Pondering Over Cloud
How To Do It The Right Way

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MALAYSIA: EMERGENCE OF A NEW OUTSOURCING DESTINATION

Recently when I was in Kuala Lumpur for one of my projects, I had a tryst with the developmental saga of Malaysia. Whether it was the infrastructure or the economic sentiment within industries, the country left an impact on my mind. Malaysia, the third largest economy in South East Asia and the 29th largest in the world, is emerging as one of the most stable economies in the Asian region.

Its GDP has been growing steadily for the last 10 years at 5-6%. The government is playing a significant role in shaping the growth path of the country by taking progressive economic measures and investing a lot in the growing industry sectors. Through its Economic Transformation Programme, the government is undertaking structural reforms to augment the entrepreneurial environment and legal transparency in the country.

Malaysia has gradually reduced its dependence on agriculture, and the economy is now largely driven by the service sector. Outsourcing is one of the emerging sectors in the country, and is expected to grow at a rapid pace in the near future. The following is the evolution of Malaysia’s outsourcing industry:

BEGINNING: Initially, the objective of the industry was to make it attractive for large, international players to invest in IT services and support centres. A few of these companies are DHL, Shell, HSBC and Standard Chartered whose primary objective was cost reduction.

MATURITY: As the industry evolved, the focus shifted from low-end service offerings to high-end and more complex services such as application development and infrastructure management in IT, and CRM services in BPO. Also, small, independent companies began to grow.

Today the Malaysian outsourcing industry provides discrete as well as integrated services. The older and more established firms have continued to grow and expand their operations. On the other hand, smaller firms continue to crop up with lower revenues and number of employees.

ITO dominates the industry, accounting for more than a third of the total market in terms of number of players. This is followed by BPO.

KPO accounts for a very small share of the overall industry, but shows potential for growth in the coming years.
Also, the major chunk of the work currently comes from domestic demand, and a significant part from neighbouring nations like Singapore, Hong Kong and China. These are the territories where the regular future demand is expected to come from.

As a part of the MSc (Multimedia Super Corridor) initiative launched in Malaysia, designated areas known as Cybercities and Cybercentres were established. They were set up “to provide the ecosystem to attract ICT investors and promote the growth of local ICT companies”. To a large extent, this has been a successful initiative. 114 designated premises have been established with areas ranging from about five acres to 6,900 acres.

However, late entry into the outsourcing industry continues to haunt Malaysia along with various other challenges to outsourcing. Firstly, there is a lack of thought leadership in the industry that companies can emulate. Another challenge to growth has been the lack of qualified talent pool at lower rates. Malaysians often tend to be more expensive than Indians and the Chinese. They also lack effective soft skills, which is a serious concern.

With growing BFSI (especially Islamic banking), the outsourcing services catering to the sector are expected to drive the industry. Other industries like oil & gas, logistics and telecom are right behind BFSI in terms of the growth trajectory. But unlike India or the Philippines, where skilled manpower is abundant, Malaysia will have to look at developing niche capabilities, like Poland.

FUTURE
The next step is to continue along the value chain and move towards offering higher end services such as knowledge services. Moving from offering mere operational services to more strategic ones is a challenging task for any outsourcing supplier. This is especially magnified in Malaysia’s context, because unlike a mature player like India, they do not have the opportunity to scale up easily. Thus, the focus will need to be on niche services that depend more on quality of manpower, than on the headcount. Identifying these services, aligning manpower development and developing thought leadership are now the key determinants of the progress of Malaysian outsourcing. Consolidation of small firms will also be important, because it will determine the capacity of the industry to absorb large value contracts.

Future growth is conditional on a variety of factors with respect to investment strategies, developmental plans and government initiatives. There is clearly a growth opportunity for Malaysia, especially given its current small scale. But to make this happen, the Malaysian IT & BPO industry needs to be active in executing its action plan for the future growth of industry.

* This article has referenced data from the report, titled “Malaysia’s Global Business Services Outlook” prepared by ValueNotes and Outsourcing Malaysia in October 2013.

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