

BUSINESS PROCESS OUTSOURCING ADOPTION AMONG THE SELECTED MALAYSIAN GOVERNMENT LINKED COMPANIES: *Motivation, Barriers and Drivers Of Outsourcing*

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Abstract

Business Process Outsourcing (BPO) has become an essential business strategic alternative to face competitive business environment as a results of increasing demands for consumer satisfactions and substitutes products and services in tandem with the rapid changes in technology and globalization. However many firms are reluctant or slow in adopting BPO despite many evidences on the advantages of implementing BPO. The study was to investigate BPO awareness among the managers and decision makers of State Owned Enterprises (SOEs) or widely known in Malaysia as the Government Linked Companies (GLCs) which lead to assessing the level of BPO adoption within their organization. The study was also to unearth the primary drivers and barriers to consider in implementing BPO in their organization. A total of 38 managers or decision

makers were responding to the study. Those managers were from three main functions which have been classified as the support and back end processes namely the managers or head of Human Resources, Finance and Customer Services. The study has found that majority of the SOEs managers were aware of BPO will become more prevalent in the future years. Focus on core competency and lowering costs and maximizing efficiency were the primary motivations to adopt BPO, whilst the cultural resistance to change and managing risks were three main barrier to implement BPO. The study has also found that the drivers behind the increasing uses of BPO were lower price and improve of technology to support BPO

Keywords :

Strategic Management, Outsourcing, Business Process Outsourcing, Business Process Reengineering

1. INTRODUCTION

The State Owned Enterprises – SOEs or widely known in Malaysia as the Government-Linked Companies (GLCs) has been the prime focus by many namely the Government, investing public and Malaysian public at large. SOEs performance reflects the capability and the success of government initiatives better known as privatization of government owned agencies which used to be operated and managed as an integral part of public services offering. SOEs are the backbone of Malaysian economy and combined market capitalization of about 40 percent on the Malaysian Bourse or approximately 220 billion ringgit in value (DBS-Market Research 2004).

Realizing the significant roles of SOEs, the Government through Khazanah Nasional Berhad (Khazanah) has introduced several initiatives to ensure SOEs are well managed, providing healthy return on investment, efficient and affordable products or services offering to Malaysian public. Initiatives

such as promoting corporate governance, corporate social responsibility and introduction of key performance indicators (KPI) have been introduced to ensure SOEs will be a benchmark for Malaysian companies to emulate in the future as they are accountable to increase shareholders value and at the same time taking the lead as the catalyst of the Malaysian economy.

Moving forward, SOEs ought to explore various options available and bold enough to undertake strategies which may not be traditionally popular to adopt. One of the key areas for changes is to revamp delivery process which has been associated to inefficiency and bureaucracy. Reengineering and restructuring will be inevitable and Business Process Outsourcing (BPO) of non-core may be a feasible option to explore. Focusing on core process will be able them to unlock the potential to operate on a 'lean and mean' kind of organizational structure whilst the non-core will be outsourced to specialists who

have the best pool of skills and resources to deliver at the desired speed and acceptable price.

Khazanah Nasional, as the governing body to monitor government interest in SOEs have outlined several approaches in the transformation plan which includes levers of value creation and building capability to deliver which focus on capital management, outsourcing or selling non-core operations and revamping processes, systems and building human and knowledge capital (Khazanah, 2005). Companies would be able to realized competitive advantage through outsourcing by producing products and services effectively and efficiently and outsourcing is an alternative to reach competitiveness (William and Faramarz, 1999).

Background of the Research

The transformation of Malaysian GLCs (SOEs) which has been initiated way back in 2004 (Khazanah,2005) indicates that the time frame to realize full potential requires a very long period.

However the pressure to meet the expectation from stakeholder (government, investors and public) is crucial. Phase I (2004-2005) has been allocated for diagnosis, planning and mobilization of resources and formulation of KPI for adoption. Phase II (2006) is to generate momentum and to ensure all initiatives and key policies are fully implemented. Phase III (2007-2010) outlines the expected tangible result from the transformation across all GLCs delivering visible benefits to stakeholder namely the investors, customers, employee, business partners and member of the public. Phase IV (beyond 2010) where the full national benefits will be realized and to witness most of the GLCs at par with competitors and several of them recognize as a regional champion in their own field of business.

Realizing the crucial part of execution of the GLCs transformation plan in years to come, it is interesting to observe how these GLCs adapting to environment in which performance measure through Key Performance Indicators (KPI) and other deliverables targets are to be met. Having inherited with a certain degree of

inefficiency and to certain extent the bureaucratic type of processes, some of these GLCs will be facing a tall order to meet stakeholder expectations. Processes and procedures in any organization are reflection of the value chains. GLCs which the majority of them are products of the privatized of governments operations will be dealing with challenges to transform their organizations to be more efficient and flexible to operate in the very competitive business environment. The emergence of BPO has been seen as an alternative of strategy choices to explore. Earlier studies have revealed the benefits of BPO such as cost reduction (Hayes, Hunton and Reck 2000) and promote innovation (Gilley and Rasheed, 2004). Organizations benefit from outsourcing at organizational level enabling them to focus on core activities and ability to access best in class skills and capability, as highlighted by Harland, Knight, Lamming and Walker (2005).

The regional and domestic economic challenges, globalization, competitions, rising costs of doing business, pressures for meeting KPI and social obligations

are among factors which influence the need for changes in ‘ the way we do thing’ among the GLCs. Therefore the study will examine the internal and external organizational factors which influence the adoption of BPO as an alternative of strategy choices available in support of transformation process. Internal factors namely the costs advantage motif and focus on core processes are to be examined their influence in the process of decision to outsource. External factors which will be examined include the roles of regulator and competitor which may influences BPO decision. Other issue is to construct BPO decision process model which will serve as a guide for BPO adoption.

Research Objectives

The primary objectives of the study are to examine the following:

- To assess the level of awareness on BPO among the managers / decision makers in GLCs?
- To identify motivating factors, drivers and barriers of BPO adoption in GLCs

2. REVIEW OF RELATED LITERATURE

The quest for competitive advantage by firms results in the continuous search for efficient delivery mechanism and optimum utilization of resources. Restructuring and Business Process Re-engineering (BPR) exercise aims to reshape organization of the firms in the look for new and effective operating model for adoption. The primary benefit sought from restructuring is cost reduction (David, 2005). On the other hand reengineering aims to break down functional barriers and create a work system which produce the highest productivity and efficiency and at the same time concerned on employee well being.

Reengineering is considered as a tactical strategy as apposed to restructuring which has been considered as a long term strategy. BPR offering organizational transformation through streamlining of business process (Hammer & Champy,1993).Both concepts which has been the buzzword in strategic and business management in the 1990s and widely adopted by firms

especially in Europe and US lead to the introduction of new phenomenal called outsourcing. Benefits of outsourcing has been highlighted in many academic literatures, however empirical findings particularly in country like Malaysia are scare as highlighted by Khong (2005). Malaysian Government Linked Companies (GLCs) are defined as companies in which there is a major ownership and control either by a government agency such as Khazanah National, Ministry of Finance Incorporated (MoF) or by virtue of a financial or legal exposure where government guarantee the capital (The Edge, 2004)

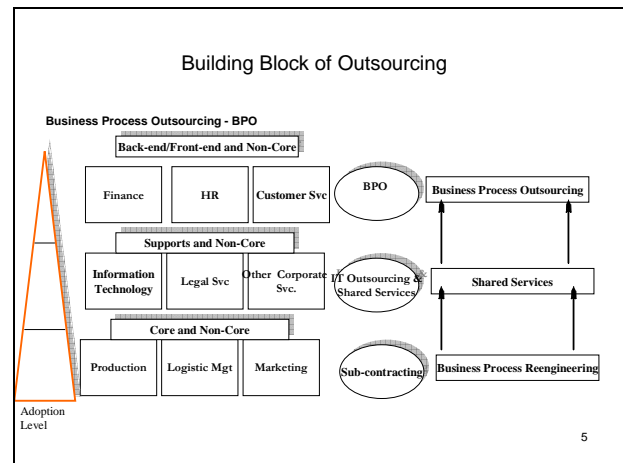
Business Process Outsourcing (BPO)

Outsourcing is defined as having works that has formally done inside the organization by external party (Beaumont & Sohal, 2004). Business Process Outsourcing (BPO) is the act of transferring some of an organization's repeated non-core and core business processes to an outside provider to achieve cost reductions while improving

service quality. Outsourcing is a strategic use of external resources to perform jobs that are usually handle internally by the organization (Khong,2005).

Figure 1: shows the building block of outsourcing in different levels of processes in organization. Business re-engineering which has been implemented by most sectors resulted in segregating core and non core processes. Typical functions such as production, logistic and marketing have been identified as a potential of outsourcing. Subcontracting has become popular strategy in production. Moving forward, firms continue to search for new ways to improve productivity. Information Technology has become an enabler to improve productivity. Computerization has grown very fast in production as well as services delivery activities among firms. Most of the firms develop in house internal information technology services. Rapid changes in technology forced firms to change their strategy. Outsourcing of information technology services to the experts has been seen as the best ways to counter rapid changes in technology. Therefore, Information

Technology outsourcing (IT Outsourcing) has been regarded as strategy to free resources and to allocate them to core processes in the organization. In tandem with the advancement in information technology and communication (ICT), the firms continue to improve productivity by focusing to back-end processes and support functions. Function such as human resource, customer services, finance and other logistic functions have been regarded as cost center. Firms see the opportunities of outsourcing as an alternative ways to improve efficiency and productivity. This scenario has resulted in growing needs of business process outsourcing (BPO) in the industry.



Source: Ahmad Kaseri (2006)

Figure 1: Building Block of Outsourcing

The development of BPO has been researched by industry experts as well as academicians across the Europe and US. Finding by research team at Price-Waterhouse-Coopers (PWC) in 1999 revealed that of 304 *Fortune* 1,000 large corporations, 63 per cent of the firms studied had outsourced one or more business processes (PWC,1999). BPO development in Western Europe have reported 61 percent of large firms studied have more than four years BPO experiences, 44 percent have extended the scope of their outsourcing and 42 percent plan to outsource (Capgemini, 2004). Processes included in the category of BPO are broadly defined into two areas (Purcel & Mathews, 2004) namely back office and front office processes. Front office includes activities such as customer services via a call center, help desk activities and outbound sales or telemarketing. Back office includes human resources management, accounting services, other support functions. Internal and external factor that motivate and encourage adoption of BPO include the need to focus on firm's core business, achieving cost reductions, maintaining competitive edge and facilitate changing business

model (Werrakkody et al. 2003).The existing BPO outsourcing literatures have identified internal and external factors which have been considered for outsourcing decision such as reducing transaction cost and core competency element as suggested by Luke, et al. (2004), competency strategy and quality improvement (Barrar, et al, 2002), competitive advantage (Prahalad & Hamel, 1990). There are other internal and external factors which may influence the outsourcing decision.

3. METHODOLOGY

The study was conducted on a sample study consists of 38 managers from 33 GLCs as at 31st December 2005. The sampling has been done using random stratified sampling based on seven (7) GLCs sectors as in Table 1.

Table 1: Sample of the Study

	Sectors	No of Respondents
1	Financial Services	5
2	Transportation	3
3	Services	10
4	Media & Communications	8
5	Property and Construction	5
6	Plantations	5
7	Others	2
	Total	38

Source and Data Analysis

Data has been gathered from questionnaires and secondary input extracted from company annual reports as well as interview conducted among the selected managers. Questionnaire has been developed to capture the required information to meet the research objectives. Important data such as factors affecting adoption of BPO for both drivers and barriers implement BPO were asked. Some of the questions in the questionnaire were adopted from Accenture (2004) report on accounting function outsourcing. Primary data was gathered from the questionnaires

distributed to the respondents. Data such as the information and background of the companies was collected through credible sources such as company's annual reports, website, industry reports and publications to support findings. Few Interviews with the Head of Departments from selected companies was conducted to extract insight opinion to strengthen analysis of data collected from the questionnaires. The data collected from the questionnaires was analyzed using the Statistical Package for Social Science (SPSS).

4. FINDINGS AND DISCUSSIONS

This study was conducted through survey using questionnaires that had been distributed to 99 managers from 33 Malaysian GLCs. The total 33 GLCs identified were based on the Khazanah reports for year 2006 (Listing of GLCs as at 31st December 2005).The managers or heads of departments were the decision makers from the respective support functions in the organization namely the Human Resources, Finance and Customers Services. These support functions were known as non-core end back-end services which have been

categorized as the areas for outsourcing. A total of 38 managers were responded to the survey which represents 38.4 percent of total population.

Level of Awareness on BPO

The survey found that, 81.6 percent of the respondents indicated that they were aware and have implementing some kind of business process outsourcing in their organization whilst another 18.4 percent does not undertake BPO at all. From the above finding, it was found that the awareness of BPO among GLC’s managers were consider high.

Primary Motivational Factors of BPO

On the question of the primary motivational factors of BPO, the top three answers received were focus on core competencies, lowering cost through maximizing efficiencies and increasing productivity of back-end or support function services. In this survey, we had identified that almost 80 percent of the respondents agreed that the main motivational factors of BPO is to enable companies focus on their core competencies. This is inline with

previous study by Grover (1996), Sounders (1997), Lee and Kim (1999) which found that focusing on core competencies was an importance element for outsourcing. The study has also found that cost saving was ranked second as primary benefit of outsourcing. This finding was support by earlier research such as by Ang (1998), Carmel (2002) and Ross (2004) highlighted that companies anticipated costs to reduce as a result of outsourcing initiatives.

Table2 : Primary Motivational Factors of BPO

Primary Motivating Factors	Frequency	%
To focus on core competencies	30	78.9
Able to lowering costs and maximizing efficiencies	26	68.4
Able to benefit on business productivity of Back-Office & Support functions	22	57.9
Improving quality of business process	14	36.8
Improved lead time to delivery products/services	12	31.6
Accessing best-of-breed talent and technology	7	18.4
Delivery greater transparency and governance	3	7.9

Focusing on core activities as the motivating factors for BPO adoption has

also been supported by Beaumont and Sohal et al. (2004). Several considerations lead to key decision to outsource includes customers need, benchmarking against industry and competitor's as described by Blumberg (1998). No matter their motivating, firms of all sizes that outsource their non-core processes makes themselves more agile (Goolsby, 2002).

Primary Barriers of BPO Adoption

Study on primary barriers in implementing BPO, managers were of the opinion that, resistance to change among the staffs was the main barrier in implementing BPO. The impact on outsourcing to the existing employees is crucial to evaluate. It is well understood that the key success of any company is the employee support and commitment. The finding is in line with the previous study in which no outsourcing effort can be successful without the full support of effected employee (Zhiwei, et al 2001).

Table 3 : Primary barriers that stand in the way of a decision to outsource BPO

Primary barriers to outsource	Frequency	%
Cultural resistance to change	23	60.5
Difficulty of managing risk of an unsatisfactory outcome	20	52.6
Political sensitivities surrounding outsourcing.	14	36.8
Vested interests within the company trying to protect jobs, budgets and power.	12	31.6
Difficulty of quantifying risk of an unsatisfactory Outcome.	12	31.6
Time constraints on researching, negotiating and structuring satisfactory deals with providers.	11	28.9
Highly specialized processes and products within the company that against outsourcing.	9	23.7
Set-up costs of outsourcing arrangements	7	18.4
Set-up costs of outsourcing arrangements	6	15.8
Emphasis on better governance and transparency	6	15.8

Primary Drivers of BPO

The survey found that, lower price and benefit from economies of scale was ranked first as the primary driver for BPO by managers in the GLCs. This is in line with the previous research on

outsourcing motivation in which the reduction in operating cost as the significant motivational factors for the firms to outsource (Kakabadse & Kakabadse, 2002). Improvement in technology and expertise at the outsourcing providers was ranked second by the managers in term of primary driver of outsourcing.

Table 4: Primary Drivers of BPO

Primary Drivers Behind Increase use of BPO	Frequency	%
Reduction in unit cost as more and more companies reap economies of scale by using a shared outsourcing service.	25	65.8
Advancement in technology and expertise at outsourcing providers	22	57.9
Improved quality of service from outsourcing vendors	21	55.3
Increased cost pressure for economic and market conditions	17	44.7
Pressure to increase transparency and governance	9	23.7

5.0 CONCLUSION AND RECOMMENDATIONS

One of the significant finding from this study revealed that; more than 80 percent

of the respondents indicated that their company has adopted some kind of BPO. This finding indicated that most of SOEs have implemented BPO on a selective basis. This explain the element of flexibility in acquiring services for organization exist in SOEs.

The finding has also revealed that majority of SOEs managers anticipated that BPO will become more prevalent in their industry. In search for new ways to improve delivery processes, managers and decision makers must open for new a new ideas and approaches. In line with the advancement in technology and knowledge based processes, managers must continue to explore new ways and move away from traditional way of doing things.

Despite the limitation faced by the study particularly on the availability of sample size, the primary objective of this study which is to assess adoption of BPO among SOEs managers has been fulfilled. The study has also reveled a significant finding on the factors which motivate and affecting the success of BPO implementation among SOEs. Limitations encountered during the study

hope to be refined in the future works which shall be based on a case study as to provide in-depth inside of outsourcing implementation in the selected SOEs. Other research works on BPO which may be beneficial to explore includes the Critical Success Factors (CSFs) of outsourcing and Outsourcing Relationship adopted by SOEs.

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