strategic fit between outsourcer and customer, thus it is important to understand how the vendors [outsourcer] achieves cost differential:

- Consolidation of data centres, processing facilities, equipment, and personnel to achieve economies of scale and use of existing capacities;
- Standardisation of data systems and operating environments;

- Operating in an environment governed by clearly defined performance standards, which are not typically available to or rigidly enforced by the in-house supplier;
- Economies of scale and a shared infrastructure. Outsourcing allows us the opportunity to become a part of the provider's network of other customers, suppliers, affiliated companies, and so on (Greaver, 1999:126); and
- Administrative efficiencies.

3.8 Making offshore outsourcing work

Wadhvani (1999) describes the key aspects of ensuring a successful offshore outsource as:

1. To bridge the distance, conduct daily online chat sessions about time-sensitive projects and use videoconferencing whenever possible;
2. Before a project begins the client should, together with the in-country representative sign off detailed proposal and project definitions.
3. A consultant should be assigned and the use of strict project management tools and protocols should be enforced.
4. In country [Japanese] consultants should be familiar with local business practices;
5. Intangibles such as patience and persistence are important, as are incentives and rewards; and

6. Be sure the consultant is not underestimating timelines or over-promising.

The most important factors in offshore outsourcing are detailed by Yourdon *et al.* (1996) as;

1. Language familiarity;
2. Telecommunication connections;
3. Spoken language;
4. Large staff;
5. Price;
6. Rapid start; and
7. Credentials.

The least important offshore outsourcing factors are deemed to be (Yourdon *et al.*, 1996):

1. Location convenient to customer's preference for establishing and offshore factory [processing centre] of its own;
2. Tax consequences;
3. ISO 9000 certification;
4. Prior experience with the customer's organisation;
5. Network familiarity; and
6. Ability to adapt quickly to new, unfamiliar technology.

Corbett (1998) further defines thirty principles, ten each in the areas of relationship structure,

management structure and leadership skills. These principles are described in table 3.1

Table 3.1: Thirty outsourcing principles

Ten principles for the relationship structure	Ten principles for the management structure	Ten principles for leadership skills
1. Use of analysis tools;	1. Keep the strategic responsibility close to top;	1. Embrace and champion change;
2. Create a basis for long-term growth;	2. Build multilevel organisational links;	2. Earned credibility across organisation;
3. Capture “intent” not just “terms”;	3. Conduct regular, goal-orientated meetings;	3. Desire to manage, not to do;
4. Manage expectations carefully;	4. Use latest communication tools;	4. Ability to build trust;
5. Define the “scorecard” in advance;	5. Define escalation process;	5. Strong communication skills;
6. Differentiate the “client” from the “customer”;	6. Use the scorecard for performance reviews;	6. Strong negotiation skills;
7. Match pricing to goals and culture;	7. Apply incentives and penalties;	7. Strategic planning skills;
8. Match contract terms to goals and culture;	8. Reward provider’s employees;	8. Project management skills;
9. Use incentives to promote change; and	9. Implement a change management process; and	9. Marketing skills; and
10. Define the management structure in advance.	10. Manage the relationship as a strategic asset.	10. Process expertise.

Source: Corbett (1998)

Corbett (1998) summarises these thirty principles into seven outsourcing best practices. These best practices and principles provide a framework within which organisations can and should operate. They represent a suggested guide that organisations can use to focus their energies on the most critical aspects of the management of the relationship. The seven best practices are presented in table 3.2.

Table 3.2: Seven outsourcing best practices

- The seven best practices
1. Objective performance criteria are negotiated, measured, and reviewed;

2. A formal relationship management structure exists;

3. Performance-based pricing;

4. Internal training and communications on business goals and relationship

The seven best practices

management;

5. Vendor training on customer's business environment and goals;
6. Cultural normalisation; and
7. Ongoing exchange of knowledge and expertise.

Source: Corbett (1998)

3.9 Outsourcing imperetaves

Input (2000:11) defines the following actions for organisations intending to outsource:

1. **Understand what you want, and why.** Define what is needed, determining what is most important and what is least important. Determining why you want something often helps in better understanding what you need (Input, 2000:11);
2. **Set measurable criteria.** Ensure that the service level agreement includes clear and measurable criteria and objectives so that both results and progress can be properly evaluated (Input, 2000:11). Corbett (1998) describes a "scorecard" approach to objectively measure and capture the key determinants of success. The scorecard presents six to twelve measures;
3. **Make sure there is a clear linkage to business goals.** Contract formulations which encourage and reward achievement of the client's business objectives provide the best foundation for success (Corbett, 1998). Input (2000:11) states that clients should make sure that plans and objectives for any outsourcing project have clear and realistic links to business goals;

4. **Avoid inexperienced vendors.** Look for vendors that have the depth of experience and expertise needed to ensure that your requirements are met (Input, 2000:11);
5. **Understand strengths and weaknesses.** Every outsourcing vendor has both strengths and weaknesses. Each has different areas of focus and emphasis. Take the time to understand their strengths and weaknesses, as well as philosophy and culture. Make sure that these tie in with your own goals and objectives (Input, 2000:11);
6. **Build in flexibility.** Ensure that the outsourcing contract allows for flexibility in service use, with considerable flexibility to adjust to changing needs and requirements (Input, 2000:11); and
7. **Once implemented, move forward aggressively.** Move cautiously during the evaluation and negotiation phase. However, once the decision is made and the contract signed, move forward boldly and aggressively to take full advantage of the services provided (Input, 2000:11).

3.10 Summary

The term outsourcing and partnership are generally synonymous and refers to the willingness of two parties to work actively and constructively together over time not only to achieve what is required in any agreed contract but also to enhance the quality of service and generate additional financial benefits. Partnership implies an enduring engagement that

survives and even strengthens with stress and occasional conflict.

The next chapter examines what factors, principles and best practices are seen as key to the delivery of a outsourced relationship that is based on value creation.

Chapter 4: Empirical research

4.1 Introduction

An offshore processing survey as included in appendix 1 was conducted. The results of the survey are detailed in appendix 2. Appendix 2 also graphically represents these results once weighted factors were applied as identified. Chapter 4 interprets the results obtained.

4.2 Development of the questionnaires

4.2.1 Objectives

The objective of empirical study was to examine the principles under which to structure and develop a model for offshore information processing.

4.2.2 Identification of the population

A target sample of fifty was randomly identified for the completion of the offshore processing survey (appendix 1). The sample represented various multinational finance industry representatives, as well as multinational outsourcing service providers.

Twenty-three responses were received by the author and were recorded and detailed in Appendix 2.

4.3 The structure of the questionnaires

The survey was structured to elicit details on the reasons for outsourcing in Asia, specifically Japan, and secondly to define the functions that were targeted for outsourcing.

Based on the analysis and recommendations (refer to table 3.1), the survey further identified and rated the principles for:

- Structuring an outsourcing relationship;
- Defining the management structure for an outsourcing relationship; and
- Defining the leadership skills required for implementing and managing an outsourcing relationship.

Additionally Corbett's (1998) best practices were also evaluated in terms of offshore outsourcing. The survey further examined aspects of the customer interface and finally a few questions were raised to precipitate commercial and marketing value from the survey.

4.4 Response

Twenty-three responses were received from a sample of fifty.

4.5 Results of the empirical research and analysis

4.5.1 Processing of the data

Data was processed and summarised as identified in appendix 2. Where possible percentages were calculated. For question 5 through to question 9, a simple weighted factor was applied to the responses prior to representing the results as a percentage.

4.5.2 Presentation of the results

The percentages were then represented as either a pie or bar graph for easier interpretation.

4.5.3 Analysis of results

4.5.3.1 Question 1 and question 2

From the responses it was identified that four respondents utilised offshore processing services. Through further analysis it was discovered that two of the respondents were from the same multinational organisation, using the same offshore outsourcer.

The other respondents were from multinational organisations, however they weren't using the services of an offshore outsourcer. These services were still being supplied from within their respective organisations.

4.5.3.2 Question 3

It can be seen from the response to question 3 that in Asia, and specifically Japan, cost (64%) is still the driving factor in an outsourcing decision. Notably in Japan it can be seen that earthquakes (16%) and access to best practices (12%) play a role too.

4.5.3.3 Question 4

Mainframe operations (45%) and application development and maintenance (27%) were indicated as a target for outsourcing. This could be as a result of the maturity of the technologies in the mainframe environment. It is worth noting that printing and

enveloping (11%) was also a candidate for outsourcing.

4.5.3.4 Question 5

In structuring a relationship between outsourcer and customer, the definition of a management structure (12.25%), the alignment to goals and culture (11.38%) and creating a basis for long-term growth (11.27%) were identified as key success factors. This in turn could be contributed to the cultural, business environment and language difficulties facing foreign multinationals in Japan.

4.5.3.5 Question 6

Once again this was represented in the conduct of regular, goal-orientated meetings (13.08%), implementation of a change management process (12.62%), and the building of multilevel organisation links (10.86%) in question 6.

It should be noted that not much value was attributed to rewarding the provider's employees (7.24%), a practice implemented in some outsourcing relationships.

4.5.3.6 Question 7

Question 7 sought to identify the leadership skills required to manage an outsourcing relationship. In support of Greaver's (1999:105) statement – both [outsourcing and reengineering] together can be used as transformation tools. The survey revealed that to embrace and champion change (11.97%), strategic planning skills (11.85%) and strong communication

skills (11.85%) are synonymous with outsourcing leadership. Process expertise (11.37%) was also identified as an outsourcing leadership trait.

4.5.3.7 Question 8

Once again in support of question 5 and question 6 a formal relationship management structure (17.06%) was identified as an outsourcing best practice.

The alignment, by the outsourcer, to the customer's business environment and goals (16.72%) and again in support of question 5, cultural normalisation (16.22%) was identified as further outsourcing best practices.

4.5.3.8 Question 9

The required skills for the outsourcer customer interface are deemed to be:

- Understanding the customer's business and changing requirements (11.27%);
- Performance improvement (10.59%); and
- Competence of outsourcer's staff (9.02%).

Quality of service, both from an account management (10.29%) and services manager (9.80%) perspective were deemed to be important.

4.5.3.9 Question 10 to 13

These questions were raised to precipitate commercial and marketing value from the survey for the benefit of Sema Group and aren't supportive of the objectives of the study.

4.6 Summary

From the survey it can be seen that an offshore information processing model is no different from any general management strategy, in fact it is very similar to operations management.

As stated by Johnston *et al.* (1997:22), the operation [offshore information processing model] may take three different roles within an organisation, namely as a *support* to business strategy, as the *implementer* of business strategy, and as the *driver* of business strategy.

Chapter 5: Conclusions and recommendations

5.1 Introduction

Outsourcing is a term invented by the information system trade press in the late 1980s. What sets outsourcing apart from subcontracting and joint venturing is the fact that “internal” activities are being transferred out (Greaver, 1999:10). However, the concept of offshore outsourcing is relatively new and has been brought about primarily by the differential in regional cost (appendix 2, question 3) bases.

5.2 Purpose of the study

The primary purpose of the study was to develop a model (“SG model”) and principles to deliver and structure outsourced offshore information processing to Japanese finance sector multinationals.

5.3 Method

5.3.1 Literature study

The literature study in chapter 3 defined an analysis of the research related to the study and positions and ideal state, concepts, principles and best practices for an outsourcing relationship. The literature study is supported by various interviews conducted and documented by the author.

5.3.2 Empirical study

An empirical study, as detailed in chapter 4, appendix 1 and appendix 2, was completed to ascertain the deviation from the ideal state, concepts, principles and best practices for an offshore outsourcing relationship.

5.4 SG offshore information processing outsourcing model

To bridge the gap between the ideal state and the present state as determined by the empirical study, a SG offshore information processing outsourcing model is proposed.

In the proposed SG model for outsourced offshore information processing for the Japanese finance sector multinationals, the customer looks at the outsourcer as a long-term asset that is a source of ongoing value, both in terms of business and shareholder value, to the company. This is also deemed a requirement (refer to section 4.5.3.4) of an offshore information processing model.

As an asset, time and resources are dedicated to managing the relationship (refer to section 4.5.3.5) and maximising its value. The customer's resources are held accountable for extracting value from the outsourcing relationship. The intent is to keep the relationship for as long as it brings value — understanding that over time new parties and new alliances may need to be formed as technology and organisations change. Therefore, the customer should strive for long-term relationships and align the

outsourcer's motivation by developing appropriate incentives. The customer must invest in tools that can objectively measure the outsourcer's performance and contribution as well as foster communication. There is an interdependency between the two organisations—change in one affects the other.

Therefore both parties must understand the cost drivers (refer to section 4.5.3.2) of the two infrastructures and co-ordinate changes so as not to drive additional costs into the process (Green, 2000a:15). Customer and outsourcer must behave as an integrated supply chain rather than win/lose adversaries.

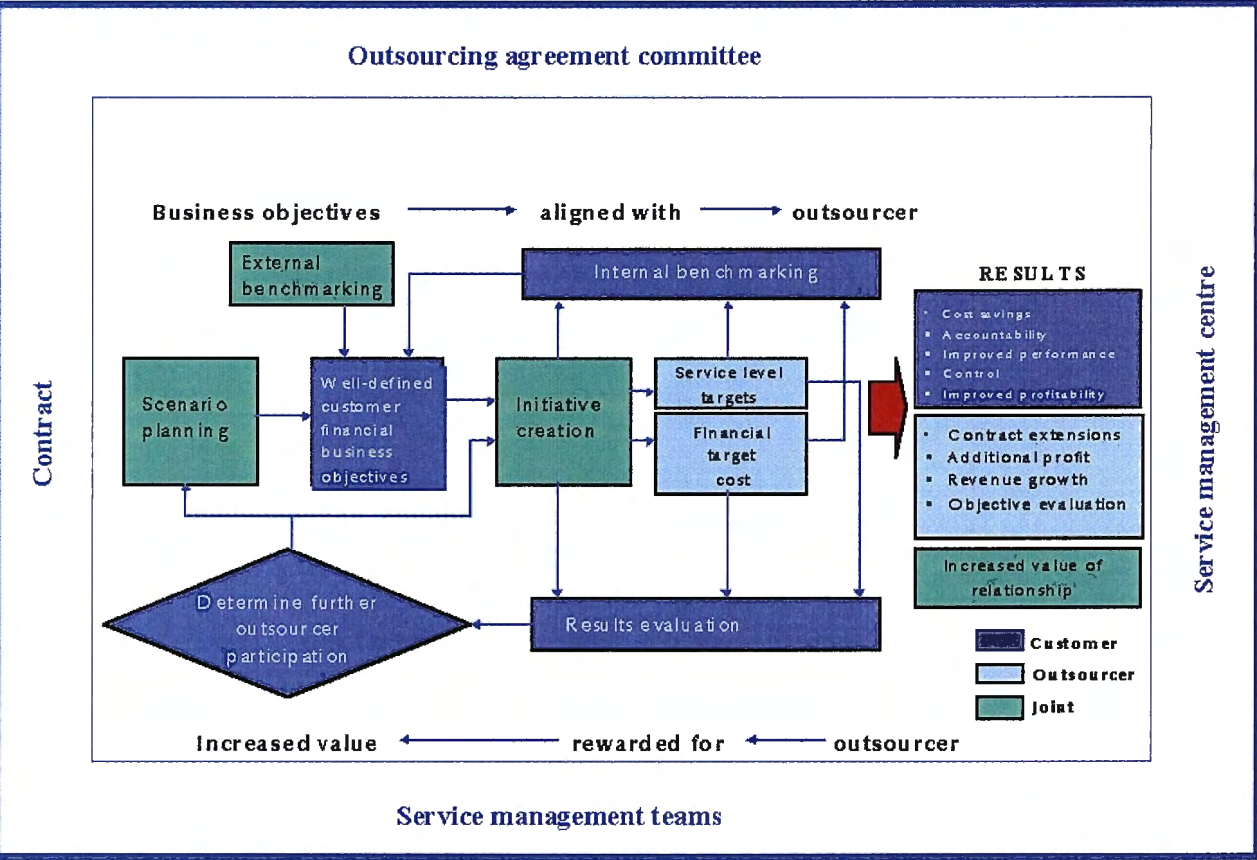
5.4.1 Management Model

In today's world of ever-increasing competition, it is no longer feasible for outsourcer to provide a fixed price over multiple years that does not anticipate learning curves, improvements, and changes in technology. These costs need to be transmitted through the supply chain so as to provide lower costs to the customer. Other principles underpinning the value of the SG model are:

- Results are measured on an objective basis;
- The outsourcer is rewarded for providing value in proportion to the value that it creates;
- The outsourcer's interests are kept aligned with those of the customer (refer to section 4.5.3.7 and 4.5.3.8); and

➤ The outsourcer and customer are interdependent during this relationship—changes in one side's infrastructure will affect the other (refer to section 4.5.3.7).

Figure 5.1: Management framework for outsourced offshore information processing for the Japanese finance sector multinationals



As detailed in section 4.5.3.8, it is understood that the relationship should change over time to reflect new business objectives, technologies, people, and business conditions; and the agreement enables this.

5.4.1.1 Outsourcer's management team functions

The outsourcer should establish the outsourcer management team, with responsibility for interfacing

with the customer management team in the effective delivery of the services (refer to section 4.5.3.8 and the analysis on management).

The outsourcer's management team should also be responsible for interfacing with the customer for the management and development of the contract and customer relationship.

The outsourcer's management team should have the following roles:

5.4.1.1.1 Outsourcer account management

The outsourcer should appoint a person with responsibility for the account manager function for the services, with responsibility for contractual and commercial activities, and account relationship aspects of the agreement.

Specifically, the account management function should act as the interface for customer senior management and shall devote particular emphasis to the following key aspects of the relationship, namely:

- Contract change, variation and maintenance;
- Outsourcer/customer commercial matters including billing and payment;
- Ownership of the request for additional service process;
- Senior monitoring of service performance (via the customer service manager);
- Customer satisfaction;

- Performance penalty and reward process; and
- Development of the relationship.

5.4.1.1.2 Outsourcer customer services management function

The outsourcer should appoint a Customer Services Manager (CSM) for the customer service who shall be based in Japan. The CSM function should act as the primary interface to customer in relation to services and service levels on a day-to-day basis. This function should be available to customer twenty-four hours per day (on an on-call basis outside of office hours).

The Customer Services Manager's primary responsibility would be to manage and monitor the service in accordance with service level agreements. In doing so, the CSM will receive escalation from the outsourcer's help desk for serious service problems and shall own from a senior level the resolution of problems, with the authority within the outsourcer to take the actions and prioritise resources to address issues and service levels. The CSM should interface and co-ordinate with the customer's operations manager, in Japan, with regard to the day-to-day planning of the service, attend reviews and meetings, and for the authorisation and approval of changes.

In addition, the CSM should manage and own:

- Monitoring of performance against service levels;
- Maintenance of service levels;
- Service related complaints and queries;

- Approval of non-chargeable service's or variations to the services, including day-to-day service extensions. A change management process as defined in section 4.5.3.5;
- Service management processes including problem and change;
- Service level reporting;
- Service meetings and reviews; and
- Escalation of service issues within outsourcer to senior management.

5.4.1.2 The customer management functions

In collaboration with the outsourcer setting up its management team, the customer should establish the following functions, which should comprise the customer's management team. These functions should interface with the outsourcer in relation to the management of the services and the contract. The following functions should be established:

5.4.1.2.1 The customer operations manager

The customer operations manager function should have responsibility for interfacing with, and management of, the outsourcer in relation to the day-to-day service. As such the function should be the primary interface for the outsourcer's customer services manager.

In addition the customer operations manager function should:

- Act as escalation point from the outsourcer problem management and customer service management functions;
- Own the resolution of priority and resource contention issues (customer related not outsourcer related);
- Approve non-chargeable changes or variations to the services;
- Represent customer at service review meetings;
- Receive and review service performance reports;
- Escalate service issues within the customer to senior management;
- Monitor the outsourcer's performance against service levels;
- Provide the channel to the outsourcer for service related complaints and queries;
- Co-ordinate internal customer functions in relation to the services; and
- Act as internal co-ordinate function for the resolution of customer problems affecting the services.

5.4.1.2.2 The customer outsourcing contract manager

The customer should establish an outsourcing contract manager function with responsibility for the management of the contractual and commercial aspects of the contract. As such the customer outsourcing contract manager's primary interface should be to the outsourcer's account manager function. In addition to the above, the outsourcer customer service manager function should:

- Manage contract change, variation and maintenance;
- Manage outsourcer commercial matters including billing and payment issues;
- Development of the customer - outsourcer relationship;
- Act as co-ordination point for issues arising from the agreement;
- Hold contract reviews;
- Act as communication channel into customer for the outsourcer account manager function in regard to changes such as organisation changes;
- Act as customer channel for customer satisfaction matters; and
- The customer owner of the reward and penalty process.

5.4.1.3 The service management teams

The outsourcer and the customer should, as defined in section 4.5.3.4, manage the service via a management process of ongoing monitoring and review. The framework of the teams and meetings, which could deliver this, would be as follows:

5.4.1.3.1 Joint service management team

The joint service management team should act as the primary management function for the monitoring and delivery of the service to the customer. It should include the appropriate outsourcer and customer staff able to effect proper focus and control of each party's involvement in the end-to-end service to the customer user community. Representatives of the team, as a minimum, are detailed in table 5.1.

Table 5.1: Representatives of the joint services management team.

Function	Representing the customer	Representing the outsourcer
Joint service management team	Customer operations manager	Customer services manager

The joint service management team should confer on a daily, weekly and monthly basis as required. The joint management team meetings should usually be on a face-to-face basis, but where appropriate it may be conducted via telephone. A summary of the meetings, the purpose, expected inputs and outputs are shown in table 5.3 below.

5.4.1.3.2 Outsourcing agreement committee (OAC)

The parties should form and constitute the outsourcing agreement committee (OAC). The primary purpose of the OAC is the joint management function for the review and senior focus on critical and strategic aspects of the contract and relationship. As such it is supportive of the objectives stated in section 4.5.3.7 (question 5) and the focus is not usually the day-to-day issues for the services.

The OAC also acts as a mechanism for the involvement and interaction of the outsourcer and the customer's service delivery functions (joint management team) with the customer business and end users (via a designated representative) for the purpose of communication of user satisfaction and strategic matters.

The parties comprising the OAC are detailed in table 5.2.

Table 5.2: Parties comprising the outsourcing agreement committee.

Function	Representing the customer	Representing the outsourcer
Outsourcing agreement committee	1. Vice President, information services, (Co-Chairperson); 2. IT Contract Service Manager; 3. The customer operations manager; and 4. The customer key business user representative.	1. The outsourcer's production services director (Co-Chairperson);. and 2. Account manager.

The quorum for each meeting of the OAC should be constituted by at least two (2) members, comprising representatives of each of the customer and the outsourcer and no meeting of the OAC shall be

convened unless such quorum is met. At the invitation of the OAC, such other person may attend the OAC meeting or a part of a meeting of the OAC if it is deemed expedient or desirable in the circumstances.

A summary of the OAC meeting purpose, expected inputs and outputs is shown in table 5.3 below.

5.4.1.4 Meetings and Reviews

5.4.1.4.1 Outsourcing agreement committee (OAC)

The OAC should meet regularly, in Japan, and in any case at least once in each calendar quarter or at such intervals as the outsourcing agreement committee may itself decide. During OAC meetings, the following matters should be addressed:

- Major changes in service levels;
- Capacity planning;
- Major changes in the operational environment;
- Major business or organisational changes for the customer or the outsourcer;
- Commercial and contractual matters; and
- Service related issues escalated from the service review meeting.

5.4.1.4.2 Service review meetings

The joint service management team should meet and review the service on a daily, weekly and monthly basis.

The service reviews should discuss the following:

- Review of service performance against agreed service level;
- Review of problems, trends, resolutions and cause assignments;
- Review and agree plans for correction of persistent problems, if required;
- Review options for improve service level achievement;
- Review changes and change impact analysis; and
- Review information on workload volumes and agree actions to manage.

5.4.1.4.3 Account review meetings

In addition to service focussed review meetings, the joint service management team should meet on a bi-monthly basis to progress matters related to the contract and commercial aspects of the agreement.

The account reviews should discuss the following:

- Invoicing and payment issues;
- Contracted resource volumes, including changes in requirements;
- Contract maintenance matters;
- Request for additional service status and related matters; and
- Organisation of process changes for either the customer or the outsourcer.

Table 5.3 represents a summary of the management teams and meetings in the SG model.

Table 5.3: Summary of management teams and meetings

Management function	Meeting and frequency	Purpose	Attendees	Inputs	Outputs
Joint management team	Daily and/or weekly	Day to day management and review of service, issues, changes, and priorities.	Customer operations manager. Outsourcer customer service manager.	Event logs, problem and change reports	Service Summary Reports & minutes
Joint management team	Monthly	Periodic review and management of service performance. Review major problems and issues. Escalation of serious or chronic problems to OAC.	Customer operations manager. Customer outsourcing contract manager. Outsourcer customer service manager. Outsourcer account manager	Monthly Service Report. Problem and Change summary reports.	Minutes and actions.
Outsourcing agreement committee	Quarterly	Senior periodic review and management of : • Contract issues • Commercial issues. • Escalated service issues. • New business opportunities. • Strategic matters • Relationship. • Organisation changes. • Customer satisfaction issues.	Customer Vice President: IS. Customer outsourcing contract manager. Customer user business representative. Outsourcer production services director. Outsourcer account manager	Quarterly Service Summary (customer)	Minutes and actions.

5.4.2 Service Management Centre (SMC)

The outsourcer should establish a service management centre (SMC) for the customer service. The SMC and its functions should be built based upon the outsourcer's Asia Pacific organisation and service models in operation throughout the Asia Pacific region.

The purpose of the SMC is to provide and apply high quality service management disciplines to the services by implementing the appropriate outsourcer processes and best practice methodologies. The SMC should also look to implement common tools and systems where beneficial to the operation.

Functions provided by the SMC should be;

- Help desk;
- Problem management;
- Change management; and
- Service reporting.

The SMC is the function, which operates via the help desk, that acts as the primary interface to the customer help desk for the logging and processing of problems, request and changes.

The SMC function should act as the co-ordinator of the problem and change processes between the outsourcer and the customer.

It should be noted that the outsourcer should, during transition, develop and establish change and problem management processes which specifically cater for the customer services. These should be based upon outsourcer standard methodologies employed throughout the Asia Pacific region.

5.4.2.1.1 Help desk

The help desk would be responsible for effective call management in relation to problems reported at the help desk by:

- Logging of and raising the initial problem record in the system relevant to the services;
- Assigning priority;
- Verifying severity levels;
- Assignment of problems to fixer groups;
- Escalating problem severity based upon ageing;
- Feedback to problem reporter and management functions; and
- Updating problem records with status and resolution.

5.4.2.1.2 Problem management function

The Problem Management function within the outsourcer would be responsible for co-ordination of the problem management function in relation to the customer service. The function should ensure that the correct processes for the management of problems occurs, that feedback happens as per the agreed processes and that the service delivery functions apply appropriate focus and resource to resolving the problems within deadlines and targets.

The problem management function would also be responsible for monitoring trends and highlighting

potential up-coming problems based upon previous history and experience.

Where appropriate, the function should also co-ordinate post mortem reviews of major failures and ensure that follow-up actions are seen through to completion.

In addition the problem management function should:

- Ensure that all problems under the jurisdiction of the outsourcer are dealt with in a standard fashion both promptly and efficiently;
- Carry out proper analysis of the problem cause; and
- Provide notification to the customer of problem cause and sign-off.

5.4.2.1.3 Change management

The change management function within the outsourcer should provide change management. The purpose of the function is to manage and regulate the planning and implementation of changes in a controlled fashion.

The change management function would also be responsible for co-ordinating the proper scheduling of changes to minimise impact to services and for ensuring that the change requester has duly considered the risk aspects of the proposed changes. As such, the outsourcer change management function should police the customer's and the outsourcer's technical and operational change requirements to ensure that the service is not affected due to badly planned or implemented changes.

In the change process, the outsourcer change management function should also check for and identify changes, which should be processed as a change in scope. If encountered, the change management should refer such matters to the outsourcer account management function.

Activities that should be performed in the outsourcer change management function are:

- Log changes submitted by users relevant to the service;
- Ensure that full details of the change are provided;
- Review and co-ordinate the scheduling of change implementations;
- Resolve (with the outsourcer and the customer teams) change conflicts;
- Risk and impact analysis;
- Review the back-out provisions in the change plan;
- Gain management approval for the change to proceed;
- Review implemented changes for successful completion;
- Update change records; and
- Where appropriate, perform a post implementation review.

As far as it is possible the outsourcer change management function should review the technical feasibility of proposed changes – however, the

responsibility for the proper technical evaluation of a change remains the responsibility of the change requester and the operational, technical or user management.

5.4.2.1.4 Service reporting

The service reporting function within the outsourcer should provide the activities for the consolidation and production of the periodic service performance.

The outsourcer's customer services manager should own these reports (in regard to accuracy and quality).

The service reporting function should:

- Gather data;
- Analyse the data to ensure proper quality of information;
- Format reports; and
- Produce and distribute reports to the agreed schedule.

5.4.3 Scenario planning

Because scenario planning can be an expensive and complex undertaking, this component of the outsourced offshore information processing for the Japanese finance sector multinationals model ("SG model") is only recommended for relationships that are large and have significant ability to impact on the customer.

Scenario planning should be done jointly by the customer and outsourcer and should consider possible future scenarios and try to understand the potential

implications to the relationship. In doing this, both parties should be able to operate in a neutral environment and build trust and understanding necessary for the ongoing relationship.

Quinn (2000:19) suggests that the core of successfully managing outsourced innovation is an exciting vision that inspires internal and external people to work together with energy. Such visions are essential in outsourcing because daily line contact is impossible and technical people feel free to jump to where ever the action and rewards look most exciting.

5.4.4 Well-defined business objectives

The next step in the SG model is well-defined business objectives. This is the first thing customers' should do when they enter into an outsourcing relationship: align their outsourcing contracts with their business objectives. Section 4.5.3.7 details (question 4 and question 5) the requirement for training on and alignment of business goals. To do this, the customer must identify its business objectives and then break them down into meaningful process objectives that pertain to the services the outsourcer is providing. Customers should start with general objectives, move to process objectives, and then set specific parameters for these objectives. An example of a business objective is to reduce the cycle time from policy conclusion to policy document shipment by 5%.

5.4.5 Innovation creation

The next step is innovation creation. Innovation can be seen as synonymous to the embracing and

championing of change (refer to section 4.5.3.6). True innovation is complex and tumultuous – full of spurts, frustrations and sudden insights.

The first principle of innovation creation is that it is a responsibility of both the customer's internal staff and that of the outsourcer. The customer must be free to suggest changes in the outsourcer's infrastructure and cost basis. Likewise, the outsourcer must be able to make suggestions and create initiatives that affect the customer's infrastructure. Too often, however, customers insist on specifying what process should be used (the how) rather than focusing on the desired result (the what) (Quinn, 2000:21).

For initiative creation to work well, the two parties must share both cost and performance information. This information must be accurate and at a detailed level. The customer must share its information about the infrastructure in which the outsourcer is operating, and the outsourcer must provide insight into its cost-drivers and cost basis. The outsourcer may be hesitant because this would allow the customer to understand the outsourcer's profit. The customer should therefore not abuse this trust.

In the SG model, there are three types of innovation creation: (1) in the scope of the contract; (2) out of the scope of the contract; and (3) new revenue opportunities. The customer should evaluate each of these separately.

5.4.5.1 In scope

In the “in scope” part of the contract, the outsourcer is evaluated on how enthusiastically it contributes to the initiative creation process, the number of quality ideas, and our willingness to implement the initiatives generated by both sides, including initiatives that affect its own cost basis.

There is a natural incentive for the outsourcer to participate in the “in scope initiative process” — it could provide a vehicle for the outsourcer to expand its revenue to form a greater part of the process under consideration. For example, if the outsourcer has a data centre, it may be natural to expand into the network of the customer if it can add value or lower cost by integrating the two services. If the outsourcer is adding value across the board, expanding its role could increase that value.

5.4.5.2 Out of scope

In the “out of scope” initiative role, the outsourcer should make suggestions and these suggestions should be recorded and dated. The customer should require a target number of suggestions and evaluate outsourcer on the number and quality of suggestions it provides.

The outsourcer's incentive to provide suggestions is the possibility of expanding into new revenue opportunities. Adopted initiatives should be modelled and measured to understand any savings or improvement in performance. The mechanism for sharing some of this value with the outsourcer is

discussed later under "Evaluation of rewards and penalties."

Any sharing of savings needs to be customised to the specific customer situation and should consider the following variables:

- The origin of the idea or initiative;
- The impact of the supplier's participation;
- The suppliers "at risk" investment (investment that is not guaranteed a return); and
- The success of the project in generating measurable value.

In this way, the outsourcer is allowed to make superior profits based on worthwhile initiatives it generates or participates in. If there is a role for the outsourcer to participate in the initiative in which this performance improvement is generated, then the customer should seriously consider allowing the outsourcer to increase its revenues and provide these services. The customer must commit to seriously evaluating each suggestion at a senior level and providing meaningful feedback to the outsourcer on the quality of the suggestion and customer's intent to act on it. Customers should also be evaluating suggestions from its own employees.

5.4.5.3 New revenue initiative

The new revenue initiative component of the SG model may not be appropriate for all companies. However, the outsourcer can often bring new business and revenue to their customers through purchasing

products themselves, introducing new customers, or joint bidding on new projects or other mechanisms. In these cases, it makes sense for the customer to objectively evaluate the contribution the outsourcer is making to the customer and find ways to encourage this type of value creation.

There are two obvious ways to encourage this type of participation. First, pay a commission or finders fee to the outsourcer. However, this can often lead to problems with the internal sales force and a misunderstanding between the outsourcer and the customer. An alternative mechanism is to include the ranking in the overall evaluation of the outsourcer. If the outsourcer is deemed to be adding value in comparison to other vendors, then the customer should give preference to the outsourcer for new work or expanding the relationship.

5.4.6 Performance parameters

The next step in the SG model is performance parameters. In the traditional model, parameters are often hard to understand. In particular, the connection of service levels with business issues is usually obscure. Quinn (2000:23) states that it is important that both parties agree on specific performance targets that are fair, few in number, easy to understand and readily usable by people doing the work.

Therefore, there should be a new structure that consists of two types of performance parameters: a business-oriented parameter and a commodity-specific or technical parameter called a diagnostic parameter.

Both service levels and financial targets are parameters. One is a financial measurement and the other is a performance measurement. Both are best understood in terms of how they impact the business process.

These parameters alone are not indicators of business performance, although in many cases they might affect the business. When establishing business parameters, both parties usually have a significant influence over their performance. However, at the diagnostic level, only one party usually influences the parameter. Both business and diagnostic parameters are required in outsourcing relationships.

When the interval of measurement is compressed to daily or hourly, both outsourcer and customer can act in a proactive manner to make adjustments before the service has substantially impacted business performance. A proactive parameter allows both parties to get out ahead of problems and integrate their respective efforts. Immediate sharing of information facilitates a much closer relationship between the respective parties and a focus on problem resolution rather than on retribution. An environment that includes proactive parameters is clearly superior to one with only forensic parameters. However, this does not come without a price.

Proactive parameters require constant monitoring. An environment with numerous parameters that are manually monitored can pose a real drain on resources.

Most outsourcing relationships have a few diagnostic/forensic parameters and no proactive or business parameters. Unfortunately, inappropriate parameters result in not enough of the right service level attributes being measured. When only diagnostic parameters are used, it focuses the outsourcer purely on performing the commodity services, while leaving the true value unmeasured and usually ignored. A relationship that only focuses on commodities and their performance is usually a win-lose relationship with the customer seeking a price reduction at the expense of supplier profits or contract extensions at above-market rates. It is only when business objectives are met that additional value is created and both parties can win.

Commodities that the outsourcer controls should have three types of measurement points: target, minimum and unacceptable.

5.4.6.1 Target

The customer should set and negotiate the targets with the outsourcer and be able to change them at any time to reflect their business priorities. Customer's should evaluate the outsourcer on how close it comes to these targets, the progress or improvement it makes in its efforts to meet them, and the consistency of its results. An example of a common target in manufacturing circles is "zero defects." It is obviously impossible to meet such a target; however, it is important that the outsourcer attempts this goal and records its success.

Targets should reflect real business goals and priorities and not be used as a mechanism to meaninglessly continue to raise the bar on the outsourcer.

5.4.6.2 Minimum

The minimum acceptable measure point is the negotiated level at which consequences occur if a service or quality falls below that threshold. A good technique is for the consequences to get progressively more serious as the quality or performance drops below the minimum measure point. Usually the consequences take the form of a financial penalty that increases in size with the severity and the persistence or frequency of the problem.

5.4.6.3 Unacceptable

The unacceptable threshold is the point at which the contract is in material breach. At this point, customer could terminate the relationship without recourse or termination penalties.

Historically, there has been a "cure period" attached to these thresholds. In complex relationships where there are numerous services, a formula is put in place to handle these occurrences.

At its heart, the formula penalises the supplier in increasing measure for poor performance. Multipliers are put in effect for sustained recurring problems with an established point at which a sustained poor performance could result in material breach and the customer will have the ability to terminate for cause.

5.4.7 Internal benchmarking

There are four major components to the internal benchmark:

- Cost of the process and service that are included in it;
- Performance of the process and service;
- Outsourcer initiatives; and
- The impact the initiatives make on the business objective.

Before benchmarking can be accomplished, the business process and services must be defined and modelled to allow for change and continuous improvement. The SG model should then be updated as change occurs. The total cost of the process, as well as the cost of the component's commodities and activities, should be recorded. All the process and diagnostic performance parameters should also be recorded at least once a month.

The key to effective benchmarking is for the customer to realise that they must measure their own processes as well as outsourcer's performance. This measurement must be conducted in an objective and systematic fashion.

5.4.8 Results evaluation

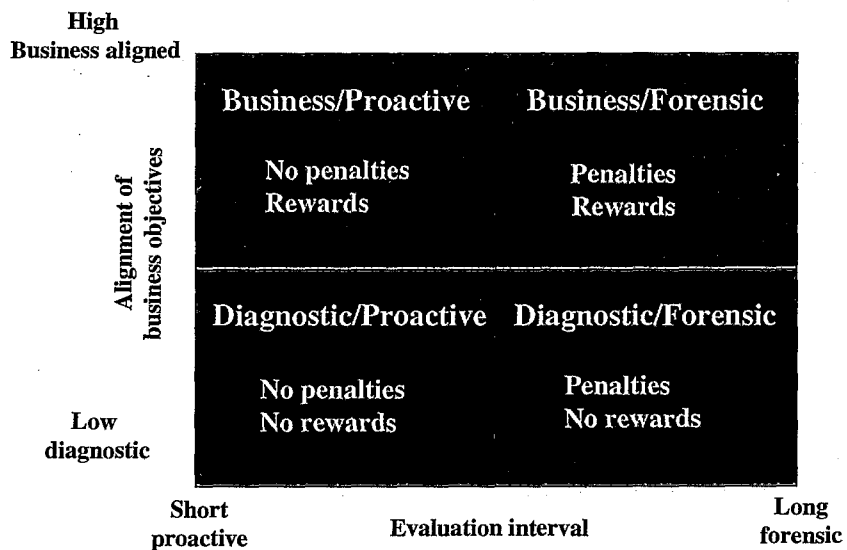
Evaluating outsourcer rewards and penalties are the area's most overlooked and the most unsatisfactory part of most outsourcing relationships. Currently in Asia, this commitment is usually deferred until after

contract negotiations and results in few, if any, meaningful penalties as well as an inferior reward structure.

Alternatively, the customer talks about meaningful rewards but is loath to agree to provide meaningful incentives to the outsourcer.

The key to this process is for both parties to be able to objectively assess the customer's progress in meeting its business objectives and the outsourcer's performance in meeting its targets. There must also be a mechanism to establish and reinforce joint motivation toward the accomplishment of customer's business objectives. In particular, the customer should want to ensure that they establish and maintain a process of continued improvement. Figure 5.2 describes the SG model approach to rewards and penalties.

Figure 5.2: SG Model approach to rewards and penalties



5.4.8.1 Rewards and penalties

An outsourcer should be held accountable for the performance of commodities or services it controls. The inverse is also true — for services that are not under the supplier's control, there should be no penalty.

Where a win-win relationship is desired, rewards are an important tool. Rewards should be a sharing of value creation between the customer and outsourcer. By definition, value can only be created at the business objective level. Therefore, rewards should not be applied at the diagnostic level. In many cases,

the supplier will not have full control over the business-oriented parameters that are a result of the entire supply chain succeeding. Sharing value can be difficult.

The partners objectively and fairly measure and share value in these situations. It is our belief that value sharing can only succeed in the short run because competitors will catch up with supply chain over time. In effect, value is always being moved through the supply chain towards the end customer.

5.4.8.2 External benchmarking

All companies do external benchmarking — at least informally. It may be nothing more than an executive reading the Wall Street Journal about another company's success—companies are constantly comparing themselves to other organisations. However, a formal external benchmarking process is extremely valuable, particularly in an outsourcing relationship. Formal external benchmarking provides a comparison of commodity pricing and performance and is a useful point of reference in setting fair and obtainable business objectives.

Generally, there are three types of external benchmarking. The first is comparison against the standard. This is quite common in the data processing industry. The second is process benchmarking, which requires that the whole process be mapped and compared. This is much more expensive and difficult. Finally, there is best of breed in which best of breed techniques are compared across industries. The most common benchmark and the easiest to gain is the

comparison against standard, particularly for commodity services such as data centre and desktop.

5.5 Recommendations

In summary, the outsourcing industry has found that the key to a successful business relationship between customer and outsourcer is the ability to establish trust built on meaningful management parameters. A customer should ask themselves two questions:

1. Is the outsourcer capable of adding value other than providing a commodity at a low price?
2. Does the customer wish to share value creation with the outsourcer?

If the answer to either of these questions is 'no,' then the customer should look at a relationship in which tight performance and cost parameters are put in place and monitored on a continuous basis with a short contract duration. The customer should expect to constantly renegotiate these relationships.

If the answer is yes, then a more strategic model, such as the SG model, is called for in which the customer implements objective parameters both at the diagnostic and business level and agrees to share, on a temporary basis, any increasing value that can be created by the outsourcer and can objectively be measured.

5.6 Critical evaluation of the study

5.6.1 Primary objective

The development of the offshore information processing model has been based on a literature study, limited empirical research and various interviews.

The SG model is currently a theoretical concept and will need to be refined in practice. Thus this objective has been met.

5.6.2 Secondary objectives

The limitation of international offshore information processing case studies made a full analysis of best practices and lessons to be learnt challenging. The topic of deregulation in Japan, though of importance in terms of the reasons for the study, is, however, a wide and all encompassing topic. This made it difficult to incorporate in a brief manner.

Thus the study met the objectives of defining multinational inclination toward outsourcing, and what factors and best practices would result in a successful offshore outsourcing model.

However due to the all-encompassing nature of deregulation in Japan – the objectives relating to deregulation weren't fully met.

5.7 Recommendations for further study

➤ Offshore application (development and maintenance) outsourcing deserves further study, as the drivers, management techniques and services are different.

➤ Internet sourcing and outsourcing is a growing phenomenon in our global economy. Notably this requires a form of virtual management. Virtual sourcing models and techniques should be further explored.

5.8 Summary

Outsourcing strategies have changed from one of doing the deal to one managing the relationship. This is notably made more complex through offshore outsourcing as a result of cultural, economic and distance issues.

To support these the dynamic manager needs to retool their management systems to keep pace. This study represents the principle for doing this and offers a clear offshore information processing model ("SG model"), for success.

Outsourcing is no more difficult than any other management activity, but it is different and does demand new thinking and new skills (Corbett, 1998).

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Appendix 1: OFFSHORE OUTSOURCING SURVEY



QUALITY ASSURED FIRM



WE HAVE COMMISSIONED A SURVEY OF OUR CUSTOMERS, AND POTENTIAL CUSTOMERS, IN THE ASIA/PACIFIC REGION. THE OBJECTIVE OF THE STUDY IS TO BUILD A SERVICE TO SUPPORT OFFSHORE INFORMATION PROCESSING NEEDS, SPECIFICALLY FOR THE JAPANESE MARKET. YOUR RESPONSE WILL BE TREATED IN COMPLETE CONFIDENCE UNLESS YOU INDICATE OTHERWISE. HOWEVER, TO ENSURE THAT RECORDS ARE CORRECT, WE ASK YOU TO PROVIDE US WITH YOUR COMPANY DETAILS.
THANK YOU FOR AGREEING TO COMPLETE THIS QUESTIONNAIRE.

Name:

Title :

Company:

Date:

Please note that within this questionnaire "Sema" refers to Sema Group in Asia

1. Do you currently utilise offshore information processing services?

Yes ☐

No ☐

2. If yes, how long have you worked with an offshore partner? ____ years

3. For what reasons would you consider offshore processing services? Select at least two of the below.

Reason

Access to new technologies ☐

Cost ☐

Service ☐

Access to a wider skill pool ☐

Natural disasters (i.e. earthquake) ☐

Access to best practices ☐

4. What would you elect to outsource?

Outsourcing service

Mainframe operations ☐

Application development and maintenance ☐

Network ☐

Desktop ☐

Mid-range (i.e. Unix) ☐

Printing and enveloping ☐



Key:	1 = Must have	2 = Requirement	3 = Partial requirement
	4 = Could be required	5 = Not required	6 = Not applicable

Outsourcing relationship structure principles

5. Please rate the ten principles for outsourcing relationship structure.

	1	2	3	4	5	6
1. Use of analysis tools	☐	☐	☐	☐	☐	☐
2. Create a basis for long-term growth	☐	☐	☐	☐	☐	☐
3. Capture "intent" not just "terms"	☐	☐	☐	☐	☐	☐
4. Manage expectations carefully	☐	☐	☐	☐	☐	☐
5. Define the "scorecard" in advance	☐	☐	☐	☐	☐	☐
6. Differentiate the "client" from the "customer"	☐	☐	☐	☐	☐	☐
7. Match pricing to goals and culture	☐	☐	☐	☐	☐	☐
8. Match contract terms to goals and culture	☐	☐	☐	☐	☐	☐
9. Use incentives to promote change	☐	☐	☐	☐	☐	☐
10. Define the management structure in advance.	☐	☐	☐	☐	☐	☐



Key:	1 = Must have	2 = Requirement	3 = Partial requirement
	4 = Could be required	5 = Not required	6 = Not applicable

Outsourcing management structure principles

6. Please rate the ten principles for outsourcing management structure.

	1	2	3	4	5	6
1. Keep the strategic responsibility close to top	☐	☐	☐	☐	☐	☐
2. Build multilevel organisational links	☐	☐	☐	☐	☐	☐
3. Conduct regular, goal-orientated meetings	☐	☐	☐	☐	☐	☐
4. Use latest communication tools	☐	☐	☐	☐	☐	☐
5. Define escalation process	☐	☐	☐	☐	☐	☐
6. Use the scorecard for performance reviews	☐	☐	☐	☐	☐	☐
7. Apply incentives and penalties	☐	☐	☐	☐	☐	☐
8. Reward provider's employees	☐	☐	☐	☐	☐	☐
9. Implement a change management process	☐	☐	☐	☐	☐	☐
10. Manage the relationship as a strategic asset	☐	☐	☐	☐	☐	☐



Key:	1 = Must have	2 = Requirement	3 = Partial requirement
	4 = Could be required	5 = Not required	6 = Not applicable

Outsourcing leadership skills principles

7. Please rate the ten principles for outsourcing leadership skills.

	1	2	3	4	5	6
1. Embrace and champion change	☐	☐	☐	☐	☐	☐
2. Earned credibility across organisation	☐	☐	☐	☐	☐	☐
3. Desire to manage, not to do	☐	☐	☐	☐	☐	☐
4. Ability to build trust	☐	☐	☐	☐	☐	☐
5. Strong communication skills	☐	☐	☐	☐	☐	☐
6. Strong negotiation skills	☐	☐	☐	☐	☐	☐
7. Strategic planning skills	☐	☐	☐	☐	☐	☐
8. Project management skills	☐	☐	☐	☐	☐	☐
9. Marketing skills	☐	☐	☐	☐	☐	☐
10. Process expertise	☐	☐	☐	☐	☐	☐



Key:	1 = Must have	2 = Requirement	3 = Partial requirement
	4 = Could be required	5 = Not required	6 = Not applicable

Seven best outsourcing practices

8. Please rate the seven best practices for offshore outsourcing.

	1	2	3	4	5	6
1. Objective performance criteria are negotiated, measured, and reviewed	☐	☐	☐	☐	☐	☐
2. A formal relationship management structure exists	☐	☐	☐	☐	☐	☐
3. Performance-based pricing	☐	☐	☐	☐	☐	☐
4. Internal training and communications on business goals and relationship management	☐	☐	☐	☐	☐	☐
5. Vendor training on customer's business environment and goals	☐	☐	☐	☐	☐	☐
6. Cultural normalisation	☐	☐	☐	☐	☐	☐
7. Ongoing exchange of knowledge and expertise	☐	☐	☐	☐	☐	☐



Key:	1 = Must have	2 = Requirement	3 = Partial requirement
	4 = Could be required	5 = Not required	6 = Not applicable

The outsourcing customer interface

9. Please rate aspects of the customer interface requirement in the following areas:

	1	2	3	4	5	6
1. Professionalism	☐	☐	☐	☐	☐	☐
2. Competence of staff	☐	☐	☐	☐	☐	☐
3. Understanding your business	☐	☐	☐	☐	☐	☐
4. Keeping you informed of progress	☐	☐	☐	☐	☐	☐
5. Handling requests for advice and general	☐	☐	☐	☐	☐	☐
6. Support	☐	☐	☐	☐	☐	☐
7. Urgent help and changes	☐	☐	☐	☐	☐	☐
8. Performance improvement	☐	☐	☐	☐	☐	☐
9. Documentation	☐	☐	☐	☐	☐	☐
10. Speed of response	☐	☐	☐	☐	☐	☐
11. Quality of service of account manager	☐	☐	☐	☐	☐	☐
12. Quality of service of customer services manager	☐	☐	☐	☐	☐	☐



10. If you have an outsourcing partner, how has your overall level of satisfaction your partner changed over the last twelve months ?

Greatly increased ☐ Decreased ☐

Increased ☐ Greatly decreased ☐

Same ☐ Not applicable ☐

11. In what specific areas are you planning to expand or develop over the next 9-12 months ?

Outsourcing activities ☐ Consultancy ☐

Call centre ☐ Disaster Recovery ☐

E-commerce ☐ New applications ☐

Systems Integration ☐ Others ☐

Details :

12. What are the fastest growing areas of your IT budget ?

Outsourcing activities ☐ Consultancy ☐

Call centre ☐ Disaster Recovery ☐

E-commerce ☐ New applications ☐

Systems Integration ☐ Others ☐

13. What are the slowest growing areas of your IT budget ?

Outsourcing activities ☐ Consultancy ☐

Call centre ☐ Disaster Recovery ☐

E-commerce ☐ New applications ☐

Systems Integration ☐ Others ☐

14. What do you see as the biggest challenge to you and your department over the next 6 to 12 months ? What specific actions are you planning to address that challenge ?

Thank you.



Sema Group

Sema Group (<http://www.semagroup.com>) (London Stock Exchange: SEM, Nasdaq: SEMA, Paris Bourse: 14151) is one of the world's leading information technology and business service companies with over 21,000 staff currently working across 160 sites worldwide. The Group's 1999 turnover was £1.41 billion, showing a 20 percent increase compared with 1998. Turnover has more than doubled over the past five years. Sema Group works across all the main sectors of the economy, especially in telecommunications, which is now its largest market following the merger with LHS Group Inc. in July 2000.

Its Asian presence started in Singapore in 1983, and Singapore is now the region's headquarters. Other regional offices are located in Malaysia, Hong Kong, Japan, Beijing, India and Taiwan.

Where appropriate, Sema Group has sought and established appropriate business relationships to create the necessary synergies to develop market and sales opportunities. These relationships have been forged in Malaysia, Thailand, Philippines and Sri Lanka.

Currently, there is a staff count of over 900 information technology professionals supporting the Group's Payment Systems products, Telecommunications products, Managed Cards Services, Systems Integration and Outsourcing Service Delivery to more than 100 customers in the region.

The Mission

To deliver competitive advantage to our customers through the use of high quality information technology systems, offer a challenging and rewarding career to our staff and a fair return to our shareholders.

Sema Group Pte Ltd

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version 02.1

1. Do you currently utilise offshore information processing services? **Yes** **No**

4	19
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2. If yes, how long have you worked with an offshore partner? **<1** **<3** **<5**

2	0	0
---	---	---

10. If you have an outsourcing partner, how has your overall level of satisfaction your partner changed over the last twelve months ?

Greatly increased Decreased

Increased Greatly decreased

Same Not applicable

11. In what specific areas are you planning to expand or develop over the next 9-12 months ?

Outsourcing activities Consultancy

Call centre Disaster Recovery

E-commerce New applications

Systems Integration Others

12. What are the fastest growing areas of your IT budget ?

Outsourcing activities Consultancy

Call centre Disaster Recovery

E-commerce New applications

Systems Integration Others

13. What are the slowest growing areas of your IT budget ?

Outsourcing activities Consultancy

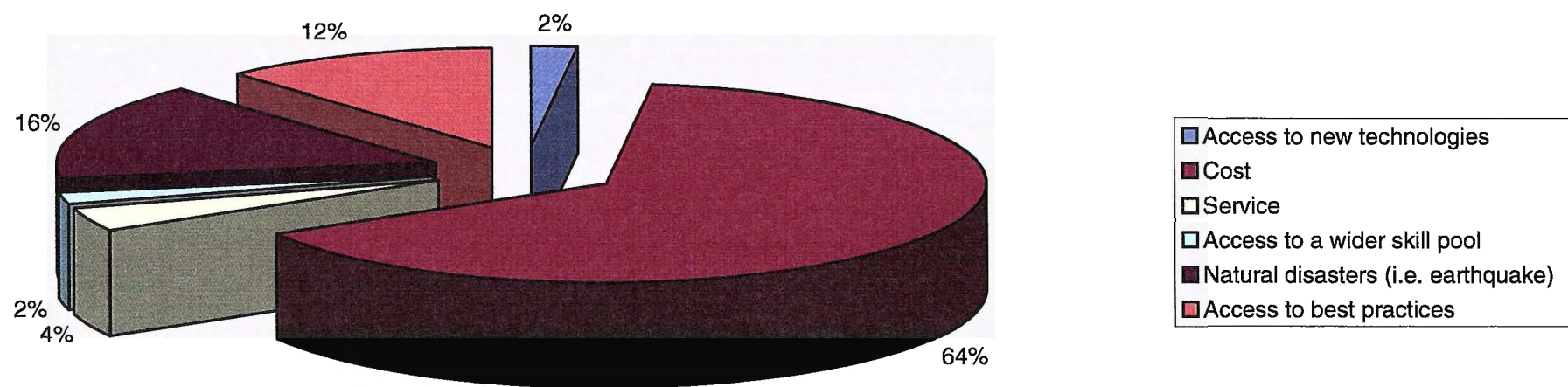
Call centre Disaster Recovery

E-commerce New applications

Systems Integration Others

14. What do you see as the biggest challenge to you and your department over the next 6 to 12 months ?

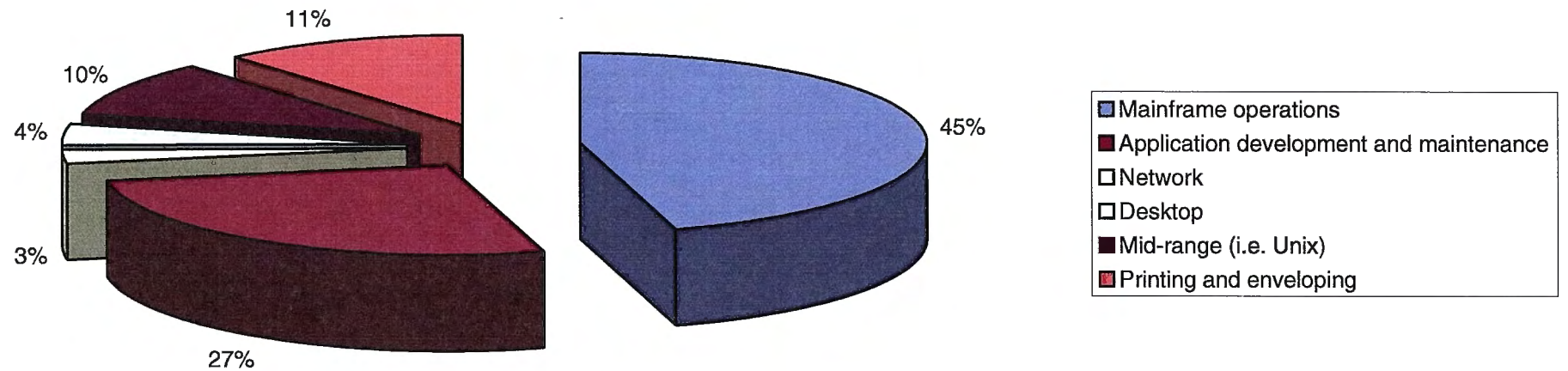
3. For what reasons would you consider offshore processing services?



3. For what reasons would you consider offshore processing services?

	Responden	%
Access to new technologies	1	1.96%
Cost	33	64.71%
Service	2	3.92%
Access to a wider skill pool	1	1.96%
Natural disasters (i.e. earthquake)	8	15.69%
Access to best practices	6	11.76%
Total:	51	

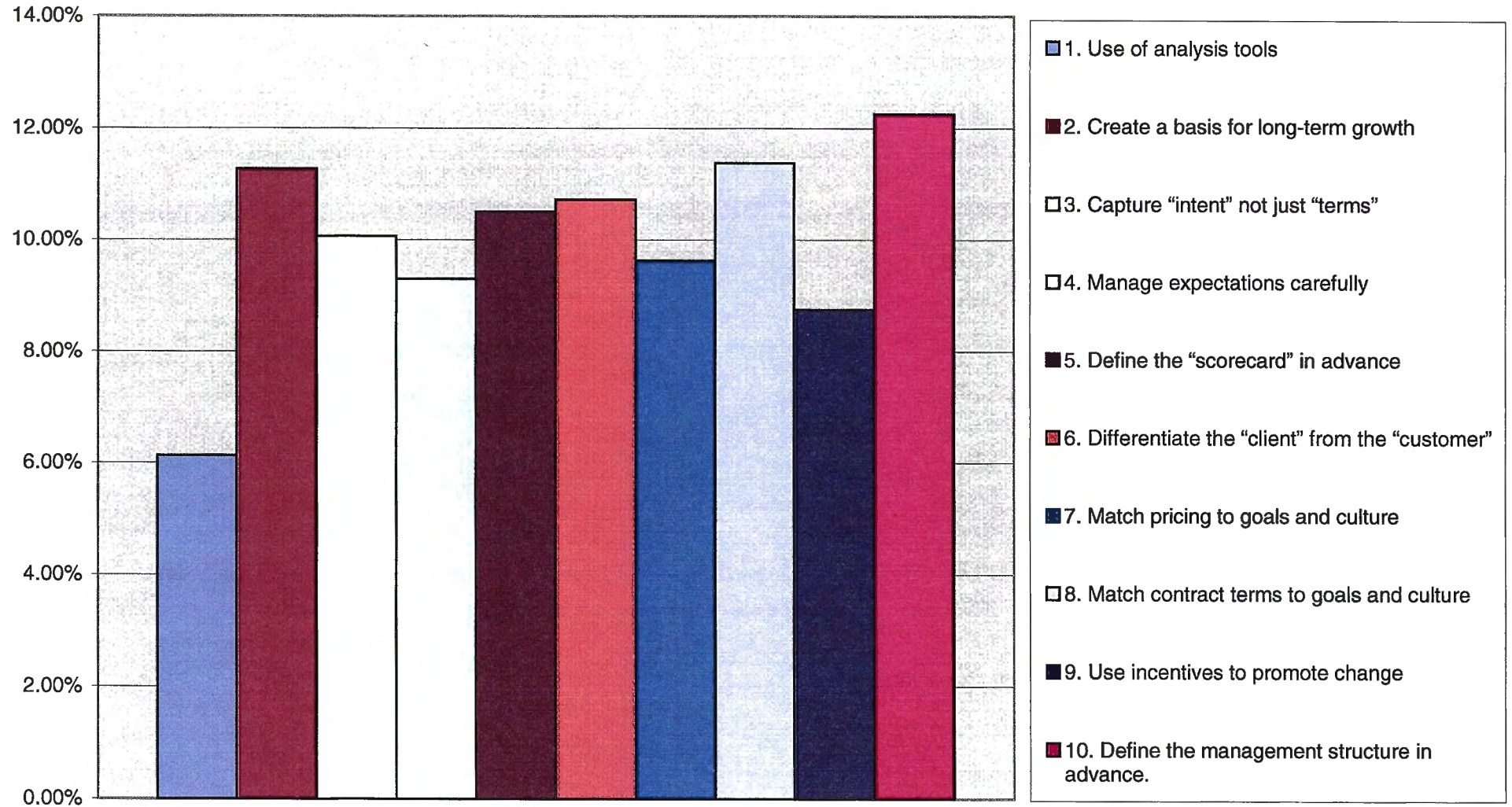
4. What would you elect to outsource?



4. What would you elect to outsource?

	Yes	%
Mainframe operations	36	45.57%
Application development and maintenance	21	26.58%
Network	2	2.53%
Desktop	3	3.80%
Mid-range (i.e. Unix)	8	10.13%
Printing and enveloping	9	11.39%
Total:	79	

Question 5



Appendix 2: Offshore outsourcing survey analysis

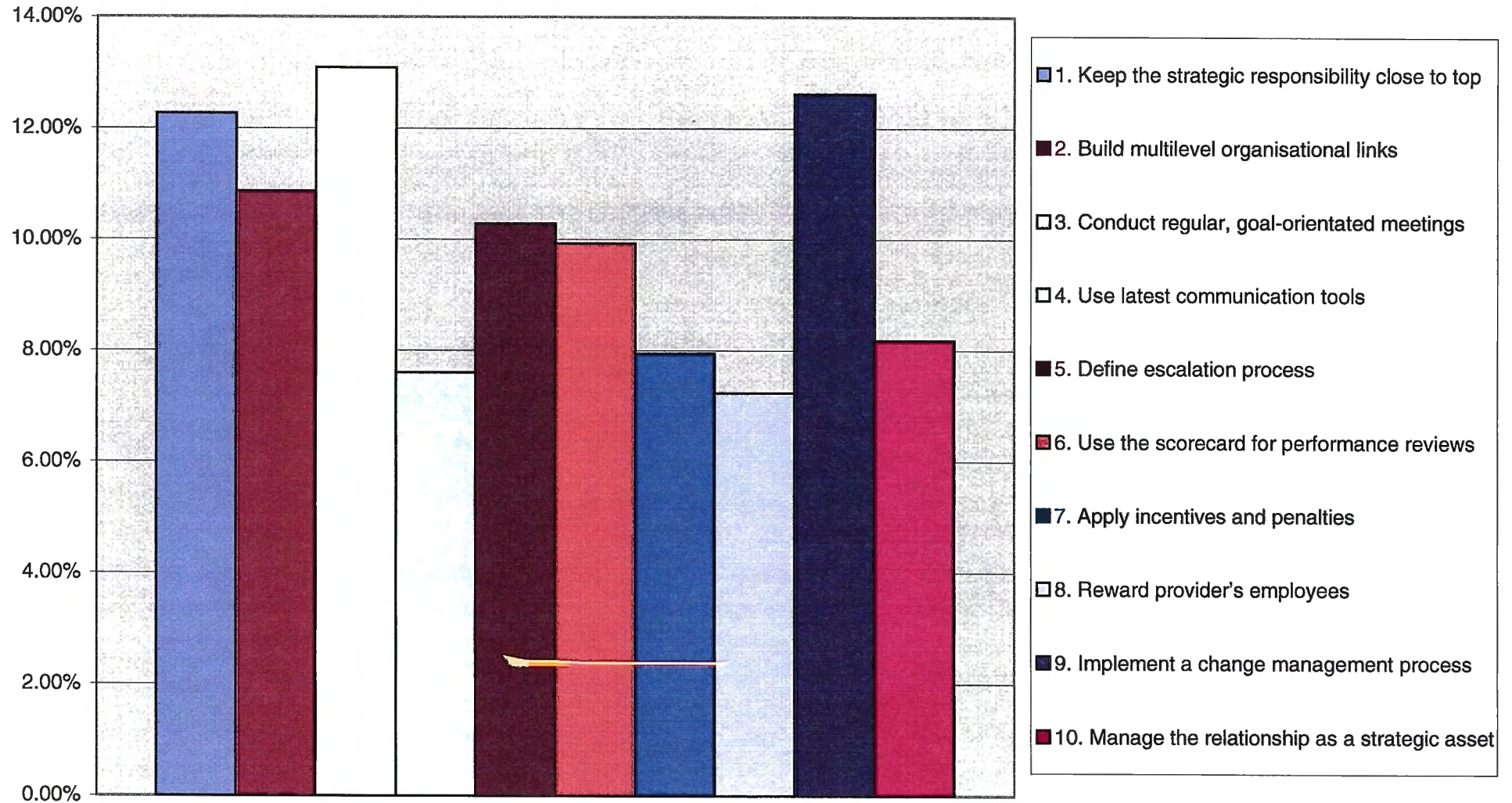
6 5 4 3 2 1 0

Outsourcing relationship structure principles

5. Please rate the ten principles for outsourcing relationship structure.

	1	2	3	4	5	6	Total	Weighted	Weighted %
1. Use of analysis tools		2	1	6	10	4	23	56	6.13%
2. Create a basis for long-term growth	2	13	4	2	2		23	103	11.27%
3. Capture “intent” not just “terms”	2	8	8	1	1	3	23	92	10.07%
4. Manage expectations carefully	3	4	7	4	2	3	23	85	9.30%
5. Define the “scorecard” in advance	2	6	11	2	2		23	96	10.50%
6. Differentiate the “client” from the “customer”	1	9	10	1	2		23	98	10.72%
7. Match pricing to goals and culture	1	6	10	3	0	3	23	88	9.63%
8. Match contract terms to goals and culture	4	12	3	1	2	1	23	104	11.38%
9. Use incentives to promote change	0	4	11	3	2	3	23	80	8.75%
10. Define the management structure in advance	6	11	4	1	1		23	112	12.25%
Total Weighted								914	

Question 6



Appendix 2: Offshore outsourcing survey analysis

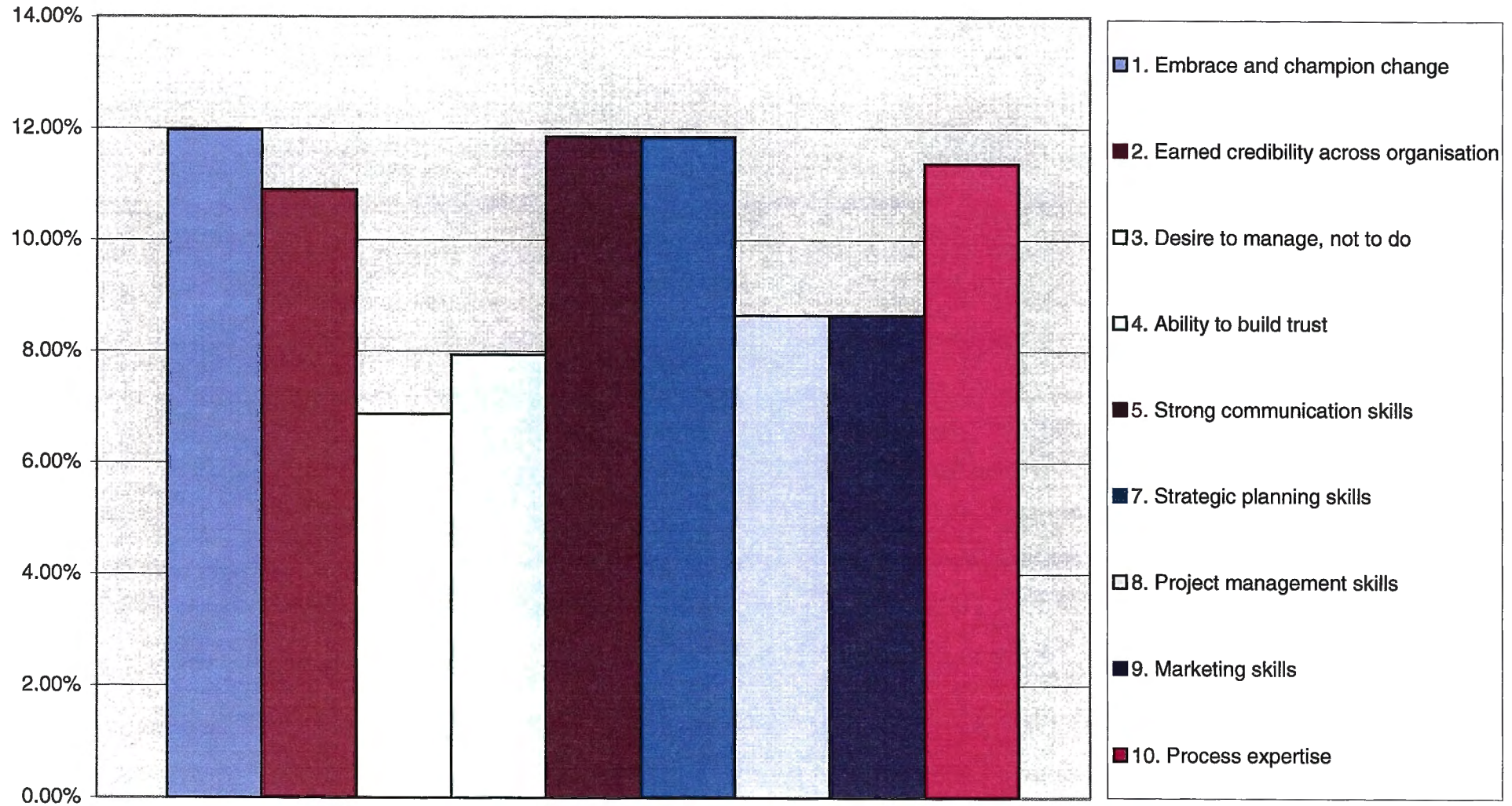
6 5 4 3 2 1 0

Outsourcing management structure principles

6. Please rate the ten principles for outsourcing management structure.

	1	2	3	4	5	6	Total	Weighted	Weighted %
1. Keep the strategic responsibility close to the client	4	12	3	2	1	1	23	105	12.27%
2. Build multilevel organisational links	2	9	4	5	2	1	23	93	10.86%
3. Conduct regular, goal-orientated meetings	6	10	5	2			23	112	13.08%
4. Use latest communication tools	0	1	9	3	5	5	23	65	7.59%
5. Define escalation process	1	6	9	3	3	1	23	88	10.28%
6. Use the scorecard for performance review	0	8	9	1	1	4	23	85	9.93%
7. Apply incentives and penalties	1	3	5	4	5	5	23	68	7.94%
8. Reward provider's employees	0	1	5	8	4	5	23	62	7.24%
9. Implement a change management process	5	9	7	1	1		23	108	12.62%
10. Manage the relationship as a strategic alliance	1	2	3	10	5	2	23	70	8.18%
Total Weighted								856	

Question 7



Appendix 2: Offshore outsourcing survey analysis

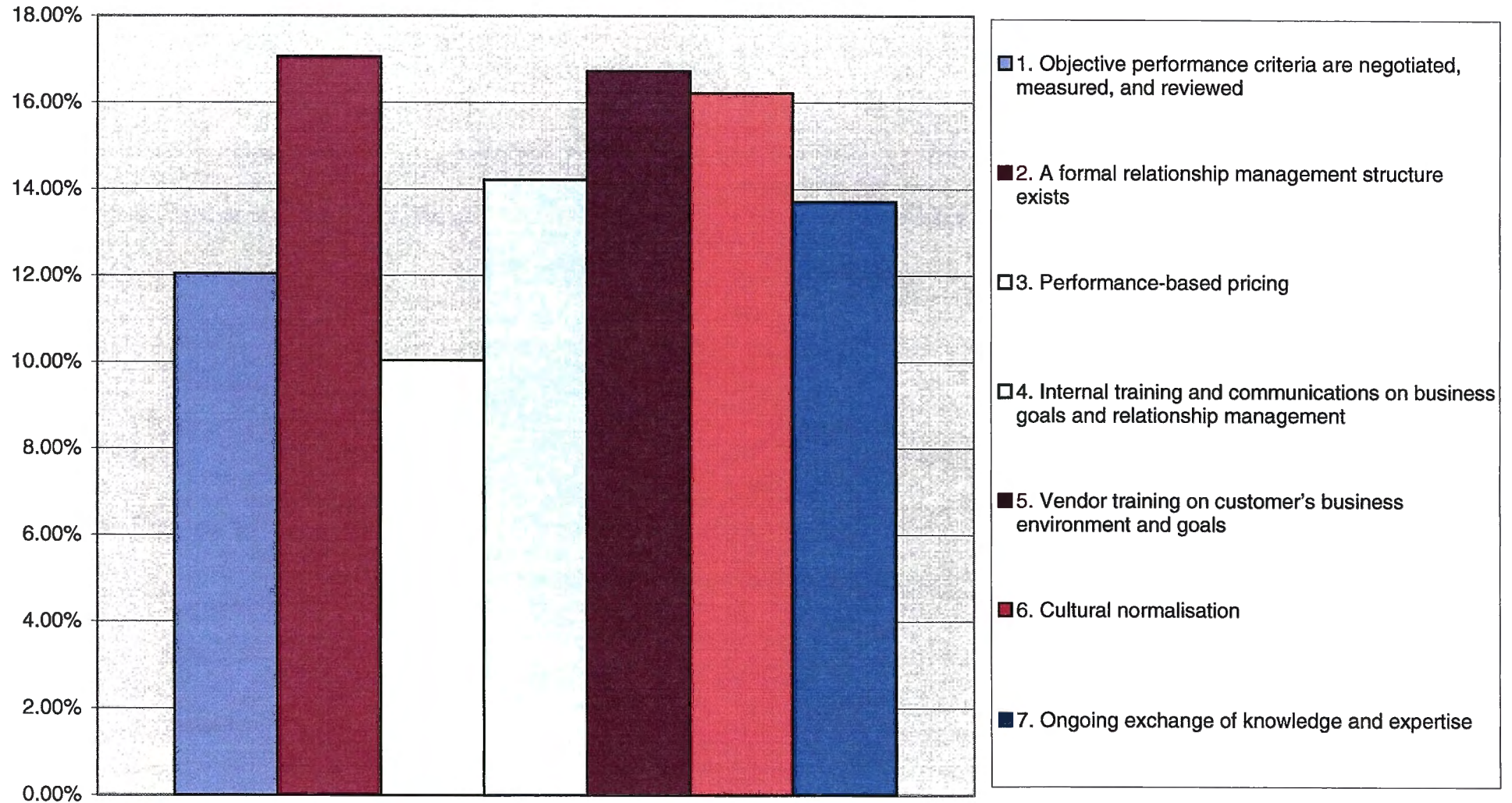
6 5 4 3 2 1 0

Outsourcing leadership skills principles

7. Please rate the ten principles for outsourcing leadership skills.

	1	2	3	4	5	6	Total	Weighted	Weighted %
1. Embrace and champion change	3	12	3	2	2	1	23	101	11.97%
2. Earned credibility across organisati	2	8	5	5	2	1	23	92	10.90%
3. Desire to manage, not to do	0	2	4	4	7	6	23	58	6.87%
4. Ability to build trust	0	1	9	4	5	4	23	67	7.94%
5. Strong communication skills	3	7	9	3	1	0	23	100	11.85%
6. Strong negotiation skills	0	8	9	0	2	4	23	84	9.95%
7. Strategic planning skills	3	10	5	3	1	1	23	100	11.85%
8. Project management skills	0	3	8	5	4	3	23	73	8.65%
9. Marketing skills	1	4	5	5	4	4	23	73	8.65%
10. Process expertise	2	9	6	4	1	1	23	96	11.37%
Total Weighted								844	

Question 8



Appendix 2: Offshore outsourcing survey analysis

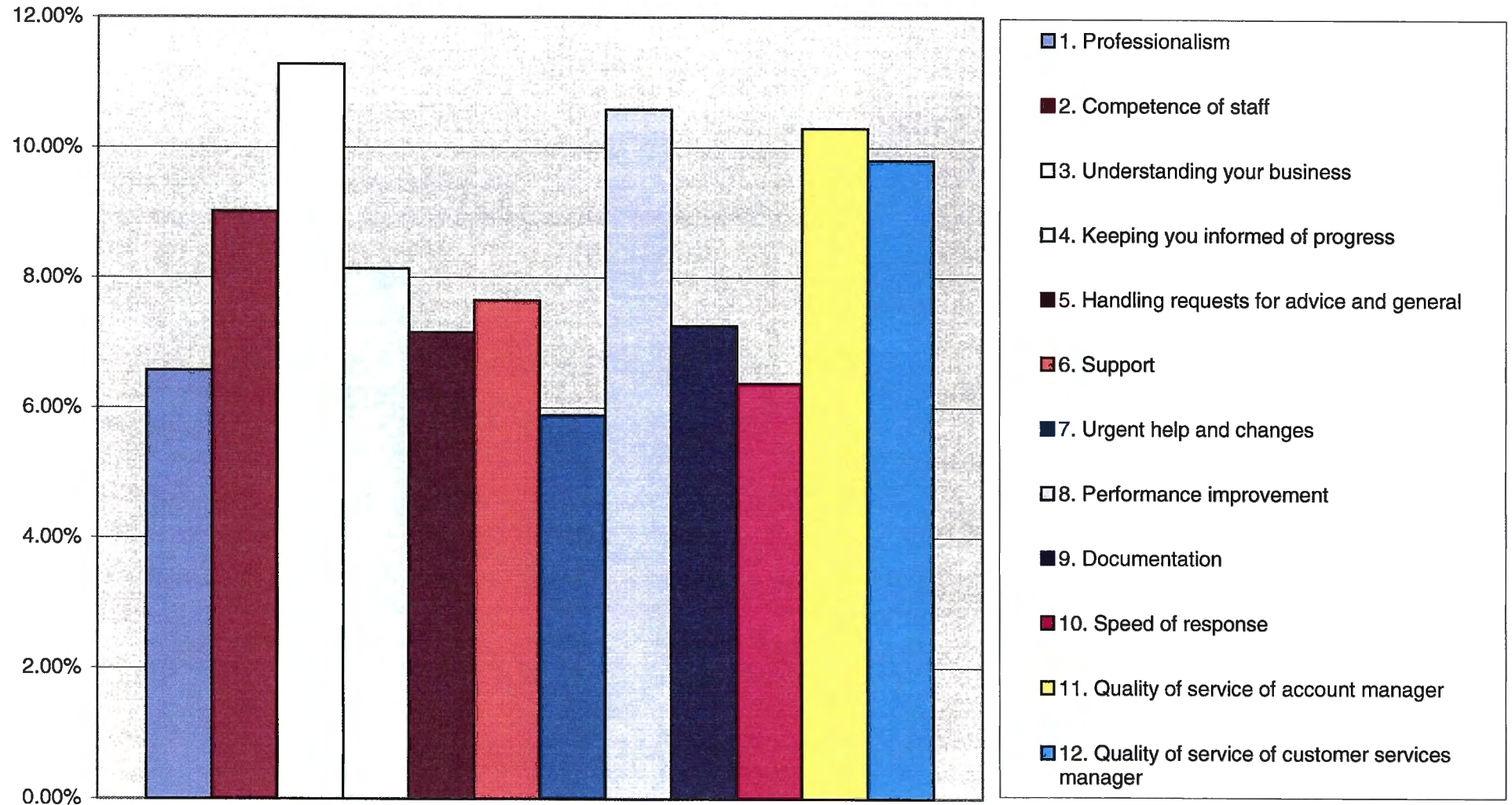
6 5 4 3 2 1 0

Seven best outsourcing practices

8. Please rate the seven best practices for offshore outsourcing.

	1	2	3	4	5	6	Total	Weighted	
								%	
1. Objective performance criteria are negotiated, mea	1	2	6	6	6	2	23	72	12.04%
2. A formal relationship management structure exists	4	9	4	5	1	0	23	102	17.06%
3. Performance-based pricing	0	1	4	8	5	5	23	60	10.03%
4. Internal training and communications on business	2	6	6	4	2	3	23	85	14.21%
5. Vendor training on customer's business environme	3	7	9	3	1	0	23	100	16.72%
6. Cultural normalisation	7	5	5	1	2	3	23	97	16.22%
7. Ongoing exchange of knowledge and expertise	1	4	9	4	3	2	23	82	13.71%
Total Weighted								598	

Question 9



Appendix 2: Offshore outsourcing survey analysis

6 5 4 3 2 1 0

The outsourcing customer interface

9. Please rate aspects of the customer interface requirement in the following areas:

	1	2	3	4	5	6	Total	Weighted	%
1. Professionalism	0	1	7	7	5	3	23	67	6.57%
2. Competence of staff	4	4	6	7	1	1	23	92	9.02%
3. Understanding your business	11	7	2	1	1	1	23	115	11.27%
4. Keeping you informed of progress	2	4	6	7	2	2	23	83	8.14%
5. Handling requests for advice and general	1	1	7	8	4	2	23	73	7.16%
6. Support	1	3	6	9	2	2	23	78	7.65%
7. Urgent help and changes	0	1	4	7	7	4	23	60	5.88%
8. Performance improvement	10	5	5	0	0	3	23	108	10.59%
9. Documentation	0	3	7	7	4	2	23	74	7.25%
10. Speed of response	0	2	5	6	7	3	23	65	6.37%
11. Quality of service of account manager	7	5	7	3	0	1	23	105	10.29%
12. Quality of service of customer services manager	6	4	7	5	0	1	23	100	9.80%
Total Weighted								1020	

10. If you have an outsourcing partner, how has your overall level of satisfaction your partner changed over the last twelve months ?

Greatly increased Decreased

Increased Greatly decreased

Same Not applicable

11. In what specific areas are you planning to expand or develop over the next 9-12 months ?

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