DETERMINANTS OF GLOBAL OUTSOURCING IN MALAYSIA

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ABSTRACT

Malaysia is a rapidly developing country and if the current economic and development boom is sustained, it is envisaged that by year 2020 Malaysia would achieve developed nation status. Globalization and advanced technology has removed many barriers around the world making the world smaller. Global outsourcing increasingly gained popularity and controversial national concern simultaneously. Some view outsourcing as a means of increasing global competitiveness whereas others regard it as a strategy resulting in job reduction and loss.

There is little empirical study that addresses employee perceptions on global outsourcing and other factors which influence the perceived benefits of global outsourcing. This study attempts to study the impact of employee perceptions on global outsourcing, types of activities outsourced and organizational characteristics on the perceived benefits of global outsourcing. The study presented a set of 3 hypotheses and contended that employee perceptions on global outsourcing, organizational characteristics and types of activities outsourced had a direct influence on the perceived benefits of global outsourcing.

A structured questionnaire was developed based on studies by Elmuti and Kathawala (2000). A total of 200 responses were used for analysis in this study. Results of this study, conducted via the questionnaire survey, did substantiate two of these hypotheses. The study reveals that in Malaysia, employee perceptions on global outsourcing and type of activities outsourced have a direct impact on the perceived benefits of Global outsourcing.

Keywords: Global Outsourcing Strategies, Organizational Characteristics, Employee Perceptions, Outsourced Activities, Organizational Effectiveness.
CHAPTER 1

INTRODUCTION

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1.0 Introduction

Outsourcing began gaining popularity in the 1980’s, and in the 21st Century, global outsourcing has received repeated attention (Casale, 1996; Casale and Overton, 1997; Corbett, 1999; Adler, P, 2003; Clott, 2004). Global outsourcing has enormous potential such as cost savings, increased productivity, flexibility, etc (Jenster and Pederson, 2000; Weidenbaum, 2000). There are possibilities of extensive and dramatic benefits such as increased productivity and improvement in financial performance, for the organization that outsources successfully (Sen and Islam, 2005).

Research and studies on global outsourcing has received equal attention in the empirical academic literature by many researchers in the international business field (Hindle, 1999; Rittenberg et al, 1999; Elmuti and Kathawala, 2000; Sen and Islam, 2005; Goedert, 2006). Elmuti and Kathawala (2000) have reported that various factors have a direct effect on the success of global outsourcing strategies. Many researchers have identified outsourcing as the practice of externalizing an in-house process to an outside vendor (Harris et al, 1998; Deavers, 1998; Perry, 1997; Sharpe, 1997; Sen and Islam, 2005). Researchers further identify that the decision made by organizations to outsource is often made in the interest of making more efficient use of labor, capital, resources and technology and also aims to lower costs and redirect or conserve energy (Casale, 1996; Corbett, 1999; Wild et al, 1999).
Though the importance and the acceleration of global outsourcing are undeniable, the empirical studies and literature on global outsourcing seem to be concentrated in the developed countries (Klaas et al, 2001; Sen and Islam, 2005; Jarvis et al, 2006). Research and studies in this area in developing countries, namely in Malaysia are limited (Dorasamy, M et al, 2007, Ainin Sulaiman et al, ) In Malaysia two problems engender the phenomenon of global outsourcing: determinants of the perceived benefits of global outsourcing and the ensuing lack of empirical research on the employee perspective and perceptions on global outsourcing (Dorasamy, M et al, 2007, Ainin Sulaiman et al, ) Determinants of the perceived benefits of global outsourcing remain an abstract concept to most researchers (Casale, 1996; Casale and Overton, 1997; Corbett, 1999; Adler, P, 2003; Clott, 2004). Unfortunately, scarce empirical evidence also afflicts this line of research. The purpose of this study is to fill these gaps by focusing on the determinants of the perceived benefits of global outsourcing in Malaysia and examining the influence of these pre-decided determinants on perceived benefits of global outsourcing.

1.1  Research Problem

This study aims to research and determine the factors that influence the perceived benefits of global outsourcing by Malaysian organizations from the employee’s perspective. The study is conducted on selected employees of organizations in Malaysia Valley. The variables have been adopted from the article titled “The effects of global outsourcing strategies on participants' attitudes and organizational effectiveness” by Dean Elmuti and Yunus Kathawala. International Journal of Manpower. Bradford: 2000. The independent variables identified are organizational characteristics, perceptions of
employees on outsourcing and types of activities outsourced. The dependent variable is the perceived benefits of global outsourcing.

1.2 Research Questions

Proponents of the global outsourcing concepts claim that many factors have an immediate and direct effect on the benefits that can be derived from global outsourcing (Elmuti and Kathawala 2000). For the purpose of this study, the three factors used in the study by Elmuti and Kathawala have been adopted as their study has identified the three factors and researched the effect of the factors in the United States of America. The factors are organizational characteristics, perceptions of employees on outsourcing and types of activities outsourced. Three major hypotheses and three research questions have been drafted to guide an investigation of the factors that affect the potential benefits of outsourcing. To address the purpose of the study, three research questions were developed to guide the study:

1. Do organizational characteristics have an influence on the perceived benefits of global outsourcing?
2. Do perceptions of employees of outsourcing have an influence on the perceived benefits of global outsourcing?
3. Do types of activities outsourced in an organization have an influence on perceived benefits of global outsourcing?
In this study, the abovementioned three questions are framed as three hypotheses that attempt to evaluate and determine the factors that influence the perceived benefits of global outsourcing that can be derived by organizations in Malaysia. The first hypothesis aims to determine the influence of organizational characteristics of Malaysian organizations on the perceived benefits of global outsourcing. The second hypothesis is to assess the influence of perceptions of employees in Malaysian organizations on the topic of outsourcing, on the perceived benefits of global outsourcing, and the third hypothesis is to determine if the perceived benefits of global outsourcing are influenced by the type of activities outsourced in Malaysia.

The hypotheses will thus explore the level of influence (if any) of these factors on the perceived benefits of global outsourcing.

1.3 Significance of the Study

The study is significant for the following reasons:

Firstly, as the global outsourcing industry is among the key industries targeted for globalization in Malaysia, it is important to study the factors affecting the perceived benefits and the benefits that can be derived from this industry in order to assist organizations to enhance productivity and reap the said benefits and hence enable the industry to fulfill its promise as the cutting edge of the drive towards globalization.

Secondly, while research on global outsourcing has been carried out extensively in many developed countries; little research has been conducted in developing countries, particularly in Malaysia. It is imperative that developing countries such as Malaysia
should lay emphasis on the impact of organizational characteristics, employee perceptions on global outsourcing and types of activities outsourced on the perceived benefits of global outsourcing so as to attain the competitive advantage and stay ahead in a highly competitive global industry.

1.4 Limitations of the Study

This section outlines the limitations of the study with reference to the respondents, sample and variables.

The study is limited to employees of organizations in the Klang Valley in Malaysia. Due to the short timeframe, the sample size was restricted to 200 respondents. Though the respondents were screened before they attempted to complete the questionnaire, the screening questions were limited to questions on general knowledge of outsourcing, computer literacy and past experience of working in organizations that outsource. All the completed questionnaires were collected either personally or email.

This study has several limitations. Firstly there is a reasonable threat of sample bias as most of the respondents were part-time graduate and undergraduate business students who were also currently employed in Malaysian organizations. As these respondents all have some (and to an extent, similar) college education, the sample may not be representative of the entire population taken as a whole.
Secondly, though Elmuti and Kathawala (2000) have identified successful outsourcing and organizational effectiveness as the dependant variables, for the purpose of this study the dependant variable has been determined as perceived benefits of global outsourcing due to the limitations that disable the accurate and sufficient measurement of success and effectiveness of global outsourcing strategies. Due to the unavailability of participating respondents and also confidential information, both administrative and financial, on an organizational level, the dependent variable has only been surveyed from the employee perspective. Due to the same reasons; organizational characteristics have only been considered from the perspective of demographics of the organizations of the respondents.

1.5 Definition of Key Terms

It is important to understand the definition of the key terms which have been repeatedly used in this study:

Employee perceptions on outsourcing: Employee attitudes towards outsourcing namely the different aspects of outsourcing, both favorable and detrimental (Drezner, 2004; Friedman, 2005; Jarvis et al, 2006)

Global outsourcing: Management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers i.e. the use of global agents and resources to perform one or more organizational activities (Elmuti and Kathawala, 2000; Casale, 1996; Sen and Islam, 2005)
Organizational characteristics: Characteristics of an organization i.e national origin, industry type, size of organization etc which create the organizations identity (Elmuti and Kathawala, 2000; Arnett and Jones, 1994)

Outsourcing: The strategic use of outside resources to perform activities that are traditionally handled by internal staff and resources. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers (Corbett, 1999; Deavers, 1997; Sen and Islam, 2005)

Types of Activities: The process type which is outsourced wherein the dimensions used are the proximity of the process to the core business (Bathelemy and Quelin, 2006)

Perceived benefits of outsourcing: Tactical benefits of outsourcing, such as cheaper labor cost, productivity, flexibility, speed, innovation and access to new technologies and skills (Wild et al., 1999)

1.6 Organization of the Study

This study consists of five main sections which details as follows: -

i. Chapter 1 - The paper begins by introducing the topic of outsourcing and highlighting the issues in outsourcing, followed by a discussion of the objectives of the study and why is it important to study the determinants of the perceived benefits of global outsourcing in Malaysia. It concludes with a discussion of the significance and limitations of the study and definition of key terms.
ii. Chapter 2 – This chapter discusses the theoretical concepts involving outsourcing, both local and global, and further reviews the major studies that have been carried out by various researchers and focuses on the literature review of the independent variable (i.e. the perceived benefits of global outsourcing) and the dependent variables (i.e. employee perceptions on outsourcing, organizational characteristics and types of activities outsourced). This section is followed by a summary of the interrelationship among the variables.

iii. Chapter 3 – This section of the paper details the research methodology and addresses the choice of method for the study, developed from a review of the literature. It also details techniques used in the collection and analysis of the research data and initial results from exploratory research.

iv. Chapter 4 - A focus on the discussion on the research result obtained from the questionnaire distributed and a synopsis of the respondents responses will be discussed.

v. Chapter 5 – This final section discusses the research findings and concludes the study by summarizing the findings and suggesting recommendations.
CHAPTER 2

LITERATURE REVIEW
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2.0 Introduction

This chapter addresses the review of literature on the factors recognized as relevant and vital to this study. A review of previous studies on the definitions of outsourcing, both local and global, and the general principles of outsourcing is presented in an attempt to show the depth of the numerous studies and research in this field. A general review of the limited literature made in Asia, namely in Malaysia and the impact of these reviews are also presented.

2.1 Outsourcing: An understanding of definitions

2.1.1 Outsourcing

Over the last half century, technological advancement has empowered organizations to effectively segment their value chains. This in turn has given organizations a number of options which facilitates maintenance of core strategic processes internally while employing the flexibility to outsource some or all remaining (and supplementary) processes to providers and contractors around the world at minimum cost (Casale, 1996).

There is no single definition of outsourcing. The discipline has been the subject of much debate (Casale, 1996). In layman terms, outsourcing has been defined as the business process of hiring an independent contractor to perform certain task or tasks for an organization; which the organization either does not have the time or the expertise to
perform on their own (Harris et al, 1998). Traditionally, outsourcing was introduced and attempted in an effort to reduce costs but over time, the outsourcing concept has been recognized and regarded as one of the most preferred approaches in redefining and reshaping an organization and its processes (Harris et al, 1998)

Sen and Islam (2005) describe that outsourcing involves contracts provided by businesses to specialized and efficient service providers, usually located in another country, to perform major functions for the company on a long term basis. Sen and Islam have also expressed that outsourcing refers to the strategic use of external resources by businesses to perform the economic activities that were erstwhile being handled by its internal staff and resources.

Deavers (1997) states that outsourcing is used to describe many different kinds of corporate action including sub-contracting relationships between firms, all foreign production by US firms and hiring of workers in non-traditional jobs such as contract workers, temporary and part-time workers, etc. Perry (1997) described outsourcing from the employment perspective as another firm's employees carrying out tasks previously performed by one's own employees. Sharpe (1997) defined outsourcing as turning over to a supplier those activities outside the organization's chosen core competencies.

2.1.2 Global Outsourcing

Global outsourcing is merely an extension of outsourcing in the globalization perspective. Global outsourcing has been identified as a management strategy by which an organization practices strategic use of global resources and allies to perform activities that were traditionally handled by internal staff and resources. In brief, organizations opt
to delegate major, non-core functions to specialized and efficient service providers. (Sen and Islam, 2005)

Global outsourcing has been described as enabling business without barriers in a borderless world. Casale (1996) define global outsourcing as a strategy of redesigning, redefining, reshaping and energizing organizations all over the world. Past researchers and management bodies have attempted to define global outsourcing and a few expectable definitions include the use of global agents and resources to perform one or more organizational activities and the significant contribution of global vendors in the physical and/ or human resources associated with the entire or specific components of the infrastructure of an organization (Casale, 1996; Wild et al, 1999; Corbett, 1999).

Corbett (1999) opined that outsourcing is nothing less than the wholesale restructuring of the corporation around core competencies and outside relationships and that it is the strategic use of outside resources to perform activities that are traditionally handled by internal staff and resources. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers. Wild et al. (1999) indicated that the traditional global outsourcing emphasized on financial, short term benefits like cost reduction for example cheaper labor cost in low-cost countries but the trend has now evolved to include more widespread and long term benefits which include increased productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills.
2.2 Outsourcing: An understanding of concepts

2.2.1 Outsourcing: A corporation tool of business strategy

Allchorne (2005) reported that the decision whether to outsource or not is roughly dependent on the firm, and is an ever-occurring one and that over time there has been a marked change in the attitudes towards outsourcing. The study further attempted to answer the question of what has made outsourcing a viable business strategy. Friedman (2005) stated that the best companies outsource to win and not shrink. The report further stated that companies outsource to innovate faster and more cheaply in order to grow larger, gain market share, and hire more and different specialists and not to save money by firing people. An emphasis on cutting costs has always been the primary focus of global outsourcing strategies.

Global outsourcing allows an organization to undertake more work than its equipment, manpower and capacity would normally allow it to handle. It also enables organizations to gain a marketing edge in the global market. Globalization has removed barriers across the world making the world seem smaller. Due to this new world economy, every organization is subjected to unprecedented pressures to be vigilant on all expenditures and to exercise cost containment. Large domestic companies now aggressively pursue smaller markets which they previously ignored while even the small retailers are influenced by the global economic forces. These forces have inevitably led to a period of aggressive organizational change the world over.

Proponents of outsourcing, based on the theory of comparative advantage, argue that it will be beneficial to shift a function to a firm that specializes in that function, resulting in lower costs and better quality (Clott, 2004). Therefore, this strategic move should not
stop at the process of cost cutting. The other recognized strategy in outsourcing is availability of expert knowledge and skill available globally. Raynor (1992) stated that firms are not in the business of managing compensation claims, hiring people or maintaining a building and therefore should hire an outside company that is an expert at providing those services so that they can concentrate on their primary business.

Strategically outsourcing can be used as a tool to attain a competitive advantage in the current competitive world economy and is a way for organizations to solve many of their problems. Global outsourcing will continue to gain momentum as organizations reap the benefits, including significant cost savings, new capabilities and services for employees, and enabling organizations to focus on more strategic work that is integral to business.

2.2.2 Successful Global Outsourcing

Organizations that have attempted, either successfully or unsuccessfully, outsourcing and their providers agree that many outsourcing arrangements fail because these arrangements are entered into without proper consideration of the needs of the organizations (Sen and Islam, 2005). The biggest mistake made by most organizations that enter into outsourcing arrangements is that they virtually extinguish their responsibilities associated with monitoring the outsourcing arrangement carried out by the provider and the problem that may arise may grow to unmanageable lengths before the organizations even realize the existence of a problem. Therefore it is important that organizations identify the challenges associated with outsourcing when calculating the potential benefits of an outsourcing move (Sen and Islam, 2005).
What are the key factors in successful global outsourcing? Lau and Hurley (1997) found a significant relationship between global outsourcing and profitability margin which is a direct consequence of effective global outsourcing through strategic alliances. Though there is published literature on the importance and benefits of global outsourcing, there is little statistical evidence demonstrating effective global outsourcing tools, methods and outcomes (Kleppes and Jones, 1999).

Though there is much interest stimulated in “strategic outsourcing” i.e. a structured approach to outsourcing decisions and initiatives which strives to achieve optimum strategic value, nevertheless numerous outsourcing contracts have often ended in failure. While consultants identify the success of their approach, they do not identify the failures or problems of their approach as readily (Crowley, 1999).

2.3 Outsourcing: A Malaysian perspective

2.3.1 Outsourcing: Malaysian studies

As with most developing countries, there are limited empirical studies conducted to evaluate the extent of outsourcing in Malaysia. M.A. Suhaimi, (2005) reported that a few large companies are embarking on outsourcing projects, and that the Malaysian government too is outsourcing most of the important national projects such as the Smart School, Human Resource Management Information Systems, and e-procurement cts.

Malaysia views outsourcing as a mechanism to improve IT performance and further as a value-added service to generate revenues (M.A. Suhaimi, 2005). Sakran (2001) also
reported that KPMG Consulting Asia believes third party outsourcing in Malaysia will work provided it has a track record in outsourcing.

Asia-Pacific is the leading outsourcing market since 1995 whereby Malaysia and Singapore are the leading countries in outsourcing. Meta Group Asia-Pacific states that the current trend is to go into outsourcing by forming joint ventures (Manecksha, 2003). Malaysian organizations view outsourcing as a value-added service to generate revenues and also a means of improving IT performance.

Outsourcing Malaysia, an industry association focused on promoting and developing the outsourcing industry in Malaysia was launched by the Prime Minister of Malaysia in 2007 and works in attempt to galvanize the local outsourcing industry.

PIKOM, the Association of the Computer and Multimedia Industry, Malaysia represents the information and communications technology (ICT) industry in Malaysia with a membership of over 750 comprising companies involved in a whole spectrum of ICT products and services which commands 80 per cent of the total ICT trade in Malaysia.

2.3.2 Outsourcing: Malaysian players and statistics

The Malaysian government aspires to build the country in the footsteps of Singapore's exceptional technology success. Over $10 billion has been invested in two high-tech parks - Cyberjaya and Putrajaya - as part of its Multimedia Super Corridor project to attract international business (Sakran, 2001).
Malaysian organizations such as Scicom (MSC) Berhad, CSC and its affiliates CSA Malaysia, EA Consulting Asia Pacific Sdn Bhd, IBM, Vsource Asia Berhad, REDwire Global Solution, Xpertsys Solutions Sdn Bhd, Marvelsoft, Golden Dragon Information System, Mc Dees Consulting and ShreeSoft Sdn Bhd are offshore ICT outsourcing providers to customers in Asia Pacific, US and UK (Singam, 2006).

Scicom has been recognized as one of the largest contact centre service provider in Business Brocess Outsourcing (BPO) in Malaysia providing BPO services to companies such as Nokia in Malaysia and services the mobile phone giants in India through its Bangalore-based operations. (Singam, 2006)

The outsourcing industry was expected to grow at 8.0% in 2003-2006 in the call centre operations and higher value-added processes such as analytical and research processes and procurement and supply chain management and growing to $350milion in 2008. Outsourcing by Malaysian companies was expected to rise to a growth rate 27.2% by 2009. (Lee, 2004)

Cheong, 2003 reports that Price Waterhouse Coopers briefs that Malaysia can expect to attract at least US$ 3 billion of the global outsourcing business that is projected to be worth US$ 0.504 trillion by 2008.

By 2011, the Malaysian government targets that the high-tech corridor shall support a working population of approximately 50,000 and a resident population of more than 120,000 (Sakran,2001).
2.4 Outsourcing: A review of key factors

2.4.1 Organizational characteristics and outsourcing

Organizational characteristics are characteristics of the organization which make each organization unique and help create an identity of its own. Organization characteristics are not easily defined or measurable as they can range from organization structure, organization focus and/or the orientation of the organization. A more simple approach to identifying organization characteristics is with reference to organization demographics. Organization demographics are the characteristics of the organizations; namely the size, composition, location and spatial distribution in organizations (Arnett and Jones, 1994).

The first organizational characteristic which is most easily identifiable is organization size. Organizations should have interests about the number of their employees which will determine the size of their organization; so they can maximize the sale of their products, their outlook on their influence, or the ends of their power, services, and beneficial works (Liu and Yang, 2000).

Another important organizational characteristic is the type or organization. This refers to the type of business the organization practices or operates or more aptly, the core activity of the organization. A review of past research indicated that there is little evidence about the types of firms and establishments that outsource and the effects of outsourcing on different types of organizations.
In a study of Human Resources (HR) outsourcing, Pelham (2002) studied what kind of company should consider outsourcing its HR function and stated that large companies with complex policies and procedures, legacy technology systems, and the need to reconcile these elements across multiple countries, will have a strong case to consider a total outsource of HR processes and transactions. Small and medium-size companies may feel it is beneficial to outsource certain important aspects of their HR programs, especially those that require large technology investments. The study further went on to identify large companies as those with significant numbers of employees and with numerous facilities.

Yang et al (2007) reported that from the IT perspective, in theory, the arguments of scale-economies imply that larger firms should be less likely to outsource their IT activities. It is important to note that if there exists significant sunk costs associated with implementing outsourcing contracts (either on the supplier or the firm side), then only firms with a large enough volume of IT activities should be outsourcing and therefore, yielding a positive correlation between firm size and the probability of outsourcing.

Arnett and Jones (1994) presented a nationwide survey of senior information systems (IS) managers in US organizations that reveals several structural and managerial characteristics of organizations that outsource one or more IS activities. They reported that industry leaders are among the smallest proportion of outsourcing firms, whereas close followers are the largest organizations.
It is recognized that outsourcing isn't for everyone. The largest companies can afford their own computer systems and staff. Whether to outsource depends primarily on an employer's size and expertise as well as cost and technology. Hirschman (2005) reported that outsourcing payroll allows many employers, especially small and medium-sized ones, to concentrate on their core business while large employers and payroll companies can spread fixed costs, such as system maintenance, over many employees. Large companies can better afford than small ones the systems and staff to perform payroll and other functions in-house.

Innocenti and Labory (2004) stated that small and large firms share similar patterns in the diffusion of the processes of outsourcing in France, Italy. They explained that large and small firms share similar patterns of relationships in the processes of outsourcing.

However though an organization's size, in terms of revenue and number of employees, may not be the only factor, but it is a major one. In general, the more employees your organization has, the greater the likelihood that your operations will remain in-house. Even small to mid-size companies can now reap the benefits of the best of today's advanced software systems without the expense and effort traditionally associated with implementing, maintaining and supporting them.

Liu and Yang (2000) reported on the theory of irrelevance of the size of the firm that inframarginal analysis of the tradeoff between positive network effects of division of labor on aggregate productivity and transaction costs can predict recently popular business practices of downsizing, outsourcing, contracting out, focusing on core competence, and disintegration.
The key issue these days is trying to size up the organization, its people and its culture, and how it works with global outsourcing. Of particular interest in this study are organizational characteristics and its relationship with the perceived benefits of global outsourcing. Whether organizational characteristics would have a direct impact, if any at all, on the perceived benefits of global outsourcing form a major part of the theoretical framework for this study.

2.4.2 Employee perceptions on outsourcing

Global outsourcing, primarily the human resource perspective, is an issue of international concern. While some researchers view outsourcing in the optimistic light, focusing on job opportunities and attaining competitive advantages, most employees still view global outsourcing in the pessimistic light, identifying job losses and lack of employee demanding power (Ransom, 1996; Shergold, 1996; Kistner, 2002; McDermott’s, 2002).

Ransom (1996) reported that most employees do not understand what outsourcing means and view the process as synonymous with losing their jobs. Fear of loss of employment, job opportunities and job promotions are recognized among employees in organizations that implement outsourcing.

Jarvis et al (2006) reported that while costs are being saved, very little is being spoken about what employees have to say about their satisfaction even though employee satisfaction could actually be measured without too much effort. They further reported
that global outsourcing is likely to impact the employee's every day experience of working in the organization and, therefore, lead to poor satisfaction. Though there are many articles and surveys reporting that the number of outsourcing contracts has increased tremendously in the recent years, there are few or no reports at all to measure employee satisfaction and perceptions to outsourcing.

Past literature indicates that employees tend to breed contempt, or at least inferior responsiveness, in an outsourcing relationship; and such negative perception has a direct impact on the perceived benefits of outsourcing which will directly influence effectiveness of global outsourcing strategies. (Shergold, 1996; Kistner, 2002).

McDermott’s (2002) surveyed the employee perspective towards outsourcing focusing on top management employees. As important as these top management employees are, they are not representative of employees affected by outsourcing strategies. It is the operational employees whose attitudes and perceptions directly impact employee motivation and performance. Normally, organizations outsource a limited range of jobs and activities, which leave an impact on remaining employees that, may have far reaching effects on the benefits that can be derived from outsourcing.

Eric Krapf (1999) reported that just because more is being outsourced, that doesn't mean that the respondents are completely comfortable with the situation and that they were actually dubious about many aspects of outsourcing. Although this may reflect no more than a defense of turf, doubt was expressed about some of the basic functions that outsourcing purports to serve. Krapf’s survey reported that for many organizations outsourcing is about dealing with ever-more-acute skills shortages within the department
and the functions that respondents were most likely to outsource, the reason most commonly given was either because the in-house staff lacked the necessary skills or the enterprise wanted to free up in-house staff for more crucial work.

Palvia & Parzinger, (1995) reported that an outsourcing initiative affects an employee in one of three ways, retention, transfer or release. Walsh & Deery (2006) in their survey of outsourced employees stated that the staff also faced a more rudimentary internal labour market. They had significantly fewer opportunities for promotion and training and they received considerably less induction. Consequently, employees’ perceptions of a lack of promotion were associated with lower organizational commitment and higher intentions to quit. This was not the case in the in-house centre where promotional opportunities were more widely accessible and perceptions of their availability had no effect on commitment or exit intentions. Walsh & Deery’s survey aimed to analyze employee perceptions of their job environment and employment arrangements in both an outsourced market provider and an in-house producer. Their research concluded that employees at the outsourced call centre were significantly less satisfied with most aspects of their work and that the factors that shaped organizational commitment and intention to quit and this would have a more marked effect on organizational effectiveness, a recognized benefit of outsourcing.

Kistner (2002) reported that outsourcing is a complex challenge faced by management and further that employee perceptions regarding outsourcing are as challenging and complicating and where such perceptions are predominantly negative, the potential positives which may arise from an outsourcing activity can be significantly dampened.
Employees can be critical and fearful of outsourcing strategies regardless of benefits that they may already have realized.

The most commonly discussed employee perception of outsourcing relates to job security. Brooks (2006) listed that outsourcing is linked to changes in employee perceptions to job security which in turn impact employee motivation and performance. Employee perceptions include their attitudes on commitment, job satisfaction and motivation among other factors with job security heading the list. The survey elaborated that as organizations opt to outsource, it was crucial for the management to manage the transition well and to pay special focus to their employees as changes occurring within the organization due to outsourcing can cause direct changes on employees’ perceptions which in turn affect realization of the full benefits of outsourcing. The paper studied IT outsourcing employees and reported that stress levels were shown to be associated with increased organizational downsizing and that employees acknowledge that changes in the organization (downsizing/reorganization) will be linked to decrease in perceptions of job security. The more functions that are outsourced and how outsourcing changes the individual’s concept of the job and organization dramatically changes employee perceptions (Brooks, 2006).

Attitude towards outsourcing reflects employee’s perceptions regarding different aspects (Friedman, 2005). Some aspects of outsourcing may be evaluated favorably, while other aspects may be viewed as detrimental (Drezner, 2004). Jarvis et al (2006) concludes that a comprehensive understanding of the phenomenon of outsourcing requires that we take into account employee attitudes towards this process. Employee perceptions regarding
outsourcing would tend to vary with their degree of knowledge and familiarity of the various aspects of outsourcing, its processes, its benefits and challenges and its impact on individuals, organization and society. Therefore, the key to achieving outsourcing benefits is that the employees should attain better knowledge and understanding of the outsourcing strategies and processes.

These studies suggest that employee perceptions of outsourcing have a direct, positive impact on the perceived benefits of global outsourcing. Though there many aspects of employee perceptions of outsourcing, for the purpose of this study, three aspects were examined; employees perceptions of the preference for global outsourcing, employees perceptions of the necessity of global outsourcing and employees perceptions of the effects of global outsourcing. In this study, these three dimensions were chosen to measure the employee perceptions of outsourcing in Malaysia.

2.4.3 Types of activities outsourced

There is evidence that the decision to outsource and benefits derived from outsourcing practices are greatly influenced by the process type which is outsourced. The most successfully outsourced processes are Information Technology (IT) outsourcing and Business Process Outsourcing (BPO) but human resources are still among the most outsourced functions within an organization (Yang et al., 2007).

Yang et al. (2007) identify that information technology (IT) outsourcing has been one of the critical issues in organization management. Business process outsourcing (BPO) is an
advanced type of IT outsourcing, which will be the next big wave in information technology services.

Barthelemy and Quelin (2006) used three different dimensions to assess the strategic benefits of an outsourced activity. The dimensions used were proximity of the activity to the core business, switching costs and adaptation costs. Their findings extend that outsourcing success and the resultant benefits depend on outsourcing of activities with a strategic value. Management pioneers and academicians have stated that an organization’s competitive advantage stems from its ability to identify, concentrate on and develop its core competencies and activities, and outsource anything which is noncore. Outsourcing can contribute to profits by enabling users to maximize financial benefits, focus on core competencies, reduce risk and liability, provide wider coverage and flexible capacity, provide dedicated resources, etc.

Outsourcing peripheral activities have emerged as a standard practice in industry and commerce. Peripheral activities are activities that are considered as essential and inevitable, but do not require industry-specific capability. A canteen or a cafeteria in any industry or organization does not differ. Security services, housekeeping, warehousing, and customer delivery are some other activities under this umbrella. Outsourcings of these activities are more easily beneficial than outsourcing of core activities.

Companies seek to outsource those activities that offer less of a competitive advantage. In situations in which a technology provides significant competitive advantage, but is not yet matured, firms should seek to retain the technology in-house because it may become a future core competence. In general, items under the commodity and utility categories are outsourced, whereas proprietary and novelty items are retained in-house (Ehie, 2001).
Companies are breaking with the conventional wisdom dictating that only noncore activities be outsourced and are increasingly outsourcing activities in their core areas of business. Although a greater percentage (about 65%) of manufacturing outsourcing activities are conducted in noncore areas (utility and commodity products), there is an increasing trend within manufacturing organizations to outsource core activities that were once considered the "crown jewels." Therefore evidence exists that there is motivation for outsourcing both ‘core and ‘non-core’ services and activities (Ehie, 2001).

Ralph (1995) identified that the first step in an outsourcing decision is to understand the organization's value chain and the relationships among its service activities. Some activities can be eliminated immediately as some services cannot be contracted outside or because the firm must control the activity to maintain its competitive position. For activities that are eligible for outsourcing, the key strategic question would be whether the organization can perform a service activity on a level comparable with the best organizations in the world. Productivity measurements such as availability, timeliness, flexibility, quality, and cost reduction should be compiled to capture these critical success factors for the activity.

In a 1999 survey, Klaas et al. reported that some HR outsourcing may involve routine administrative tasks while other functions involve the design of HR systems that are a fundamental influence on organization culture and performance. Due to these distinctions, various organizational characteristics may impact the feasibility of outsourcing some forms of HR activities more than others, resulting in different determinants for various forms of HR outsourcing.
Klaas et al. (2001) report that their findings indicate that the influence of organizational characteristics in HR outsourcing were highly contingent, suggesting that organizational characteristics have different effects on various types of HR activities outsourced and therefore many factors should be considered when deciding to outsource HR.

Though the researchers concentrate on various different departments within an organization but it is undeniable that these findings are relevant to the consideration of the type of activity outsourced in any outsourcing decision and the ensuing benefits.

Taken together, these studies suggest that types of activities outsourced would directly influence the perceived benefits of global outsourcing. However, there is no evidence to confirm this argument holds in developing countries like Malaysia that are stepping into the global outsourcing industry. Therefore this study attempts to examine the relationship between the types of activities outsourced and the perceived benefits of global outsourcing in Malaysia.

2.4.4 The perceived benefits of outsourcing

The pros and cons of global outsourcing have been extensively studied. The traditional global outsourcing emphasis on tactical benefits like cost reduction - cheaper labor cost in low-cost countries - have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Wild et al., 1999). Steele (2005) found that pros tend to centre on cost savings that can be reaped from the outsourcing activities and also the belief that outsourcing also allows companies to focus their resources on their core competencies. Statistics reveal
that on average, companies are realizing a 9 per cent cost saving and a 15 per cent increase in capacity and quality through outsourcing.

Global outsourcing results in cost savings. Small companies benefit from economies of scale while large companies benefit by shedding what usually are ill-managed peripherals. It has also been documented that at times, organizations have hidden costs that are not discovered until a process is outsourced. When a function is outsourced, there are chances for cash realization when previously related assets can be sold. There also hidden core activities. Sometimes specialty areas outside the core business monopolize management attention and outsourcing is a way of relief from these issues (Harris et al., 1998).

Singleton (2006) reports that lower costs are only one reported benefit of outsourcing. Other important benefits include the significant improvement in the return on investment. Global outsourcing can help even the smallest company provide the best product at the lowest price while tapping the fastest developing markets. Harris et al (1998) reported that organizations use outsourcing to lower costs and sharpen focus by specializing in the core tasks.

Seddon (2007) contributed an interpretation of Domberger's Theory of The Contracting Organization for use in an IT outsourcing context which presented a preliminary test of the validity of that theory using data from an Australian survey of 235 senior IT managers. They concluded that Domberger's theory appears to be a useful lens for understanding IT outsourcing. Domberger's four types of benefit of contracting - namely
specialization, market discipline, flexibility, and cost savings - appear to be a good way of summarizing senior IT managers' explanations of why their organizations chose to outsource IT.

Masi, (2006) states that outsourcing, in general, is the strategy of contracting with a third party to provide significant value added for your standard products. Outsourcing can also be used to increase productivity and can improve quality, as the provider is a specialist in a key area.

Outsourcing also creates talent availability by providing access to talents that were not available in-house. Outsourcing can be used to handle problems with geographical distance and also relieves management of the distraction of managing another staff function. Outsourcing frees in-house staff for more important tasks while specialist skills, tools, technology and independent advice can be gained from providers.

It allows organizations to re-evaluate their business processes and to reengineer their businesses if necessary. Management has greater flexibility in allocating human resources when outsourcing non-core activities.

An outsourcing partner with a positive corporate culture that is compatible with an organization creates a certain amount of upheaval, to jolt the organization into accepting some changes. The provider is bound by contract to provide agreed levels of service at fixed costs, while internal departments do not always control expenditures.

Another benefit is that outsourcing also improves public image resulting at times in stock performance enhancements as investors expect cost reductions.
However, outsourcing is not the answer in every situation. Global outsourcing entails a unique set of problems. As with any process, there is a negative side to global outsourcing. Researchers have long established that outsourcing is not all positive effects and comes with its share of problems and shortfalls.

Haylock (2006) reported on the other side of outsourcing, namely the ethical and economic issues. Brian (2004) reported that the benefits and transaction costs of managing alliances have to be constantly balanced, keeping the strategic interests of the company in mind. In the knowledge management literature, it is recognized that outsourcing practices can have the short-term effect of diluting the firm's competencies and the long-term effect of increasing competition in the industry by diffusion of best knowledge, skills and competencies to other players in the field through the service companies.

Considered as a whole, it is important to note that the perceived benefits of global outsourcing easily outweigh any possible disadvantages. Organizations can increase the benefits derived from global outsourcing by tackling outsourcing challenges and taking all the effort to reduce or eliminate outsourcing problems.

2.4.5 Measuring outsourcing benefits

It has been recognized that an improvement and increase in organizational effectiveness is a vital benefit that many organizations aim to achieve. Organizations are placing too much focus on the outsourcing deal and its effectiveness but not enough on measuring the so-called effectiveness. A large number of organizations around the world are unable to quantify benefits they derive from their outsourcing arrangements. 79% of the companies
were not able to confirm the cost of selecting an outsourcing provider. Most organizations do not develop a formal process for measuring effectiveness i.e. benefits of outsourcing contracts (Goedert, 2006).

It has been reported that the most difficult question to answer is to measure organizational effectiveness and the longer term money value. Nonis (1996) stated that establishing value for money depends on the business judgment of the managers involved - it is no more amenable to numerical analysis than any other value judgment. Therefore it must be noted that the perceived benefits of global outsourcing strategies directly influence organizational effectiveness or more precisely, result in an increase in organizational effectiveness.

Seddon et al. (2002) reported that measures for effectiveness fall into one of two groups. The first group focuses on the interests and opinions of individual users i.e. measures of benefits such as individual productivity, user satisfaction, information quality, and perceived usefulness fall into this individual-as-stakeholder category whereas the second group of measures focuses on indirect benefits such as the interests and opinions of management i.e. return on investment (ROI), return on management, cost savings, sales growth, and system availability.

Rittenberg et al. (1999) laid down that to ensure outsourcing effectiveness, organizations should understand the characteristics of highly successful outsourcing arrangements and follow these approaches which will enhance the effectiveness of an outsourcing arrangement. Mithas and Whitaker (2006) introduced a mechanism called ease of
disaggregation. They recommended that managers should make suitable investments in digital platforms and consider decoupling information-intensive activities from activities that require physical presence. This will enable companies to optimize their portfolios of business processes and to locate the processes where they can be performed with greater effectiveness at lower cost. Second, the authors stress the need for digital enterprises to develop process expertise so they can evaluate the interdependencies among service activities, modularize those activities and then disaggregate the activities to take advantage of global resources.

The fundamental benefit in outsourcing arrangements is the choice of the efficiency of performing the considered activity internally compared to the partner’s efficiency and the risk of either keeping or outsourcing the activity. The simple but assured method to increasing benefits from outsourcing is firstly, knowing the core business. Organizations that recognize effective practices are able to appreciate increased outsourcing benefits such as reduced business risks, improved financial control, lower costs and improved service.

The decision to outsource can lead to the benefit of gaining competitive advantages for organizations but it must be noted that in order for outsourcing to be successful the decision needs to be an informed one. For outsourcing in any form to be successful, quick response times to strategic opportunities and threats are essential and therefore effective management of the outsourcing relationships is an organizational imperative. Some organizations say that they are achieving benefits as they are aware that their processes are working well or better and they are able to focus on their core competencies with
outsourcing but benefits of outsourcing is a gray area which is very complex and requires more time and effort.

Though the market dictates what are reasonable benchmarks for assessing performance of outsourced functions, organizations differ in how they measure it (Goedert, 2006). Not every outsourcing contract warrants a formal measuring of benefits. Sometimes the measuring process is very straightforward and only one or two measures are needed. It is important that organizations opt to initiate and establish a benefits measurement process in the first year of the outsourcing contract.

It is easy to recognize and measure short-term costs savings resulting from outsourcing strategies. Though many other benefits of global outsourcing have been recognized, these benefits are not easily measurable. There is little research to guide managers on how to measure the benefits of outsourcing.

For the purposes of this study, subjective measures of the perceived benefits of global outsourcing have been used. These measures represent the measures of the benefits of global outsourcing and are presented as alternatives to more traditional economic ones for purposes of the articulation, implementation and evaluation of the benefits of global outsourcing. Unlike economic measures, which are typically based on data about productivity, cost saving, market share and the like, subjective measures are based on answers to questions which evaluate on the opinion of the respondents.

According to Kahneman et al. (2004), subjective measures are potentially useful to economists and policy researchers for evaluating policies and for valuing non-market activities and to anyone who wishes to measure the well-being of society. They report
that direct subjective reports may have a useful role in the measurement of consumer preferences and social welfare, if they can be done in a credible way and that perceptions are a more accurate gauge of actual feelings if they are reported closer to the time of, and in direct reference to, the actual experience.

2.5 Other Research

The current study is largely based on the research work done by Dean Elmuti and Yunus Kathawala (2000) titled “The effects of global outsourcing strategies on participant’s attitudes and organizational effectiveness”. Their research explored why and how organizations were practicing global outsourcing and identified regional differences, perceptions of employees, types of activities as factors that affect the success of global outsourcing which will have a significant impact on an organization’s performance.

Elmuti and Kathawala recommended that organizations could manipulate global outsourcing as a useful tool to improve their competitive positions in an increasingly global market by understanding and managing the major risk factors identified in the study. Their study approached the research query by reviewing data in three categories i.e. the reason global outsourcing was initiated; the activities or the functions organizations chose to outsource; and the specific goal of the global outsourcing project. Firstly, motivation and possible benefits of global outsourcing projects are undertaken for several reasons that have a large impact on the organization's performance. Second, global outsourcing projects target specific types of activities or functions. This coincides with many academicians’ claims that global outsourcing providers are taking increasing
responsibility in certain areas. Finally, global outsourcing strategy should have a specific goal with a measurable outcome.

For the purpose of this study, the theoretical framework from their paper has been modified to suit the factors that influence the perceived benefits of global outsourcing in Malaysia.
CHAPTER 3

RESEARCH

METHODOLOGY
CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research design and methodological process employed in the study. It is organized as follows:-

(i) Research Hypotheses;
(ii) Objectives and Framework;
(iii) Selection of Measures;
(iv) Design of the Questionnaire;
(v) Sampling Design;
(vi) Data Collection Procedures; and
(vii) Data Analysis Techniques.

3.1 Research hypotheses

The research model for this study is the effect of organizational characteristics, employees perceptions of outsourcing and types of activities outsourced on the perceived benefits of global outsourcing in Malaysian organizations.

The following Table 1 describes the factors/variables used in the framework and for the statistical tests.
<table>
<thead>
<tr>
<th>No</th>
<th>Factors/Variables</th>
<th>Construct type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organization Characteristics</td>
<td>Independent</td>
<td>Variations in adoption of global outsourcing strategies and the ensuing benefits that can be derived from outsourcing among different types of organizations and other organizational demographic groups seem significant. The growth and usage of global outsourcing strategies and its potential benefits has not been the same across all types of organizations in the country. There appear to be differences in the usage of global outsourcing and its benefits among organizations with different organizations but are the differences based on the demographics and structural differences in these organizations.</td>
</tr>
<tr>
<td>2</td>
<td>Employee Perceptions of Outsourcing</td>
<td>Independent</td>
<td>Employee perceptions of outsourcing are the process by which employees organize and interpret their sensory impressions in order to give meaning to the strategy of outsourcing. Employee’s behavior and their acceptance of outsourcing are based on their perception of what the reality of outsourcing is, not on reality itself. The employee perceptions of outsourcing are behaviorally important. Employee perception of outsourcing is the degree to which a person believes that using global outsourcing strategies would be free of effort and beneficial to the organization and/or to oneself.</td>
</tr>
<tr>
<td>3</td>
<td>Types of Activities Outsourced</td>
<td>Independent</td>
<td>A wide range of activities can be outsourced. The variable measures global outsourcing strategy familiarity and the commonly outsourced activities types. The perceived benefits of global outsourcing depend and</td>
</tr>
</tbody>
</table>
differ based on the activities or the functions organizations outsourced; and the specific goal of the global outsourcing project.

| 4 | Perceived Benefits of Outsourcing | Dependent | Organizations have identified benefits of outsourcing as their most specific goal in adopting global outsourcing strategies. Performance, cost-savings, productivity, cycle time, customer service, market share, and quality are perceived as the primary benefits of outsourcing efforts and have a definite impact on its effectiveness and success. The perceived benefits of outsourcing will directly contribute to organizational effectiveness which will determine the success of these strategies. The costs savings and both direct and indirect benefits generated by the outsourcing programs should be perceived as being greater than the costs of implementing these programs in order to be beneficial as a whole to organizations. |

### 3.2 Objectives and Framework

#### 3.2.1 Research Objectives

The claims by proponents of the global outsourcing concept and findings from organizational behavior research suggest three major hypotheses which are based on the three research questions to guide an investigation of the relationships between organizational characteristics, employee perceptions of global outsourcing and types of activities outsourced and the perceived benefits of global outsourcing. The three research hypotheses are based on the following research objectives:
1. To determine whether organizational characteristics have a positive effect on the perceived benefits of global outsourcing.

2. To determine whether employee perceptions of outsourcing have a positive effect on the perceived benefits of global outsourcing.

3. To determine whether types of activities outsourced have a positive effect on the perceived benefits of global outsourcing.

**Figure 1: Factors that Influences the Perceived Benefits of Global Outsourcing in Malaysia**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Characteristics</td>
<td>H₁</td>
</tr>
<tr>
<td>Employee Perceptions</td>
<td>H₂</td>
</tr>
<tr>
<td>Types of Activities Outsourced</td>
<td>H₃</td>
</tr>
</tbody>
</table>
3.2.2 Hypotheses

From the theoretical framework, the following hypotheses can be deduced:

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁</td>
<td>Organization characteristics will have a significant positive influence on the perceived benefits of global outsourcing.</td>
</tr>
<tr>
<td>H₂</td>
<td>Employee perceptions on outsourcing will have a significant positive influence on the perceived benefits global outsourcing.</td>
</tr>
<tr>
<td>H₃</td>
<td>Types of activities outsourced will have a significant positive influence on the perceived benefits of global outsourcing.</td>
</tr>
</tbody>
</table>

3.3 Selection of Measures

The questionnaire comprised 47 questions. The questionnaire (together with an explanatory letter outlining the purpose of the study) was emailed and/or delivered personally to 350 respondents in various corporate organizations in Malaysia. The convenient sampling method was used. The research design selected in the study is a descriptive study where data and analysis on employee perceptions of outsourcing and other factors influencing benefits of global outsourcing was gathered from respondents from various organizations. The main objective of the study is to find out factors that influence employees’ perceived benefits of global outsourcing in Malaysia.

The sample for this study consisted of 350 employees of organizations in Malaysia. The sample was chosen from a class of employees with similar positions or job titles in their
The questionnaire given to the respondents was pre-tested before administration. A trial run of the analysis was conducted with 15 responses.

The questionnaire was adapted from the factors listed in the journal article “The effects of global outsourcing strategies on participants' attitudes and organizational effectiveness” by Dean Elmuti and Yunus Kathawala Eastern Illinois University, Charleston, IL, USA.

A copy of the questionnaire is enclosed in Appendix ‘A’.

3.4 Design of the Questionnaire

Screening questions were presented to all the prospective respondents before a respondent was given the questionnaire.

- Screening questions related to whether the respondent’s working environment and/or experience accommodated the following:
  - Outsourcing Activities
  - Availability of Outsourcing Options
  - Future Outsourcing Prospects

The survey included the following sections and respective questions:

- **Section 1: More about You**
This section captured the demographic characteristics of the respondent including gender, age, income, marital status, level of education and position or title of the respondent in the organization.

The data collected from this section was used to determine the statistics of the respondents, namely the response rate and the distribution of the respondents.

- **Section 2: More about Your Organization**
  
  This section captured information about the characteristics of the organizations of the respondents through the following details of the types of industries in which the respondent’s organization had its core business, Bursa Kuala Lumpur listings and organization size.
  
  The data collected from this section was used to determine and evaluate the first independent variable; organizational characteristics.

- **Section 3: Why do you think organizations are opting for Global Outsourcing Strategies?**
  
  This section captured the respondent’s opinion on why organizations prefer to opt for global outsourcing and the reasons for adoption of global outsourcing. The reasons provided included efficient cost reduction, increased exposure to worldwide technology, access to foreign materials and resources, presence in foreign markets and flexibility to respond to market conditions.

- **Section 4: Why do you think organization’s need to adopt Global Outsourcing Strategies?**
This section captured the respondent’s opinion on the necessity of adopting global outsourcing strategies including reduction in overall amount of specialized skill and knowledge needed, availability of capital funds for more profitable operations, significant quality improvement of product design / service efficiency and low availability of skilled resources in local market.

**Section 9:** What in your opinion are the effects of Global Outsourcing Strategies?

This section captured the respondent’s opinion on the effects of Global Outsourcing Strategies including loss or decline in job opportunities, demand for specialized skill and knowledge, employee’s demanding power and employee’s morale and performance.

Sections 4, 5 and 9 were aimed at collecting data on employee perceptions of outsourcing in three dimensions; employees’ perceptions of the preference for global outsourcing, employees’ perceptions of the necessity for global outsourcing and employees’ perceptions of the effects of global outsourcing.

**Section 5:** What products/services are generally outsourced in your current organization?

This section captured data of the type of activities outsourced in the organizations. The options given were purchasing parts or components for the final product, information technology, management services, distribution and sales of products or services, manufacturing of components for the final product, manufacturing of the final product, product design, engineering and research and development.
The data collected from these sections was used to determine and evaluate the second independent variable; employee perceptions of outsourcing.

- **Section 6:** What factors do you think make Global Outsourcing Strategies decrease the organizations’ effectiveness?

This section captured the respondent’s opinion on the problems associated with global outsourcing including poor choices of outsourcing partners, cultural, legal and economic issues, decline in the morale and performance of employee, lack of supporting infrastructures, unclear expectations/unclear objectives, insufficient training/skills to deal with type of global sourcing and insufficient high level management support.

- **Section 7:** What factors do you think make global outsourcing strategies increase the organizations’ effectiveness?

This section captured the respondent’s opinion on effective implementation of global outsourcing.

- **Section 8:** What in your opinion are the benefits of Global Outsourcing Strategies?

This section captured the respondent’s opinion on the benefits of global outsourcing including concentration on its core competency and improved performance, cost Savings, enhanced productivity, faster time to market product or services, guaranteed customer satisfaction and increased market share. Sections 7 and 8 collected data on the perceived benefits of global outsourcing. Section 6
collected data on the problems associated with global outsourcing and was included to determine if the respondents perceived global outsourcing as being a beneficial strategy taken as a whole.

3.5 Sampling Design

Data was collected using the convenience sampling technique. This is the method of choosing items arbitrarily and in an unstructured manner from the frame. Though almost impossible to treat rigorously, it is the method most commonly employed in many practical situations. In this study, both the convenience sampling technique was used.

Sampling was done around Klang Valley, Malaysia. Klang Valley (Malay: Lembah Klang) is an area in Malaysia comprising Kuala Lumpur and its suburbs, and adjoining cities and towns in the state of Selangor. An alternative reference to this would be Kuala Lumpur Metropolitan Area or Greater Kuala Lumpur, though neither of these terms is used locally. It is geographically delineated by Titiwangsa Mountains to the north and east and the Strait of Malacca to the west.

3.6 Data Collection Procedures

Data collection was conducted via a questionnaire that had 9 related sections. The questions were designed to measure organizational characteristics of the organizations of the respondents, perceptions among employees of outsourcing, types of activities outsourced; and benefits and problems of global outsourcing. The questionnaires were
sent by email and/or delivered personally by hand. Each questionnaire included a cover letter explaining the purpose of the study. The respondents were asked to return the survey forms, without names or addresses. This was done in an attempt to ensure anonymity of the respondents and their respective organizations.

The questionnaire was forwarded to employees who held executive level positions in their respective organizations. A total of 208 respondents participated in this study. Of these, only 200 responses were usable and therefore only those 200 responses were used to perform the statistical analyses.

3.7 Data Analysis Techniques

A combination of both Primary and Secondary Data collection method was used for this study. The primary data was collected from distribution and collection of the questionnaires. The questionnaire used for data collection contained scales to measure the various constructs depicted in the research model. The questions, (except for the questions on the demography of the respondents and questions on the first variable, organizational characteristics), were all captured in the Likert scale of 1-5, that is, 1-Strongly Disagree, 2- Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree.

A Likert scale is a type of psychometric response scale often used in questionnaires, and is the most widely used scale in survey research. When responding to a Likert questionnaire item, respondents specify their level of agreement to a statement. The scale is named after Rensis Likert, who published a report describing its use (Likert, 1932). A
A typical test item in a Likert scale is a statement. The respondent is asked to indicate his or her degree of agreement with the statement or any kind of subjective or objective evaluation of the statement.

The five point Likert scale developed for the use in this study is illustrated in Figure 3 below.

**Figure 2: Representation of the scale code**

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>Disagree</td>
<td>Neutral</td>
<td>Agree</td>
<td>Strongly Agree</td>
</tr>
</tbody>
</table>

The questions were drawn from the themes extracted from the review of the literature and addressed general in the organization environment concepts. All the questions were rated on a scale ranging “from “1” strongly disagree, “2” disagree, “3” neutral, “4” agree and “5” strongly agree. The numerical values “1” and “2” are regarded as negative, meanwhile “4” and “5” as positive whereas “3” indicates the uncertain response of the respondent. The scale codes for this study are explained in Figure 4.

**Figure 3: Scale codes and description**

<table>
<thead>
<tr>
<th>Scale code</th>
<th>Scale description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly disagree.</td>
</tr>
<tr>
<td>Negative</td>
<td>Indicates that the element of the dimension does not play an active role in the dimension and to be completely excluded from the dimensions.</td>
</tr>
</tbody>
</table>
| 2 Negative | Disagree.  
Indicates that the element of the dimension is not important to the dimension and that it should not be part of the dimension. |
| 3 Neutral  | Neutral.  
Indicates that the element of the dimension is neither important nor unimportant as the correspondent unsure of the decision. |
| 4 Positive | Agree.  
Indicates that the element of the dimension is important to the dimension and that it should be part of the dimension |
| 5 Positive | Strongly agree.  
Indicates that the element of the dimension plays an active role in the dimension and that it is essential and should be definitely be included in the dimensions. |

A major portion of the data was captured from the journal articles, whose references appear in bibliography.

The final data inputs were loaded into a statistical package (SPSS Version 14) for various statistical analyses. Upon validation of the responses, the captured data was stored in the excel format. The data was then exported to SPSS Version 14.0 which is a statistical package for social sciences used to generate decision-making information using powerful statistics; and to understand and effectively present results with high-quality tabular and graphical output and using a variety of reporting methods.
The following analyses were performed with the data collected

1. Data Normality test
   a. Normality of data
   b. Data Descriptives

2. Validity tests using Factor Analysis

3. Reliability tests using Cronbach Alpha

4. Analysis of Variance (ANOVA)

5. Correlation

6. Regression
CHAPTER 4

RESEARCH

ANALYSIS
CHAPTER 4
RESEARCH ANALYSIS

4.0 Introduction

In this chapter, the results of the study are reviewed in terms of the perceived benefits of global outsourcing on Malaysian organizations. The purpose of the study is to find factors that influence the perceived benefits of global outsourcing on Malaysian organizations. The findings are presented based on various analytical tools and methods available in the SPSS and excel program.

4.1 Summary Statistics of Respondents

The questionnaires were forwarded to approximately 350 prospective candidates. 208 respondents responded the questionnaire survey. The data was validated and 8 responses had to be rejected before analysis. Only 200 valid data was stored in the database. Therefore the usable response rate was approximately 57% and a comparatively good response rate. The data was then subjected to empirical analysis using SPSS Version 14.0, a statistical tool package.

4.1.1 Distribution of Respondents by Age

The Figure 1 shows the distribution of respondents by age. Most of the respondents belonged to the age group of 21-30, followed by 31-40 age group. The statistics show that number of respondents from the above 50 population was the lowest therefore
validating the survey was conducted mostly among respondents who were currently employed in Malaysia and therefore would be best aware about global outsourcing.

**Figure 4: Distribution of Respondents by Age**

![Distribution - Agewise](image)

4.1.2 Distribution of Respondents by Income

The Figure 2 shows the distribution of respondents by income. A large number of the respondents, approximately 77.5% (62.0 + 15.5) belonged to middle income group of RM1000 to RM10000. Only 6.0% belonged to a higher income group earning more than RM10000 per month.
4.1.3 Distribution of Respondents by Education

This Figure 3 summarizes the respondent’s level of education. The table indicates that most of the respondents possessed a minimum of a diploma education and therefore validated that most of the respondents came from an educated population who were generally well informed and therefore aware of the existence and the principles surrounding global outsourcing and its effects.
Figure 6: Distribution of respondents based on level of Education

4.1.4 Distribution of Respondents by based on industry type

This Figure 4 summarizes the respondents based on the type of industry they were employed in. The distribution indicated that a large number of respondents (48%) were based in the service industry (i.e. health, services, transport, utilities and education). This analysis indicated that the respondents were spread among all the industry types in Malaysia and that there was no concentration on any particular industry or company.
4.2 Analysis of Measures

A modification of an established instrument was used to assess demographics, the Malaysian business environment, organization characteristics, employee perceptions on outsourcing, types of activities outsourced and the perceived benefits of global outsourcing in Malaysia.

4.2.1 Normality Test of the Data

Upon initial testing, the kurtosis value of factors for organization characteristics was above +3 and therefore indicated that the data was not normal. In an attempt to make this
data normal and suitable for further testing, the natural logarithm of this data was applied and results were rectified. The new data was labeled ‘New Organization Characteristics’.

### Table 2: Normality Test Results

<table>
<thead>
<tr>
<th>Normality Tests</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>200</td>
</tr>
<tr>
<td>Mean</td>
<td>3.2856</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>0.71224</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.335</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-0.757</td>
</tr>
</tbody>
</table>

The extent to which the global outsourcing strategies are perceived to be beneficial in Malaysia is influenced by 3 factors. The influence of employee perceptions on outsourcing (mean=3.2856) ranked highest among the three factors. The raw data indicated that types of activities outsourced (mean=3.1683) ranked next while organization characteristics ranked the lowest (mean=1.1312) indicating that it exerted the least influence, if any at all, on the perceived benefits of global outsourcing.

Skewness is a measure of how symmetrical the data are; a skewed variable is one whose mean is not in the middle of the distribution. Skewness should be in the range +2 to -2 whereas Kurtosis has to do with how peaked the distribution is, either too peaked or too flat. Extreme values for kurtosis are within +3 to -3. The results indicate that Skewness and the Kurtosis are in the range and therefore the data are normally distributed.
The above histogram exhibits the mean value of the three independent variables employed in this study; organization characteristics, employee perceptions on outsourcing and types of activities outsourced. The histogram produced a normal shaped curve indicating that the data collected on the three independent variables are normal.

Normality refers to the ‘shape’ of the distribution of the data. By drawing a line across the ‘tops’ of the bars in the histogram, the ‘shape’ of the data can be seen. When the ‘shape’ forms a ‘bell’ shape, it is indicative of a normal curve. The above histogram produced along with the normality test clearly indicates that the data collected is normal.
4.2.2 Validity and Reliability of the Data

Table 3: KMO measure of sampling adequacy

| Kaiser-Meyer-Olkin Measure of Sampling Adequacy | 0.813 |

“The KMO measures the sampling adequacy which should be greater than 0.5 for a satisfactory factor analysis to precede”. Kaiser-Meyer-Olkin(1970), suggested that a KMO statistic value below 0.5 is unacceptable or not appropriate to perform Factor Analysis. Table 7 shows a high value for KMO measure of sampling that indicates that all the factors can be used for the factor analysis. Bartlett’s Test of Sphericity was significant. The KMO measure was 0.813, exceeding the .50 required values and falls within the KMO and Bartlett’s result range of ‘great’.

Table 4: Total variance explained

<table>
<thead>
<tr>
<th>Factor</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>2</td>
<td>2.774</td>
<td>12.608</td>
</tr>
<tr>
<td>3</td>
<td>1.585</td>
<td>7.205</td>
</tr>
<tr>
<td>4</td>
<td>1.358</td>
<td>6.174</td>
</tr>
<tr>
<td>5</td>
<td>1.154</td>
<td>5.246</td>
</tr>
<tr>
<td>6</td>
<td>1.073</td>
<td>4.876</td>
</tr>
<tr>
<td>7</td>
<td>1.036</td>
<td>4.71</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Axis Factoring.

The "Total Variance Explained" Table 3 above shows the eigenvalues, which are the proportion of total variance in all the variables which is accounted for by that factor.
Since seven factors have Eigenvalues more than 1 (with the first two factors having very high Eigen values), only 64% of variables explain the theoretical framework, the remaining factors can be ignored as they are redundant when compared with the more important factors. Low Eigenvalue of a factor means that it contributes little to the explanation of variances in the variables and may be ignored.

**Table 5: Rotated Factor Matrix**

<table>
<thead>
<tr>
<th>Questionnaire Items</th>
<th></th>
<th></th>
<th></th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Perceptions 2</td>
<td></td>
<td></td>
<td></td>
<td>.711</td>
</tr>
<tr>
<td>Perceptions 3</td>
<td></td>
<td></td>
<td></td>
<td>.571</td>
</tr>
<tr>
<td>Perceptions 4</td>
<td></td>
<td></td>
<td></td>
<td>.688</td>
</tr>
<tr>
<td>Perceptions 5</td>
<td></td>
<td></td>
<td></td>
<td>.707</td>
</tr>
<tr>
<td>Perceptions 6</td>
<td></td>
<td></td>
<td></td>
<td>.651</td>
</tr>
<tr>
<td>Perceptions 7</td>
<td></td>
<td></td>
<td></td>
<td>.703</td>
</tr>
<tr>
<td>Perceptions 8</td>
<td></td>
<td></td>
<td></td>
<td>.756</td>
</tr>
<tr>
<td>Activities 1</td>
<td></td>
<td></td>
<td></td>
<td>.565</td>
</tr>
<tr>
<td>Activities 2</td>
<td></td>
<td></td>
<td></td>
<td>.551</td>
</tr>
<tr>
<td>Activities 3</td>
<td></td>
<td></td>
<td></td>
<td>.703</td>
</tr>
<tr>
<td>Activities 4</td>
<td></td>
<td></td>
<td></td>
<td>.533</td>
</tr>
<tr>
<td>Activities 5</td>
<td></td>
<td></td>
<td></td>
<td>.524</td>
</tr>
<tr>
<td>Activities 6</td>
<td></td>
<td></td>
<td></td>
<td>.565</td>
</tr>
<tr>
<td>Activities 7</td>
<td></td>
<td></td>
<td></td>
<td>.659</td>
</tr>
<tr>
<td>Activities 8</td>
<td></td>
<td></td>
<td></td>
<td>.706</td>
</tr>
<tr>
<td>Activities 9</td>
<td></td>
<td></td>
<td></td>
<td>.562</td>
</tr>
</tbody>
</table>

*Extraction Method: Principal Components Factoring.*

*Rotation Method: Varimax with Kaiser Normalization.*
Factor analysis is a test that attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. Factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. Factor analysis can also be used to generate hypotheses to screen variables for subsequent analysis (for example, to identify co-linearity prior to performing a linear regression analysis). Only statements/items with factor loadings of 0.50 and above in the rotated factor matrix are considered as significant in interpreting the factors.

Cronbach’s alpha was used for determining the reliability of individual scales and subscales. Convergent validity and discriminant validity of the measures was verified by observing the correlations between the items on the various scales. The values of Cronbach alpha in the following reliability statistics were extracted from rotated factor matrix table.

By convention, a lenient cut-off of .60 is common in exploratory research; alpha should be at least .70 or higher to retain an item in an "adequate" scale; and many researchers require a cut-off of .80 for a "good scale." (Nunnally, 1967, p.14). They further stress that alpha coefficient that is below 0.70 should therefore be dropped from subsequent analysis as it had limited use in regression analysis due to its low reliability.
4.2.3 Reliability Analysis

Table 6: Reliability Analysis

<table>
<thead>
<tr>
<th>Factors</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.781</td>
</tr>
<tr>
<td>2</td>
<td>0.808</td>
</tr>
<tr>
<td>3</td>
<td>0.771</td>
</tr>
<tr>
<td>4</td>
<td>0.759</td>
</tr>
</tbody>
</table>

**Factor 1** consists of a set of 6 items (namely questions 20 to 25 of the questionnaire). These items were included to measure the third independent variable; the types of activities outsourced. The Cronbach alpha value was .781 indicating that it was an adequate scale. Therefore the data obtained was reliable.

**Factor 2** consists of a set of 4 items (namely questions 12 to 15). These items on the questionnaire were intended to measure the independent variable, employee perceptions on outsourcing. The Cronbach alpha value was .808 indicating that it was a very good scale. Therefore the data obtained was very reliable.

**Factor 3** consists of a set of 3 items (namely questions 16 to 18). These items also measure employee perceptions on outsourcing. The Cronbach alpha value was .771 indicating that it was an adequate scale. Therefore the data obtained was reliable.

**Factor 4** consisted of a set of 3 items (namely questions 26 to 28). These items measure the types of activities outsourced. The Cronbach alpha value was .759 indicating that it was an adequate scale. Therefore the data obtained was reliable.

Therefore based on the Cronbach Alpha generated, it can be concluded that all the data
obtained are reliable ranging from the adequate to the good scale. As none of the factors have an alpha value below .7, there is no necessity to drop any of the factors due to unreliability.

4.3 Testing of Hypotheses

Pearson correlation test provides information that indicates the direction, strength and significance of the bi-variate relationship by performing tests either the 1 tail test which is appropriate when the direction of the relationship between a pair of variables can be specified in advance of the analysis or the 2 tail test which is appropriate when the direction of the relationship cannot be determined in advance, as is often the case in exploratory data analysis.

The correlations table displays Pearson correlation coefficients, significance values, and the number of cases with non-missing values (N). The values of the correlation coefficient are a measure of association and range from -1 to 1. The sign of the correlation coefficient indicates the direction of the relationship (positive or negative). The absolute value of the correlation coefficient indicates the strength, with larger absolute values indicating stronger relationships. The correlation coefficients on the main diagonal are always 1, because each variable has a perfect positive linear relationship with itself. The significance of each correlation coefficient is also displayed in the correlation table. The significance level (or p-value) is the probability of obtaining results as extreme as the one observed and should be less than 0.05. Significance can be at 99% as indicated by the double asterisk (**) or the single asterisk 95%(*).
The following is the correlation results of each hypothesis.

**Table 7: Summary of Hypothesis**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Factors</th>
<th>Pearson r value</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁</td>
<td>Organization characteristics will have a significant influence on the perceived benefits of global outsourcing.</td>
<td>0.324</td>
<td>-</td>
</tr>
<tr>
<td>H₂</td>
<td>Employee perceptions on outsourcing will have a significant influence on the perceived benefits of global outsourcing.</td>
<td>0.680**</td>
<td>99%</td>
</tr>
<tr>
<td>H₃</td>
<td>Types of activities outsourced will have a significant influence on the perceived benefits of global outsourcing.</td>
<td>0.499</td>
<td>99%</td>
</tr>
</tbody>
</table>

The Hypothesis 1 (H₁) is Organization characteristics will have a significant influence on the perceived benefits of global outsourcing. The r-value (Pearson correlation) does not fall within the range of -1 to 1 and the probability value is .324 and therefore does not fall within the scale of <0.05. Therefore the test shows that the relationship is not significant and therefore is indicative that there is no correlation between organization characteristics and the perceived benefits of global outsourcing. Therefore, H₁ is not valid and there is a negative relationship between organization characteristics and the perceived benefits of global outsourcing.

The Hypothesis 2 (H₂) is Employee perceptions on outsourcing will have a significant influence on the perceived benefits of global outsourcing. The r-value (Pearson
correlation) falls within the acceptable range of -1 to 1 and the p value is less than 0.05. Further the double asterisks show a significant strong correlation between employee perceptions on outsourcing and the perceived benefits on global outsourcing. The correlation is 99% significant. Hence, H₂ is valid. There is a strong positive relationship employee perception on outsourcing and the perceived benefits of global outsourcing.

The Hypothesis 3 (H₃) is Types of activities outsourced will have a significant influence on the perceived benefits of global outsourcing. The ‘r’ value is between -1 and 1. The r-value (Pearson correlation) of 0 is less than 0.05 and shows a significantly strong correlation between types of activities outsourced and perceived benefits of global outsourcing. The correlation is also 99% significant. Hence, H₃ is valid and there is a strong positive relationship between the types of activities outsourced and the perceived benefits of global outsourcing.

4.3.1 Regression Test

Multiple regression can establish that a set of independent variables explains a proportion of the variance in a dependent variable at a significant level. The multiple regression equation takes the form \( y = b_1x_1 + b_2x_2 + ... + b_nx_n + c \).

Table 8: Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.729(a)</td>
<td>.532</td>
<td>.524</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Org. Characteristics, Employee Perceptions, Activities
b. Dependent Variable: Perceived Benefits
R-value depicts a positive significant high correlation between the dependent and the independent variables. R Square, the coefficient of determination, is the squared value of the multiple correlation coefficients. It displays that the model explains about 50.32% variation. All the variables have a moderate correlation explaining a good explanation of effect of the independent variables on the dependent variable.

Table 9: Beta Values

<table>
<thead>
<tr>
<th>Model</th>
<th>Standardized Coefficients</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.804</td>
<td>.000</td>
</tr>
<tr>
<td>PERCEPTIONS</td>
<td>0.568</td>
<td>.000</td>
</tr>
<tr>
<td>ACTIVITIES</td>
<td>0.289</td>
<td>.000</td>
</tr>
<tr>
<td>ORGANIZATION CHARACTERISTICS</td>
<td>0.021</td>
<td>.677</td>
</tr>
</tbody>
</table>

The standardized coefficient, the Beta value of employee perceptions is higher than all other variables which provide an estimate of its importance in answering the relationship with the dependent variable, perceived benefits of global outsourcing. The Beta value of Activities answers an appreciable amount of between the independent variables and dependent variables. Therefore, the significant predictors are employee perceptions on outsourcing and the types of activities outsourced as these two predictors have a high effect on the perceived benefits of global outsourcing.
Table 10: ANOVA Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>44.334</td>
<td>3</td>
<td>14.778</td>
<td>73.800</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>39.048</td>
<td>195</td>
<td>0.200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>83.382</td>
<td>198</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Org. Characteristics, Employee Perceptions, Activities
b. Dependent Variable: Perceived Benefits

Table 9 is the ANOVA table used to find the significance of relationships between the independent and dependent variables. The p-value is less than 0.05. The table reports a significant F statistic, indicating that using the model is better than guessing the mean. A significant difference of almost 2% between R Square and Adjusted R Square depicts that the sampling size should be increased as the number of predictors are high. Relationship between the independent and the dependent variables are highly significant.
Figure 9: Linear Regression Plot

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Perceived Benefits

All the data show a more or less linear relationship; however there are outliers i.e. data which falls out of boundary. The data also indicates that the independent factors have a high influence on the dependent factor.

4.4 Summary of Research Results

The results of this research yields strong evidence that employee perceptions on outsourcing may serve as a foundation for future researches on outsourcing in Malaysia. Relationships among two of the independent factors (i.e. employee perceptions on outsourcing and types of activities outsourced) and the dependent variable, perceived
benefits of global outsourcing are highly consistent and related to researches of global outsourcing.

The following table 16 summarizes the results of hypothetical testing:

### Table 11: Hypotheses Testing results

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Correlation</th>
<th>Accept / Reject</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁</td>
<td>Negative</td>
<td>Reject</td>
</tr>
<tr>
<td>H₂</td>
<td>Positive</td>
<td>Accept</td>
</tr>
<tr>
<td>H₃</td>
<td>Positive</td>
<td>Accept</td>
</tr>
</tbody>
</table>

The main finding of the study is the effect of employee perceptions on outsourcing and types of activities outsourced are found to be significant to the perceived benefits of Global Outsourcing and the r-value (Pearson correlation) shows a significant strong correlation between them. Hence, Hypotheses 2 and 3 are valid as there are strong positive relationships.

### 4.5 Summary

This chapter details the Summary Statistics of Respondents, Analysis of Measures and the Testing of Hypotheses and Correlation between the Independent Variables and the Dependent Variable. Employee perceptions on outsourcing and types of activities outsourced have a strong positive impact on the perceived benefits of global outsourcing whereas organization characteristics don not seem to have any impact on the perceived benefits of global outsourcing. High correlation between the independent and the dependent factors together answer 64% relationship between them.
CHAPTER 5

CONCLUSION &
RECOMMENDATIONS
CHAPTER 5

CONCLUSION & RECOMMENDATIONS

5.0 Introduction

This chapter concludes the study on factors that influence the perceived benefits of global outsourcing in Malaysian organizations. This chapter represents a summary of the findings, discussions on the implications of the study and makes recommendations for future research.

The objective of the study is to examine the factors that influence the perceived benefits of global outsourcing in Malaysian organizations.

The results of this study indicate that the perceived benefits of global outsourcing in Malaysian organizations are influenced by the following factors:

i) Organization characteristics

ii) Employee perceptions on outsourcing

iii) Types of activities outsourced

This chapter summarizes the briefings and conclusions of this research. It also adds on the implications and suggestions for future research.
5.1 Global Outsourcing In Malaysia

In Malaysia, analysts like IDC Malaysia have taken a proactive role in driving the development of Global Outsourcing Strategies. On 4th May 2006, the Malaysian Prime Minister, Dato' Seri Abdullah Bin Haji Ahmad Badawi launched ‘OUTSOURCING MALAYSIA’ in conjunction with the World Congress on Information Technology (W.C.I.T) 2006. The initiative is aimed at promoting and developing Malaysia’s outsourcing industry as well as to position the country as a leading global hub for high-value shared services and outsourcing (S.S.O) operations.

Global outsourcing is not a recent phenomenon in Malaysia; the level of global outsourcing appears to have increased tremendously. According to leading outsourcing analysts Neo-I.T., Malaysia has the third largest contingent of world-class outsourcing players. Though there is not much research in this area of study, many reports and articles have been published about the increase and the targeted promotion of global outsourcing, although it is still at the initial stages.

5.2 Findings And Implications

This study reports its findings into the subject of the perceived benefits of global outsourcing in Malaysia and the factors that influence it. This study is novel in the sense that it addresses the influencing factors in Malaysia, namely among Malaysian companies and provides an examination and discussion that organization characteristics, employee perceptions on outsourcing and types of outsourced activities have a direct impact on the perceived benefits of global outsourcing in Malaysia.
The findings of this study showed that the employee perceptions on outsourcing and types of activities outsourced have a positive impact on the perceived benefits of global outsourcing whereas organization characteristics does not have a direct influence (if at all) on the same.

Therefore in order to achieve the target results and volume in global outsourcing and to reap the recognized benefits of global outsourcing, there must be a focus set on the two factors that have been identified in this study as having a direct influence on the benefits of global outsourcing.

Attention should be drawn to an interesting point that this study found that organizational characteristics in Malaysia do not have any impact on the perceived benefits of global outsourcing strategies.

The needs and implication of this study which display that employee perceptions on outsourcing and types of activities outsourced should be major considerations in promotion global outsourcing. Malaysian companies and the government should engage more campaigns and trainings in educating their employees to in introduce and increase awareness of global outsourcing and its benefits while studying further the types of activities currently outsourced and the needs of the global market so as to reach optimum results when implementing global outsourcing strategies.

The awareness of Malaysian companies and their employees are imperative to maintain their objectives and essential to form global outsourcing strategies which attain their
objective s and benefit in adding a competitive edge in attracting stable and ethical domestic and foreign investment.

The findings present a strong support to the grounded theory and also two of the hypotheses used for this study. Two of the 3 hypotheses are accepted and is proved through the detailed empirical analyses. The study has the following implications

- Employee perceptions on outsourcing and types of activities outsourced will influence the perceived benefits of global outsourcing.
- Organization characteristics do not influence the perceived benefits of global outsourcing.

5.3 Limitations

The present study is not without limitations. Though initial limitations have been laid out in Chapter 1, limitations that arose during the course of the study are outlined herein. The first limitation was the lack or unavailability of financial data on outsourcing. There is no disclosure in the financial statements of Malaysian organizations or in their reports about the allocation of sums to promote or carry out outsourcing activities. Many multinational companies practice unique business policies whereby budgets are allocated to conduct evaluation of the company needs and requirements. This is also lacking in local companies.

Secondly, in this study, the variables were measured responses from employees of firms in Malaysia. Many items of measurement of success such as benefits in terms of increased production, cost savings, money value of time and workforce savings were
removed due to limitations. These information and more was not available in annual reports of companies and was not information generally disclosed to employees. This greatly limited the extent of this study.

It is also important to note that not many studies have been conducted in recent years concerning the global outsourcing in Malaysia. This study focuses on the phenomenon and situation in Malaysia, which is uniquely different from other countries culturally. The success of global outsourcing strategies and factors influencing it may differ from other foreign countries.

5.4 Conclusions

This study attempts to provide a better understanding of factors affecting the perceived benefits of global outsourcing strategies in Malaysia. Understanding these factors requires a greater understanding of all factors affecting the global outsourcing environment. This study can assist the managers in S.S.O industry to offer a comprehensive and effective strategy to target the global market. This model can hence assist them to profit from the knowledge in being able to advice or help in the necessary areas.

5.5 Suggestions For Future Research

With increased employee awareness and participation, global outsourcing may be a greater success in Malaysia. As there are 13 states in Malaysia, it may be difficult to assess if all the states yield the same results. This study was conducted around the Klang
Valley. The study must be extended to study the factors affecting global outsourcing strategies in the other states. Malaysia has a population is 25 million and hence the sample size needs to be increased so that will depict the totality of the population.

The direction of future research will include state-wise study of outsourcing adoption as states like Johor or Penang may yield differing results. For this research a basic screening test was done, before obtaining the responses from the sample. Future research should be extended to companies as respondents instead of employees only. Apart from this research outline, the future research must include actual measure of effectiveness of global outsourcing strategies and attainment of the benefits of global outsourcing rather than general opinions on perceived benefits.
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QUESTIONNAIRE
DETERMINANTS OF GLOBAL OUTSOURCING IN MALAYSIA
DETERMINANTS OF GLOBAL OUTSOURCING IN MALAYSIA

Dear Respondent,

This survey is conducted as part of a research project, which shall be submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration from the University of Malaya. The purpose of this study is to study the “Determinants Of Global Outsourcing In Malaysia”.

The information that you give in this survey is only for academic purposes and will be kept strictly confidential. The findings from this survey will be reported only on aggregate level and anonymity of individuals that respond this questionnaire is guaranteed.

I anticipate that the full survey should take approximately 10 minutes to complete. Please answer all the questions and return your response to me before 19th February 2008. Alternatively, you may also submit via e-mail to arunsanthy@gmail.com. I thank you in advance for your time and cooperation.

Yours sincerely,

Santhi Kannammai @ Mohan
Matrix No : CGA050015
### Survey Sections

**Section 1:** More about you

**Section 2:** More about your organization

**Section 3:** Why do you think organizations are opting for Global Outsourcing Strategies?

**Section 4:** Why do you think organizations need to adopt Global Outsourcing Strategies?

**Section 5:** What products/services are generally outsourced in your current organization?

**Section 6:** What factors do you think make Global Outsourcing Strategies decrease the organizations’ effectiveness?

**Section 7:** What factors do you think make Global Outsourcing Strategies increase the organizations’ effectiveness?

**Section 8:** What in your opinion are the benefits of Global Outsourcing Strategies?

**Section 9:** What in your opinion are the effects of Global Outsourcing Strategies?

---

### INSTRUCTIONS

Kindly tick the appropriate options. Please answer to the best of your knowledge

**Section 1: More about you**

2. **Gender**

- [ ] Male
- [x] Female

3. **Age Class**

- [ ] < 20
- [x] 21-30
- [x] 30-40
- [ ] 40-50
- [ ] >50
4. Can you tell us your monthly income (in RM)
   - < 1,000
   - 1,000 – 5,000
   - 5,000– 10,000
   - > 10000

5. Marital Status
   - Single
   - Married
   - Divorced/Widow/Widower

6. What is your highest education achieved?
   - Diploma/Higher Diploma
   - Graduate
   - Post Graduate
   - Professional
   - Others, Please Specify_____________________

Section 2: More about your organization

7. Please indicate your organization’s core business function.
   - Manufacturing
   - Finance/Insurance/Real/Estate
   - Health
   - Services
   - Transportation/Telecommunication/Utilities
   - Retail/Wholesale
   - Education
   - Agricultural/plantation
   - Construction/Mining/Oil & Gas
   - Other, please specify………………………………………………………………………..

8. Is your organization,
   - National only
   - Multinational

9. Is your organization listed in Bursa Kuala Lumpur?
   - Yes
   - No
10. How large are your Malaysian based operations? (No of employees)

- Small (1-50)
- Medium (51-500)
- Large (>500)

Instructions

Use the below given scale to mark your responses. Please “tick” the appropriate choices.

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<tr>
<td>Strongly Disagree</td>
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<tr>
<td>Agree</td>
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Section 3: Why do you think organizations are opting Global Outsourcing Strategies

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<tbody>
<tr>
<td>11</td>
<td>Organizations can reduce cost effectively</td>
<td></td>
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<tr>
<td>12</td>
<td>Increases exposure to worldwide technology</td>
<td></td>
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<tr>
<td>13</td>
<td>Gains access to resources available abroad</td>
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<td>14</td>
<td>Establishes presence in foreign markets</td>
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<tr>
<td>15</td>
<td>Maintains sufficient flexibility to response to market conditions</td>
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Section 4: Why do you think organization’s need to adopt Global Outsourcing Strategies?

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<tbody>
<tr>
<td>16</td>
<td>There is a reduction in overall amount of specialized skill and knowledge needed</td>
<td></td>
<td></td>
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<tr>
<td>17</td>
<td>Makes capital funds available for more profitable operations</td>
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<tr>
<td>18</td>
<td>Significant Quality Improvement of Product Design / Service Efficiency</td>
<td></td>
<td></td>
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<tr>
<td>19</td>
<td>Organizations find low availability of Skilled resources in local market</td>
<td></td>
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Section 5: What products/services are generally outsourced in your current organization?

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<tbody>
<tr>
<td>20</td>
<td>Purchasing parts or components for the final product</td>
<td></td>
<td></td>
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<tr>
<td>21</td>
<td>Information technology</td>
<td></td>
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</tbody>
</table>
### Section 6: What factors do you think makes Global Outsourcing Strategies decreases the organizations’ effectiveness?

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</thead>
<tbody>
<tr>
<td>29</td>
<td>Poor choices of outsourcing partners</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Cultural, legal and economic issues</td>
<td></td>
<td></td>
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<tr>
<td>31</td>
<td>Decline in the morale and performance of employee</td>
<td></td>
<td></td>
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<tr>
<td>32</td>
<td>Lack of supporting infrastructures</td>
<td></td>
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<td></td>
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<tr>
<td>33</td>
<td>Unclear expectations/unclear objectives</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>34</td>
<td>Insufficient/Non-existent training/skills to deal with type of global sourcing</td>
<td></td>
<td></td>
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<tr>
<td>35</td>
<td>Insufficient/Non-existent high level management support</td>
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</tbody>
</table>

### Section 7: What factors do you think makes Global Outsourcing Strategies increases the organizations’ effectiveness?

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<th>No</th>
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<tbody>
<tr>
<td>36</td>
<td>Organizations must not outsource products/services that are its core competency</td>
<td></td>
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<tr>
<td>37</td>
<td>Organizations must have a “well thought” and comprehensive strategic plan</td>
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<tr>
<td>38</td>
<td>Organizations must keep the contract short with the outsourced company</td>
<td></td>
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</table>
Section 8: What in your opinion are the benefits of Global Outsourcing Strategies?

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</thead>
<tbody>
<tr>
<td>39</td>
<td>Organizations can concentrate on its core competency and improve upon its performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Organizations can save cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>41</td>
<td>Productivity can be enhanced</td>
<td></td>
<td></td>
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<tr>
<td>42</td>
<td>Organisations are able to market products or services more efficiently and effectively</td>
<td></td>
<td></td>
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<tr>
<td>43</td>
<td>Customer satisfaction can be guaranteed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>44</td>
<td>Market share of organizations will increase due to global outsourcing</td>
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Section 9: What in your opinion are the effects of Global Outsourcing Strategies?

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</thead>
<tbody>
<tr>
<td>45</td>
<td>Global Outsourcing Strategies leads to loss/decline in job opportunities</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>46</td>
<td>Global Outsourcing Strategies leads to loss/decline in demand specialized skill and knowledge</td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>47</td>
<td>Global Outsourcing Strategies leads to loss/decline in employee’s demanding power (in terms of salary and working conditions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>48</td>
<td>Global Outsourcing Strategies leads to loss/decline in employee’s morale and performance</td>
<td></td>
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</table>

Thank You for your cooperation.
Prime Minister Datuk Seri Abdullah Ahmad Badawi on Thursday launched *Outsourcing Malaysia* on the sidelines of the World Congress on Information Technology (WCIT) 2006 in Austin, Texas. This initiative is to position the country as a premier outsourcing and shared services (SSO) destination; reaffirming its global position as the third largest outsourcing location after India and China and bringing the industry to a higher level.

To support this initiative, resources and expertise of all the players within the Malaysian SSO industry will be further coordinated through a collaborative government-industry approach, with Multimedia Development Corporation (MDeC), the Association of the Computer and Multimedia Industry of Malaysia (PIKOM) and the Malaysia Debt Ventures (MDV) as institutional partners. These efforts would enhance the SSO industry in the country and enable global companies to leverage on top-class Malaysian capabilities.

“I believe that Malaysia can truly shine in the SSO industry because it offers cutting-edge sophistication at a fraction of the cost – comparable with the lowest overall cost in the Asian region,” the Prime Minister said. “As such, Malaysia’s unique package of commercial and lifestyle options will provide the global industry with overall cost savings, as well as quality services that are second to none,” he added.

Malaysia’s political stability; safe and secure location, world-class business environment and infrastructure, low-cost of living, high quality of life, skilled human capital, low staff attrition rates, low wage inflation, and the lowest telecommunications cost are attributes for a thriving SSO industry.

In terms of human resource, companies can tap into a well-educated multi-ethnic workforce with multiple skills and multiple language proficiencies, including English. The Malaysian workforce includes foreign-educated graduates, 95% of which return upon completion of their studies abroad. These graduates with sound work ethics and exposure to the western work culture would be an added advantage.

“Malaysia continues to give emphasis to develop knowledge-workers to help transform the country to becoming a knowledge-based economy,” Datuk Seri Abdullah added. A talent development institute is being established by MDeC to ensure the availability of appropriate talents for the industry. Over the next few years about 100,000 Malaysians are expected to work in this growing SSO industry.

In addition, seven urban and regional areas have been developed, with four more being planned to meet the needs of this growing industry.

Malaysia, which has since the last decade been developing the SSO industry, has achieved notable successes. Currently, many multinational firms such as HSBC, DHL, BMW, EDS, ACS and IBM have established operations in Malaysia.

*Adapted from New Straits Times and Star, 5 May 2006*
DISTINGUISHED GUESTS

LADIES AND GENTLEMEN

1. I am pleased to be here in Austin, Texas to kick off my participation at the World Congress on Information Technology (W.C.I.T.) 2006 by launching “Outsourcing Malaysia” – an important initiative that is aimed at promoting and developing Malaysia’s outsourcing industry as well as to position the country as a leading global hub for high-value shared services and outsourcing (S.S.O.) operations.

2. Indeed, shared services has become a critical element in today’s business world. It is a top strategic concern faced by most multinational companies. As a business model where common services are provided under a single, shared organisation, and which leverages on economies of scale, S.S.O. is now an important tool to improve efficiency and lower operating costs, and thereby result in higher profitability as well as generate superior value creation.

3. The fastest growing segment of the S.S.O. industry is the outsourcing of business operations offshore, especially to countries where the cost of operations is lower. I believe that Malaysia can truly shine in this area of the S.S.O. industry. This is because Malaysia offers cutting-edge sophistication at a fraction of the cost – comparable with the lowest overall cost in the Asian region. As such, Malaysia’s unique package of commercial and lifestyle options will provide the global industry with overall cost savings, as well as quality services that are second to none.

4. Malaysia’s tag line for the S.S.O. industry is “The Best of All Worlds”. This is appropriate, as I strongly believe that we are positioned to deliver high quality talent; coupled with a competitive cost structure for conducting business; in a world-class commercial environment. With political stability, safe and secure location, sound infrastructure, low cost of living, high quality of life, skilled human capital, small staff attrition rates, low wage inflation, and the lowest telecommunications cost, we believe we have what it takes to succeed in the S.S.O. industry.

5. In all, seven urban and regional areas have been developed with
THESE REQUIREMENTS IN MIND TO SERVICE THE S.S.O. COMMUNITY, AND FOUR MORE ARE BEING PLANNED. ALL THESE LOCATIONS WILL COME WITH HIGH-QUALITY UTILITIES, HIGH-SPEED INTERNET CONNECTIONS AND MODERN TRANSPORTATION FACILITIES.

6. IN TERMS OF HUMAN RESOURCES, COMPANIES HAVE AT THEIR DISPOSAL A WELL-EDUCATED WORKFORCE, WITH MULTIPLE SKILLS AND MULTIPLE LANGUAGE PROFICIENCIES, INCLUDING ENGLISH. OVER 95 PERCENT OF MALAYSIAN GRADUATES FROM ABROAD ELECT TO RETURN AND WORK AT HOME, WHICH HAS MADE THE MALAYSIAN WORKFORCE HIGHLY DIVERSE – IN TOUCH WITH WESTERN AND EASTERN MUSIC, ART, FILM, SPORTS AND CULTURE, BUT AT THE SAME HOLDING FAST TO SOUND VALUES AND POSSESSING A STRONG WORK ETHIC. IN ADDITION, EMPLOYERS CAN ALSO TAP A GROWING POOL OF HIGH-QUALITY GRADUATES FROM WELL-REGARDED LOCAL UNIVERSITIES AND OTHER INSTITUTIONS OF HIGHER LEARNING AT VERY COMPETITIVE RATES.

LADIES AND GENTLEMEN


8. TODAY, THERE ARE MORE THAN 40,000 EMPLOYEES WORKING IN M.S.C. MALAYSIA, WITH THE S.S.O. CLUSTER OF COMPANIES ACCOUNTING FOR 40 PER CENT OF THESE JOBS. FUELED BY THE CONTINUOUS GROWTH OF THE ASIAN MARKET, IT IS PROJECTED THAT THE S.S.O. CLUSTER WILL INCREASE TO ACCOMMODATE 100,000 EMPLOYEES IN THE NEAR FUTURE. IN MALAYSIA, WE RECOGNISE THE IMPORTANCE OF HUMAN CAPITAL DEVELOPMENT IN MOVING OUR ECONOMY UP THE VALUE-CHAIN. IN THE CASE OF S.S.O. COMPANIES, THE MAIN HUMAN RESOURCE CONCERNS REVOLVE AROUND HAVING A STEADY AND EXPANDING STREAM OF SKILLED KNOWLEDGE-WORKERS TO SERVE THEIR CURRENT AND EXPANSION NEEDS.

9. MALAYSIA CONTINUES TO GIVE PARTICULAR EMPHASIS TO DEVELOPING KNOWLEDGE-WORKERS TO HELP TRANSFORM THE COUNTRY TO BECOME A KNOWLEDGE-BASED ECONOMY. WHILE THE EDUCATION SYSTEM IS FURTHER REFORMED AND IMPROVED FROM TOP TO BOTTOM, OTHER NECESSARY STEPS ARE ALSO BEING UNDERTAKEN. TO ENSURE THAT THERE IS A STEADY AND EXPANDING POOL OF SKILLED KNOWLEDGE WORKERS FOR KEY SECTORS LIKE S.S.O., MALAYSIAN UNIVERSITIES HAVE ALREADY BEGUN TO OFFER SPECIALISED COURSES IN S.S.O.. IN ADDITION, A TALENT DEVELOPMENT INSTITUTE IS BEING SET UP BY THE MULTIMEDIA DEVELOPMENT CORPORATION (M-DEC), TO ENSURE THAT THE RIGHT KIND OF TALENT, WITH THE RIGHT SKILLS AND EXPERTISE, ARE DIRECTLY AVAILABLE TO MEET THE NEEDS OF S.S.O. COMPANIES IN MALAYSIA.

10. OVER THE LONG TERM, I BELIEVE THAT MALAYSIA HAS THE POTENTIAL TO GROW ITS S.S.O. INDUSTRY EVEN FURTHER. THIS BRINGS ME TO THE NEXT PART OF MY SPEECH, WHICH IS TO INTRODUCE THE “OUTSOURCING
MALAYSIA” INITIATIVE. ‘OUTSOURCING MALAYSIA’ IS AN INTERNATIONAL PROGRAM WITHIN OUR CURRENT S.S.O. FRAMEWORK, AND IS FOCUSED ON INCREASING MALAYSIA’S PARTNERSHIPS WITH THE GLOBAL S.S.O. INDUSTRY – AN INDUSTRY REACHING ALMOST ONE TRILLION U.S. DOLLARS IN SIZE.

11. ACCORDING TO LEADING OUTSOURCING ANALYSTS NEO-I.T., MALAYSIA HAS THE THIRD LARGEST CONTINGENT OF WORLD-CLASS OUTSOURCING PLAYERS. ‘OUTSOURCING MALAYSIA’ IS THUS AN INITIATIVE TO POOL TOGETHER THE RESOURCES AND EXPERTISE OF ALL THE PLAYERS WITHIN THE MALAYSIAN S.S.O. INDUSTRY TO PROMOTE MALAYSIA’S GLOBAL VISIBILITY IN THE OUTSOURCING INDUSTRY; AS WELL AS TO POSITION THE COUNTRY AS A LEADING HUB FOR S.S.O. OPERATIONS TO ENABLE GLOBAL COMPANIES TO LEVERAGE ON TOP-CLASS MALAYSIAN CAPABILITIES.

12. ESSENTIALLY, OUTSOURCING MALAYSIA IS A CONSORTIUM OF LEADING S.S.O. PLAYERS, LED AND MANAGED BY SENIOR AND LEADING INDUSTRY EXPERTS, TO TAKE MALAYSIAN S.S.O. TO THE NEXT LEVEL. THE CONSORTIUM HAS BEEN FORMED THROUGH A COLLABORATIVE GOVERNMENT-INDUSTRY APPROACH, WITH M-DEC, THE ASSOCIATION OF THE COMPUTER AND MULTIMEDIA INDUSTRY OF MALAYSIA (PIKOM) AS WELL AS MALAYSIA DEBT VENTURES (M.D.V.) AS INSTITUTIONAL PARTNERS.

13. I UNDERSTAND THAT ONE OF THE FIRST TASKS OF OUTSOURCING MALAYSIA IS TO PROMOTE THE S.S.O. INDUSTRY IN MALAYSIA BY IDENTIFYING, DEVELOPING AND PROMOTING THE KEY ADVANTAGES OF THE S.S.O. INDUSTRY IN THE COUNTRY TO A LARGER INTERNATIONAL AUDIENCE. ONE KEY ADVANTAGE WE HOLD IS THAT MANY S.S.O. COMPANIES IN MALAYSIA HAVE EXPERTISE IN PARTICULAR NICHE SECTORS, SUCH AS FINANCE, ENERGY, LOGISTICS AND TECHNOLOGY, WHICH HAVE ENABLED THEM TO DELIVER HIGH-QUALITY, SPECIALISED SERVICES. COMPARED TO OTHER DESTINATIONS THAT OFFER GENERIC SERVICES AND SOLUTIONS FOR ALL COMPANIES, MALAYSIAN S.S.O. COMPANIES ARE ABLE TO PROVIDE A HIGHER-LEVEL OF SERVICE AND ADVANCED SOLUTIONS THAT MEET THE INCREASINGLY COMPLEX SOURCING AND MULTI-SOURCING NEEDS OF GLOBAL COMPANIES.

14. ANOTHER KEY ADVANTAGE OF S.S.O. IN MALAYSIA LIES IN MALAYSIA’S MULTI-ETHNIC COMPOSITION CONSISTING OF MALAYS, CHINESE AND INDIANS – THE MAJOR RACIAL GROUPS IN ASIA. THIS SITUATION GIVES MALAYSIAN S.S.O. COMPANIES THE ADDITIONAL ADVANTAGE OF BEING ABLE TO HANDLE OPERATIONS IN MULTIPLE LANGUAGES. THEREFORE, MALAYSIA’S POSITIONING AS THE “GATEWAY TO ASIA” IS PARTICULARLY APT. TODAY, MANY MALAYSIAN S.S.O. COMPANIES ALREADY SERVE THE GREATER ASIAN MARKET, WHICH INCLUDES CHINA, INDIA, ASEAN, JAPAN, AUSTRALASIA AND WEST ASIA. THUS, PARTNERING WITH MALAYSIAN S.S.O. COMPANIES WILL ENABLE MULTINATIONAL FIRMS TO GAIN A STRONG FOOTHOLD WITHIN THESE HIGH GROWTH MARKETS, WHICH COULD IN TURN SERVE THE NEEDS OF SUCH FIRMS’ GLOBAL OPERATIONS.

LADIES AND GENTLEMEN

15. MALAYSIA HAS OFTEN BEEN CALLED ONE OF THE WORLD’S BEST KEPT SECRETS. BUT THIS SHOULD NO LONGER BE THE CASE, AS WE ARE DETERMINED TO TELL OUR STORY AND MOVE FORWARD. WE WANT TO ESTABLISH BROADER AND DEEPER LINKS WITH COUNTRIES AND COMPANIES THROUGHOUT THE GLOBE. WE BELIEVE WE HAVE MANY ADVANTAGES THAT WE CAN SHARE. MY COUNTRY IS A TRUE MICRO COSM OF ASIA, AND IS
CONSIDERED HOME TO PEOPLE WHO ARE TRULY MULTI-LINGUAL AND MULTI-CULTURAL. MALAYSIA IS FOUNDED ON A HIGHLY DEVELOPED SENSE OF TRADE, GLOBALISATION AND MUTUAL BENEFIT, WHICH HAS BEEN THE CASE FOR MANY GENERATIONS SPANNING HUNDREDS OF YEARS. I AM HERE TO SAY TO YOU: COME TO MALAYSIA AND TO M.S.C. MALAYSIA. NOT ONLY WILL YOU DISCOVER THE BEST OF MALAYSIA, BUT ALSO OF ASIA AND PERHAPS, THE WORLD.

16. ON THAT NOTE, IT GIVES ME GREAT PLEASURE TO OFFICIALLY LAUNCH “OUTSOURCING MALAYSIA”. THANK YOU.
OUTSOURCING PICKS UP IN MALAYSIA

Outsourcing picks up in Malaysia

KUALA LUMPUR, Malaysia--More organizations are choosing to outsource, a trend that will see the local IT outsourcing market grow to almost $350 million in 2008, IDC predicts.

The market research firm said outsourcing by Malaysian companies will rise at a compound annual growth rate of 27.2 percent over the next five years.

"The willingness to pay for outsourcing services is high, especially among players in the banking, insurance, manufacturing, health care and government sectors," Katherine Chan, IDC Malaysia's analyst for services research, said at a press briefing on Thursday.

Last year alone, several large IT outsourcing deals were signed, mainly by banks and transportation companies such as Maybank and Malaysian Airlines (MAS).

Chan attributes this huge interest to organizations requiring access to a more reliable infrastructure that can ensure smoother business operations at lower costs and with greater flexibility.

Since the signing of the first large deal in Malaysia, between Electronic Data Systems (EDS) and Bumiputra Commerce Bank Berhad (BCB) in late 2002, many vendors have been actively pursuing similar business opportunities.

But while there seemed to be equal interest in outsourcing from other industries--in particular, government--no contracts have yet been awarded.

Chan stressed that outsourcing requires a lengthy negotiation phase, with a lot of time and effort expended on working out the terms and conditions of a case contract. This is especially true of government deals, she said. Furthermore, the integration of old and new workflows could cause initial business disruption, she added.

"During the transition period, the scope and timeline may come under pressure from adjustments to requirements and (from) challenges in change management. And finally, the cultural differences between the agency and outsourcing services providers will likely create tension in the work environment," she explained.

Nevertheless, based on key observations, Chan said the Malaysian government is exploring the possibility of outsourcing its IT infrastructure.

IDC segments IT outsourcing into five major markets: information systems outsourcing, application management, network and desktop outsourcing, application service providers and system infrastructure service providers.
She noted that information systems outsourcing contributed 44 percent to Malaysia's total IT outsourcing market, which was mostly generated from the megadeals signed by BCB, Maybank and MAS.

"There are still organizations that prefer to opt for maintenance and technical support (rather) than to outsource, for reasons such as information confidentiality or concerns over security and losing control over the maintenance and management of applications," Chan said.

Still, some bigger companies are now seriously looking to outsource their desktop and network management to a service provider. Such organizations, Chan said, insist that their service provider owns and manages all its information infrastructure and operations.

*Cordelia Lee reports for CNETAsia.*

More from News.com on this story's topics.
MALAYSIA ANGLES FOR OUTSOURCING

MALAYSIA ANGLES FOR OUTSOURCING

India and China may be the world's premier outsourcing spots now, but Malaysia is fast emerging as a serious contender for global off shoring dollars, says management consultancy AT Kearney.

In the firm's latest study, Malaysia is ranked as the third most-attractive destination for shared services and outsourcing, behind India and China. Besides sending to Malaysia jobs in areas such as manufacturing and call centres, companies are using the country as a base for shared services like marketing and IT functions to support their operations in other countries.

India took the top spot in AT Kearney's 2004 offshoring index because of its cost advantages, as well as its depth and breadth of offshoring experience and the availability of skilled labour. Although China trails India in outsourcing experience and qualifications, its large educated work force and low costs propelled it to second place, the company said.

Still, Malaysia's well-developed infrastructure, attractive business environment and strong government support makes it a "rising alternative to India and China," said Ooi Joon Leong, managing director of AT Kearney's Malaysia unit.

"The government's positioning of Malaysia as a hub for services and technology innovation has resulted in a number of multinationals locating some of its global or regional operations in Malaysia," he said.

Although India and China came out on top in the company's study, they have higher political and economic risks, as well as relatively weak infrastructures. Moreover, China has to resolve issues of intellectual-property piracy and political red tape, the report said.

By comparison, Malaysia has a relatively more stable political climate backed by consistent economic growth.

Still, Ooi warns that the limited size and quality of Malaysia's work force could be possible impediments in the country's quest for a bigger share of the global IT services and business process outsourcing pie. According to Ooi, this market is expected to cross the $750bn (£419bn) mark globally by 2006.

To meet the demand for skilled IT labour, the report said, the educational system in India produces an estimated two million English-speaking graduates with strong technical backgrounds yearly. In contrast, the pool of IT and engineering graduates in Malaysia totals 75,000 annually, said Ooi, who spoke at a business conference here on Wednesday.

During his keynote address at the same event, Malaysian Prime Minister Abdullah Ahmad Badawi spoke of the importance of the offshoring and shared services market to
the country's Multimedia Super Corridor project, an attempt to develop a high-tech industrial zone like Silicon Valley.

According to Badawi, offshoring is one of the key business drivers in the corridor project. Multinational companies such as Ericsson, HSBC, Electronic Data Systems, IBM, Motorola and Prudential have all planted global services centres in the Multimedia Super Corridor, he said.

The Malaysian government further expects to create at least 10,000 "high-value jobs" in the shared services industry by 2010, Badawi added.

*CNETAsia's Winston Chai contributed to this report.*
Malaysia-The Next Destination for Global Outsourcing

Malaysia has its own recipe of building a long-term success as an exporter for the global demand in software and services. Since the Multimedia Super Corridor (MSC) was conceptualized in 1996, Multimedia Development Corporation (MDeC) has been tasked to develop this unique corridor into a regional operation hub and as a home for global ICT companies to do their research and development of new technologies.

Malaysia has many selling points that has made it emerged as one of the top hub of excellence for global ICT investment. It has the reputation of having the ability to cultivate the required skilled workforce and providence of top class infrastructure. Malaysia has rich talent pool and such workforce has been tapped by most high value project across the region. One of its very unique attractions is the multiracial community in Malaysia. This multiethnic environment grooms the workforce capable of handling multicultural team and project at global level and has made it uniquely position as the most versatile global call center with its multilingual workforce. Apart from English and the common ethnic languages, a growing prominence in the increasing proficiency in the Japanese and Korean language has given Malaysia an added advantage over traditional SSO hubs.

The ICT spending in Malaysia by 2010, is expected to hit RM22 billion, where software and services spending is forecasted to grow at 8% and 15% CAGR respectively. (Currently at 13.5 billion) The industry contributes to 3.5% of the total workforce in Malaysia which totaled to more than 200,000 professionals. A typical monthly salary for a data entry clerk starts as low as US$250, whilst for a fresh graduate IT engineer, it is about US$ 800.

The Government procurement policies continue to pay off. Malaysia has been one of the early adopters to put in place many regulations. Acts including Digital Signature, Computer Crimes and Telemedicine has been in force as early as 1997. Under the Bill of Guarantee, a company that acquired MSC status has the freedom of ownership, employment of knowledge workers, capital sources and import duty exemptions for multimedia equipments.

With a vision to transform Malaysia into a knowledge-based economy by 2020, Malaysia has amplified continued investment in world-class infrastructure along the Multimedia Super Corridor, with further incentives for corporations choosing to locate in Malaysia and additional policies to open up the labor pool and deepen English language and technical skills throughout the population of 24 million. This has made Malaysia increasingly prominence as a choice for shared services and outsourcing (SSO) hotbed in the region.
Malaysia was being ranked as the 3rd most attractive location in the world for offshore outsourcing by McKinsey and AT Kearney in 2005.

For cost of doing business, cyber laws and ICT statistics in Malaysia, here are some useful links.

ASOCIO: www.asocio.org
MSC: www.msc.com.my
MITI: http://www.miti.gov.my
MEWC: http://www.ktak.gov.my
MCMC: http://www.mcmc.gov.my
MOSTI: http://www.mosti.gov.my/

(The Author is Lucas Lim, ASOCIO Sec-Gen, penned after the inaugural PIKOM Software and Services Showcase, PS3 in Kuala Lumpur in July. Views are personal)