

**A KNOWLEDGE TRANSFER MODEL ON INFORMATION TECHNOLOGY  
OUTSOURCING**



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## **5. Report**

### **5.1 Executive Summary**

In general terms, outsourcing is a process of contracting out any business processes to outside organization. In Information Technology, outsourcing is contracting out any Information Technology activities or functions such as managing IT infrastructure, software development and software maintenance and support to outside vendors. Nowadays, IT outsourcing could bring many business opportunities to the business company. The main benefits that could be obtained from IT outsourcing are cost reduction and the organization may focus on their core business activities. Knowledge transfer is an important aspect in IT outsourcing. Knowledge transfer in IT outsourcing means the organization could get any new knowledge, for example the technical skills in software development or business skills and strategy from the external vendors during outsourcing activities. As knowledge is very important and crucial for every organization, it is important for the knowledge to be successfully transferred from outsourcing vendor to the outsourcing client. Knowledge sharing within organization can help to increase job performance and productivity. However, it is found that there is no specific knowledge transfer model for IT outsourcing in Malaysia context as this model can give a guideline to the companies in Malaysia, to indicate the most important factors for a successful IT outsourcing knowledge transfer. As consequences, IT outsourcing is not achieve its objective as the acquisition of valuable knowledge during the activities does not occur thus, did not gain anything during outsourcing activities. Therefore, this research is

aimed to achieve two objectives. The first objective is to identify the factors influencing knowledge transfer in Information Technology outsourcing (ITO) and the second objective is to develop a knowledge transfer model for ITO in Malaysia. The identification of factors influencing the knowledge transfer in ITO is done through literature study. Then, data collection is conducted through distributing the questionnaires to the companies who involved in IT outsourcing. The purpose of data collection is to identify the significant factors that may lead to knowledge transfer during ITO. To identify that, the collected data is analyzed using SPSS tool and the results are used develop a knowledge transfer model in ITO. All the factors that were identified for this study has been tested and showed that quality content and accuracy of knowledge to be transferred, distribution capacity of knowledge provider, knowledge receiver's perceived benefit and knowledge infrastructures or enablers such as sharing culture, ICT infrastructure, staff posting, trust and job satisfaction were perceived as important in determining the success of knowledge transfer during an ITO.



## 5.2 Introduction

IT outsourcing has become a trend among organization nowadays. Many organizations involve in outsourcing activities because they believe that certain business functions can be done effectively by an outside vendor. Generally, outsourcing refers to procurement of goods or services from an outside vendor (Lankford and Parsa, 1999). Kishore et al. (2003) defined IT outsourcing as “the contracting of various information systems functions such as managing of data centers, operations, hardware support, software maintenance, network, and even application development to outside service providers”.

According to Taylor(2005), IT outsourcing becomes popular due to many organizations have been forced to control their in-house IT operational cost and at the same time they feel the need to have high quality information systems that made them to consider IT outsourcing activities. In this context, a company can hire outside organization that has the specialize skills to provide IT outsourcing services to them if they do not want to use their internal resources to build or operate the IT or IS functions. Other than that, as difficulties in managing IT are arise, thus it become the reason for top management to hand over the job to someone outside the organization. If organization manages their IT outsourcing properly, they could reduce their operational cost significantly, they be able to transform fixed costs into variable costs, able to focus on core competencies and also have access to industry leading external competencies and expertise (Hoecht and Trott, 2006). In Malaysia, IT outsourcing has attracted at least RM11.4 billion (USD3 billion) of the global outsourcing business that is projected to be worth RM1.9 trillion (USD500 billion) by 2008 (Husnayati et al., 2006). The involvement includes from the private sector and also Malaysian government agencies.

IT outsourcing is also aimed to receive knowledge from the service provider as knowledge is one of the key asset in any organizations. When the knowledge is successfully transfer during IT outsourcing activities and being used effectively, the organization will gain a competitive advantage to compete in the business world. Knowledge transfer in IT outsourcing is very important as the objective of involving in IT outsourcing is for organization to gain access to external competencies and expertise aside the reduction of cost and focus on organization's core competencies. Thus, this organization must ensure that effective knowledge transfers exist during their IT outsourcing process and they achieve their main objective by involving in it.

In Malaysia, there are lack of researches conducted to investigate IT outsourcing in Malaysia context (Husnayati, Zuraini, Mohd Adam and Noor Shahriza, 2006). Furthermore, there is little research conducted on investigating the factors that influencing knowledge transfer in IT outsourcing (Azlinah et al., 2009).