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## Research Article Electronic Government Outsourcing Issues in Malaysia

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## Abstract

In today's knowledge-driven economy, information and communication technologies (ICTs) are major enablers in all sectors particularly in government departments. Furthermore, it is infinitely acknowledged that information is power, thus, in keeping up with the ICT evolution, the transformation to egovernment has continued to be Malaysia's main agenda for economic resilience, capacity building and social capital integration. However, not all government agencies are able to offer the core e-government services to the public as cost, legacy systems and advance ICT skills are the main barriers. Therefore, agencies have to resort to outsourcing where another set of issues have to be contended with. Consequently, the objective of this paper is to provide preliminary insights on a case study of a

federal agency's issues with outsourcing, specifically by assessing the feasibility of outsourcing an agency's core e-services including other aspects of backsourcing or insourcing. Also, the findings from the qualitative inquiries and analyses would provide a new framework on outsourcing issues, particularly for e-government services. The implications of this study is that online public services are crucial to a country's socio-economic development as this offsets other important agenda to catapult the country's growth and wellbeing toward Vision 2020 as well as to sustain these positive developments. Also, the ripple effect of an effective and efficient e-service delivery will certainly affect other national issues such as citizen integration, public wellbeing, international relations, and political stability.

# **Keywords:** Electronic government, outsourcing, information system, issues.

## Introduction

In today's knowledge-driven economy, information and communication technologies (ICTs) are major enablers in all sectors particularly in government departments. According to Heeks (2006), information systems will continue to play critical roles in public administration. Although ICTs are generally not involved in creating competitive advantage, they were now viewed as primary mechanisms for creating a more efficient and better service organization. All the same, the governments in developing countries for example, are aware of the benefits of implementing e-government to enhance technology-driven economies (Banarjee & Chau, 2004; Malaysia Department of Insolvency, 2013), hence, the need to ensure that each ministry

and various units are equipped with adequate ICT peripherals to deliver their respective services online.

In Malaysia, all offices within the three tiers of government are provided with ICT equipment. Within federal offices, the procurement and implementation of current ICT peripherals are autonomous, that is, the agencies are self-empowered as they know best on how to improve the main services offered to the public. Furthermore, with the provision of computers, government-to-government (G2G) and government-to-citizen (G2C) transactions would be more economical in terms of time, speed and accuracy of data.

One specific service of G2G and G2C is that by the Malaysian Department of Insolvency (MdI). MdI is the government agency in charge of the national administration and regulation of insolvency in Malaysia. There are six divisions in MdI but the focus of this study is on the foremost core division, the bankruptcy division. Many legal and administrative processes are involved before declaring an individual or an organization as being bankrupt. One mistake is enough to incur the wrath of the stakeholders. To limit human errors, computerizing and automating the processes and other administrative matters, are crucial to MdI's key performance indicators. Henceforth, the objective of the research is to assess the impediments to successful e-service offering by the Malaysian Insolvency Department.

## Background

Over the past decade, Malaysia has conceived and implemented many programs intended to launch the government in tandem with the Knowledge Era. The electronic government (e-Government) flagship, launched in 1997 has drastically improved the internal operations and public service delivery of the government. Online services are now becoming the ubiquitous norm in Malaysia. In addition, e-government has improved information flow and processes within the government departments through speed, accessibility, and quality of policy development, coordination and enforcement,

The significant increase of computer usage in Malaysia was seen in 1996 (Banarjee & Chau, 2004) with the Government's

introduction of many initiatives to facilitate the integration of Information and Communications Technology (ICT) in public services. Concurrently, Malaysia launched the Multimedia Super Corridor (MSC) to improve the socio-economic status of the citizens. By having a digitally literate society, this will raise national productivity and make Malaysia the ICT hub of Southeast Asia (Ramasamy et al, 2004).

Nevertheless, the launching of the electronic government (e-Government) flagship in 1997 was the beginning of the government transformation odyssey. The transformation to modernize and enhance public services was the consistent annual agenda for Malaysia in order to achieve a development nation status by the year 2020. Simultaneously, e-government will enhance the convenience and quality of interaction between the stakeholders of a nation (Ndou, 2003).

Putting Malaysia on the right path to higher and better development status is the government's priority through the development of relevant policies that align with intellectual property rights and other international standards. With the target of attaining Vision 2020, the long-term aspirations of a sustainable society, productivity-driven growth through technology, innovative-thinking workforce and, participation and contribution in global economy, Malaysia will indeed be a force to contend with throughout the rest of the 21<sup>st</sup> century (Arshad et al, 2007).

In Malaysia, we have lack of skills and human resource in order to implement e-government. Because of this limitation, some of the implementation failed. For example, some of the government agencies have to outsource their services to selected vendors, for instance, MyEG Services Sdn. Bhd and Konsortium Multimedia Swasta Sdn Bhd. The companies are contracted private limited ones appointed by the government to improve the internal operations and delivery the services to the citizens.

## **Problem Statement**

The outsourcing trends in Malaysia were influenced from USA, UK and Australia. Many government agencies allocate the outsourcing resources for network services and software maintenance (Arshad et al, 2007). However, Information Technology Outsourcing (ITO) can fail for many reasons. In Malaysia, public agencies also experience failures of IT outsourcing projects.

Arshad et al (2007) stated that some agencies have negative experiences with government-outsourced vendors. The outsourcer or vendor terminate or interrupt the contracts before the contractual task completed. This situation worsens when there is switching of vendor or outsourcer during the course of contract execution. When this happened, this will incur high transition costs as well as termination costs, switching costs, redeployment costs, relocation costs and other costs (Goo et al, 2007). In Malaysia itself, none of the public agencies in Malaysia having an experience with outsourcing projects more than 16 years. Public agencies in Malaysia engaged with outsourcing project within six to 10 years. In fact, Public agencies have to struggling on some issues and challenging faced by public agencies in managing the successful of outsourcing projects. Otherwise, all the plans will fail and efforts made by government were just wasting.

Before making contract with outsourcer, government should ensure that the outsourcer should have an adequate knowledge regarding Information Technology (IT). Perhaps, government should assign someone who have caliber as permanent IT personnel during projects. Besides, the project would not be able to success even though have to staff turnover or staff transfer to other government agencies if they are not acquired the skills and knowledge. The implications from the outsourcing projects should be mirrored by internal staff in the government agencies gained technical and skills from outsourcer.

With rapid economic development in the country, the role of Malaysia Department of Insolvency (MdI) is becoming more complex and challenging. The impacts of insolvency matters give great impact towards the achievement of "Vision 2020". Therefore, during the presentation of 10<sup>th</sup> Malaysia Plan, the Government of Malaysia emphasizes on insolvency where it was handled by Malaysia Department of Insolvency.

Many problems of the implementation of E-Government in Malaysia Department of Insolvency (MdI) have been identified.

There are many reasons for dissatisfaction of outsourcing the egovernment as well as poorly structured, relationship and delivery problem, behavioral aspects of the client and the service provider to a lack of innovation (Beardsell, 2009). Malaysian criticized towards the assessment of Public Services' strength and weaknesses. Many IT outsourcing decision makers are finding themselves under even more pressure to deliver shortterm cost savings, whilst simultaneously improving support for the business (Barney & Hesterly, 1996; Basu, 2004).

## **Literature Review**

With rapid economic development in the country, the role of Malaysia's Department of Insolvency (MdI) is becoming more complex and challenging. The impacts of insolvency matters

effect the achievement of the Tenth Malaysia Plan (2011-2015). Therefore, in order to provide the best services, all departments of insolvency will improve the speed and quality of policy development and enforcement towards Malaysians (Banarjee & Chau, 2004). In tandem with other federal ministries, MdI needs to enhance their efforts in support of Vision 2020, the Government Transformation Plan (GTP), the Economic Transformation Plan (ETP) and the National Key Result Areas (NKRA).

## E-government Adoption in Malaysia

After the launching of the Multimedia Super Corridor in 1996, Malaysia has increased the adoption of technology and other technological advancements in government services particularly through online services channel (Ramasamy et al, 2004; Basu, 2004). E-government is an initiative by the government to interact with citizens and ensure that the services offered are citizen-centric (Irani et al, 2007). This initiative will bring the government closer to the *rakvat* (citizen) in line with Prime Minister Najib's motto of "Citizen First, Performance Now". Besides, this will facilitate working individuals who are pressed for time and other personal restrictions. E-government applications do not focus on government-to-citizen (G2C) aspects only but vice versa (Davis et al, 1989). E-government also deals with Government-to-business (G2B), Government-to-employee (G2E), and, Government-to-government (G2G) aspects too Gil-Garcia et al (2007).

By providing e-government services, the *rakyat*'s contributions in the form of income tax will be used wisely through this tangible output. Moreover, the enrichment of information transfer denotes an increase in e-participation which will later result in other suitable and unbiased online services such as e-voting. With this transformation, e-government will put Malaysia one level above other developing countries in this region besides the benchmark nation, Singapore (Tung, 2005). As it stands, the success of Malaysia's e-government initiative has been recognized by other nations particularly in the Middle East. In fact, the Saudi Arabian government has invited Malaysia to be the consultant for their country's e-government project.

Currently, the level of internet usage in Malaysia has positively affected e-government users and various surveys conducted by

the relevant ministries have shown significant increase in citizen e-participation. So far, the most successful is income tax filing or e-filing, renewals of road taxes, downloading of various forms and satisfactory responses to e-complaints. E-government has proven to be efficient and effective in e-service delivery thus, harnessing technological innovation would further put Malaysia in the forefront of a successful and sustained economy.

Nonetheless, Heeks (2006) pointed out that most e-government projects failed before implementation. Taking heed of that, the MdI management should ensure that any systems implemented are piloted prior to actual rollout. Consequently, even though egovernment may simplify certain processes and workflows, there are still weaknesses that have to be determined and highlighted to contain expenses budgeted for the project. For example, the government agency has to recognize the opportunity cost of separate systems and processes that duplicate information gathering, as well as, the high costs involved in providing multiple entry-points for online services (Gubbins, 2004). Bearing in mind Gubbin's (2004) opinion, "overall, e-government is a massive wastage of financial, human and political resources, and an inability to deliver the potential gains from e-government to its beneficiaries. This despites an estimated global spend on IT by government (excluding public sector health, education and utilities) of some US\$3 trillion during the decade of the 2000s" (Gubbins, 2004).

## The Malaysian Department of Insolvency (MdI)

The Malaysian Department of Insolvency or MdI is the government agency in charge of determining and prior to that. investigating companies or individuals that are unable or fail to settle their debts or dues within a specific time limit. To put it formally, MdI is the "government agency leading the national administration and regulation of insolvency matters in Malaysia" (Malaysia Department of Insolvency, 2013). Since MdI's inception in 1924 into a principal regulatory body, this agency has over 1,200 employees in a network of offices across Malaysia (Malaysia Department of Insolvency, 2013). Also, MdI operates "under a statutory framework comprising of the Bankruptcy Act 1967, Companies Act 1965, Societies Act 1984 and Trade Unions Act 1959" (Malaysia Department of Insolvency, 2013). MdI's eservice offering is called e-Insolvency, however, this service is not handled by the agency but by two appointed service providers, namely, MyEG Services Sdn. Bhd. and Konsortium Multimedia Swasta Sdn. Bhd. (Malaysia Department of Insolvency, 2013).

## Backsourcing

Backsourcing is a new phenomenon in IT function. There are many perspectives to backsourcing. According to Gantman (2011) backsourcing involves the outsourcing function that is brought back in-house, that is, the organizations or the government agencies must operate the same service that has been outsourced effectively. There are two main reasons for backsourcing, one of which is to speed up innovation and improve the efficiency level (Johnsson & Karlson, 2010). These factors play an important determinant to the continuation of an outsourcing contract. As previously highlighted, some companies decide to outsource their services because of their limited resources and capabilities (Hirschheim & Lacity, 2000; Corbett, 2004; Cordella & Willcocks, 2012).

Before implementing backsourcing, the outsourcee have to identify whether the service that they provided to the organizations fulfill the requirement based on the contract. Some of the problem may exist during the outsourcing stage. If the vendors are capable to respond and solve the problem, the contract should be extended. However, if the vendor fails to respond, the organization should terminate the contract (Overby, 2012).

According to Veltri et al (2008), the outsourcing contract maybe partial or complete. The outsourcer may keep part of the original outsourcing contract with the vendor. Besides they can reoutsource the service to a third party or bring it back in-house which is backsourcing.

## IT Outsourcing and Process

IT outsourcing is defined as getting someone else to undertake the company's core services so that the company can focus on other more pressing matters for better decision-making and business focus. According to Altinkemer et al (1994), technology outsourcing in public agencies allows for the provision of better quality service to the citizens. In strategic management, the ICT outsourcing will ameliorate crucial issues confronting the comapany's information system management (Altinkemer et al, 1994).

In order to provide better quality service, some of the organizations prefer to turn over part of the system functions to external service providers. It is because the external service providers have skills and assets to fully utilize the system for performance management and attaining key business indicators.

Technology outsourcing growth has been rapid globally. According to Corbett and Brown (in Gartner 2003), ICT outsourcing has become a trend to some companies. This can be proven, where 50% of North American enterprises outsource some of their business method and upgrade their ICT functions in order to record the data. In 2002, the ICT outsourcing market worth reached \$140 billion. Furthermore, Gartner (2003) expected that the ICT outsourcing will grow to 7.2% in the year 2008.

Lacity and Willcocks (1995) have identified the challenges associated with outsourcing, that is, outsourcing vendors are inherently more efficient and there is significant cost saving on information system outsourcing (Hirschheim & Lacity, 2000; Bhagwatwar et al, 2011). Quinn and Hilmer (2008) agreed that the reason for outsourcing is to save costs as well as increasing flexibility and efficiency (Benaroch et al, 2010; Whitten et al, 2010).

## **Outsourcing Risks**

The primary motivations that drive the outsourcing decisions are usual for cost saving. Other drivers that led to outsourcing decisions are service, specialized skills, focus on core business, speed to market and others. According to Corbett (2004), there are ten drivers or factors that lead to outsourcing decision. They are innovations, conserve capital, improve quality, grow revenue, access to skills, variable cost structure, improve focus and reduce cost (Corbett, 2004). However, Berghmans and van Roy (2011) argued that there are outsourcing risks that organizations should be aware of before signing the contract.

## Strategic Management Theory

For this project, the theory used to direct the study is that of the strategic management theory in investigating the challenges of outsourcing and backsourcing. Although literature reviewed focused more towards the concept of outsourcing, the knowledge gap with regards to backsourcing is overlapping but, sadly lacking. Most literature drew theories from areas such as from industrial organization, transaction cost, transactional cost economics and strategic management theory (Cordella & Willcocks, 2012; Gantman, 2011).

Nevertheless, strategic management theory looks at the coherent aspects of ICT outsourcing (Huai, 2012). The organization tends to outsource their activities and assets that do not generation much value to the organization. Barney (1991) proposes to maintain the activities the organizations generate valuable in house activities and resources to the organization, . While, Barney and Hesterly (1996) argued that an organization should have to fully utilize the resources and capabilities to maintain the activities and resources of the organization.

Outsourcing is a strategic management model transferring business processes to another company ((Beardsell, 2009). The concept is to have certain management and/or day-to-day business functions done by a third party service provider. Outsourcing occurs when a company hires a vendor for a specific expertise that is not available in-house (Beardsell, 2009). This company does so after calculating the economic costs and the return of investment so as to ensure competitive advantage. The outsourcing process is a complex structure consisting of numerous activities, carrying many managerial dilemmas (Gantman, 2011). Many of the research projects approached the theories differently. For each phenomenon, several frameworks described the embedded theories. Although confusions can occur, each project uses appropriate theories for relevant scopes.

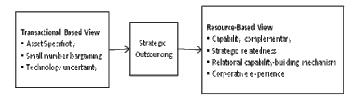
Transaction based perspectives explained different governance mechanisms. While, resource based theory will considers the relative capabilities of focal firms and exchange partners as important in vertical integration decision (Wernerfelt, 1984). This theory was view in terms of the resources and capabilities of the firm. Thus, the organization played the same activities but different production efficiencies and costs. As result, the organization will display whether the organization accomplished and achieved the expected performance (Wernerfelt, 1984).

## Transaction Cost Theory (TCE)

Transaction cost theory or TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for upcoming outsourcing arrangements (Lacity & Willcocks, 1995). Transaction concept has been applied in studying the Managing relationship phase. While, the concept of switching cost made the theory applicable in the reconsideration phase. So, the TCE theory explained the contractual complexity. Even though it has been exercised extensively in outsourcing applications, the TCE has several indulgencies. Lacity and Willcocks (1995), found that the original mapping to the TCE framework only explained few IT sourcing decisions and generated much more anomalies in their sample (Lacity & Willcocks, 1995).

## **Resource Based View Theory**

The core premise of the resource-based view is that resources and capabilities can vary significantly across firms, and that these differences can be stable (Barney & Hesterley, 1996). If resources and capabilities of a firm are mixed and, deployed in a proper way they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organisation that lacks valuable, rare, inimitable and organised resources and capabilities, shall seek for an external provider in order to overcome that weakness. The theory has been also used to explain some of the key issues of the Managing relationship and Reconsideration phases (Barney & Hesterley, 1996).



## Fig 1. Theoretical Model for Strategic Outsourcing

## **Research Design and Methodology**

#### **Research Design**

The research design for this study is cross-sectional. This is appropriate as cross-sectional function is a study in which various segments of a population are sampled at a single point in time, that is, the mean and the population are being sampled and evaluated at a single point of time (Sekaran, 2010). Furthermore, this design supports the small scope of this study which is one specific government agency, the Malaysia Department of Insolvency (MDi). Within the agency, the section targeted is the personal bankruptcy division.

### **Research Objective**

The objective of this research is to determine the issues of egovernment outsourcing in a specific federal agency, the Department of Insolvency (MdI), Malaysia. Currently, MdI has one e-government service known as e-Insolvency. However, the agency does not run the e-service, instead, it is handled by two private companies, that is, the core service has been outsourced to external vendors. Hence, the study is timely as MdI needs to offer more than one e-government service and at the same time, to handle it rather than outsource the service. After the contract expires, MdI will have other alternatives, but the core service will need to be continued. Hence, issues on the advantages and disadvantages of outsourcing, backsourcing and insourcing will also be covered in the main objective.

# Scope of Research

The study focuses on one government agency, the Malaysian Department of Insolvency (MdI). MDi has 22 branches in Peninsular Malaysia and six (6) branches in Sabah and Sarawak. However, for this research, five (5) were identified, which are, Muar, Johor Bahru, Selangor, Kuala Lumpur and Putrajaya. These offices handle personal insolvency, aka, bankruptcy. To do so, the study will use mixed methods which are qualitative and quantitative approaches.

## Sampling Technique

For this study, stratified random sampling and purposive sampling techniques are employed. The former is apt in order to

identify the locations of MdI's in Malaysia. The latter is required to identify the respondents for this study [15]. The units of analysis would comprise the officers working at MdI.

#### Instrument

A cross-sectional research design through surveys will be the approach to collect primary data. As mentioned above, the quantitative method will require variables be measured on a scale of say, one to five (Sekaran, 2010). Analyzing quantitative data will be done using the popular statistical software, SPSS (Coakes et al, 2009; Field, 2009). Prior to the actual data collection, the instrument will be tested for reliability and validity of constructs.

## **Implications and Conclusion**

From the interview transcripts analyzed, government agencies should reevaluating their outsourcing decisions for various reasons, in particular whether the goals set for the outsourcing effort were achieved (Heeks, 2006; Huai, 2012; Klischewski & Askar, 2012). Further, other aspects such as changes in the business environment, internal changes, and/or mergers must be consistently monitored in tandem with the increasing number of outsourcing deals (Huai, 2012). As posited by Huai (2012) and, Bajaj and Nidumolu (1998) The emergence of new service science approaches to business problems in information technology (IT) services offers new, unusually relevant insights for the senior management of vendors in this business area especially with regards to system usage (Niederman et al, 2012).

Moreover, both parties (the outsourcer and the outsourcee) have their stakes in the venture where a win-win situation is the ultimate outcome (Benaroch et al, 2010).

Besides, this paper examines the issues to e-government service outsourcing, backsourcing and insourcing policies. In particular, backsourcing often represents a response to the problems with the outsourcing arrangement as well as to new opportunities generated by internal or environmental changes in the business situation (Veltri et al, 2008). "The problems are manifested in escalating costs, poor service quality, loss of control over outsourced activities, and a know-how mismatch on the part of the provider. Opportunities arise from internal organizational changes such as new executives and redefinition of the role of IS as well as environmental changes such as mergers, acquisitions and divestitures." (Veltri et al, 2008).

To conclude, it is important that the outsourcing and backsourcing issues be identified as the agency can be prepared to face the impediments to the efficacy of e-government service. This would ensure continued success for the government agency as well as protecting the image of the entity. Literature has shown that the weaknesses of e-government implementation are related to politics and economics factors, thus impacting the performance of the online services and the agency or department itself. However, the future of e-government should now steer towards a hybrid approach. This study is valuable to other government entities even though the focus of this study will be on the Malaysia Department of Insolvency. Generally, all

governments and the citizens want a value-added service and this initiative will continue to be innovated and improved with time.

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