

Offshore Attraction



Malaysia ranked highly in A T Kearney's 2004 Offshore Location Attractiveness Index, said Paul A Laudicina, Vice President and Managing Director of A T Kearney's Global Business Policy Council.



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The Multimedia Development Corporation's (MDC) aggressive outsourcing strategies have helped draw several noted multinationals to the Multimedia Super Corridor (MSC), generated investments of over RM1 billion, and created nearly 7,000 export-oriented shared services jobs as of May 2004 and an estimated 18,000 similar jobs in the rest of Malaysia.

But the MDC is not the only agency that has identified outsourcing as a key priority to push national economic and skills development. Other countries, such as India, China, Ireland and even the former Eastern bloc nations of the Czech Republic, Poland and Hungary, all want a piece of this lucrative white-collar pie which is projected to exceed US\$500 billion by 2007.

The MDC's challenge is to create 60,000 outsourcing jobs in the MSC by 2008. But to achieve this goal, Malaysia has to maintain its star quality as an attractive outsourcing and "offshoring" destination. Key to this is keeping a lid on financial costs, while improving the competitiveness of human resources and the business environment. "While financial cost is still the biggest factor in offshore location decisions, people and business environment factors such as compensation costs, infrastructure costs and tax and regulatory costs are increasingly important," notes Paul A Laudicina, Vice President and Managing Director of A T Kearney's Global Business Policy Council in his IAP presentation.

Recently, Malaysia ranked highly in A T Kearney's 2004 Offshore Location Attractiveness Index, which tracks the attractiveness of key offshore destinations around the world using benchmarks such as cumulative IT/BPO (Business Process Outsourcing) experience and skills, labour force availability, educational attainment, language skills, attrition rates, economic and political environment, country infrastructure, cultural adaptability and security of intellectual property. According to A T Kearney, "offshoring" hot spots are, in descending order, India (1), China (2), Malaysia (3), Czech Republic (4), Singapore (5), the Philippines (6),

Brazil (7), Canada (8), Chile (9), Poland (10), Hungary (11), and New Zealand (12).

Malaysia's main strengths are its moderate cost advantage thanks to relatively low infrastructure costs and taxes, and a favorable business environment. In addition, it has strong fundamentals such as economic integration and personal contact with the rest of the world as compared with its peers in Asia, explains Laudicina. "Building upon MDC's efforts (to position the MSC as an outsourcing destination) and additional country-level actions, Malaysia can secure its position as a top offshore destination," says Laudicina positively.

On the minus side, Malaysia has a smaller and relatively less skilled workforce on average, and the quality of training in IT and management too is relatively low. This compares unfavorably to countries like India and China that are earning increasing recognition for the quality of their workforce and possess abundant skilled workers. Malaysia should also play catch-up with Singapore, which has earned praise as a BPO destination for its superior infrastructure and the large pool of strong middle and senior management personnel, which could see the island nation emerge as a regional managerial hub for high value-added services like regulatory and accounting compliance, geo-strategic risk, auditing and business continuity practices.

"To be successful in "offshoring" in the long run, Malaysia must find ways to differentiate itself from other cost competitors in an increasingly crowded competitive space," sums up Laudicina. Since companies are spoilt for choice, issues ranging from geopolitical risks to compensation costs to quantity of human resources will hold sway. "Quality is rising in importance, and those countries offering better productivity, service quality and enhanced technical skills will gain a competitive edge," advises Laudicina.

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