CHAPTER 3

MALAYSIA AS AN ATTRACTIVE HUB: A CROSS COUNTRY COMPARISON

A. MALAYSIA AS AN ATTRACTIVE HUB

3.1 Introduction

From the various literatures that are available on outsourcing, it is common to find operational efficiencies to be defined based on a set of performance matrix consisting financial, quality, human capital, flexibility, innovation and risk. This section will look at Malaysia's current performance based on these dimensions as well as how the local (Malaysian) outsourcing providers are measured against the global players. Favorable location to foster growth, sustainability as well as the need to have a group of players who can compete globally will also be discussed.

The section will not only reveal limitations faced by Malaysia but in fact will also identify opportunities (especially niche opportunities) that is currently available for the local players to capitalize, areas where an outsourcing site is considered competitive and areas where competitiveness has eroded. Nevertheless the crucial question lies whether the country view these as opportunities and take actions to poise itself as a preferred shared services and outsourcing hub in Asia to meet the challenges in the future or just be contend to enjoy the current state and let the future unfold on it own. Prior to evaluating Malaysia's current performance, the global outsourcing landscape will first be discussed in general with a brief snapshot on the background, its history in terms of development and evolution of Malaysia as a shared service and outsourcing hub in Asia. Thereafter a competitive positioning evaluation of Malaysia in relation to the outsourcing leaders of

Asia such as India and China and other emerging hubs such as Philippines and Vietnam who are actively becoming participants in the industry will be looked at.

For this part of the study, due to the limited amount of academic research, a variety of literature reviews comprising of journal articles, newspapers and non academic articles, reports, presentation as well as websites were used. To obtain a fair and sound evaluation of Malaysia's current performance, industry challenges and future opportunities, interviews were conducted with key outsource providers and personnel including industry expert Bobby Varanasi, (Outsourcing Malaysia's head of marketing and branding) as well as leaders of local outsourcing providers. Two separate sets of questions were designed for the interviews where one of the set was specifically catered for Bobby due to his unique role as a consultant who identifies outsourcing partners for companies globally and therefore is able to shed light on the expectations and capabilities of the countries and various global companies. One of questions which take a peek at "what is stopping Malaysia from becoming the leader of outsourcing and what do we lack?" forms the highlight of the interview with Bobby as it provides as critical view on the show stoppers for Malaysia's progress. Appendix B details the questions posed to Bobby which generally covers his perception of how Malaysia has fared in this industry and what needs to be done by the outsource providers as well as the government for Malaysia to sustain as an outsourcing hub. Questions in relation to the model used in offshore outsourcing and its relative comparison where Malaysia is concerned were also included for a holistic view.

Appendix C comprises of questions used for interviews with local outsourcing providers which primarily covers the challenges faced, expectations of the Providers in terms of support for the outsourcing industry and from the government, as well as future plans to entrench themselves in the industry. In addition to the interviews, the "IDC Special Study on Strategic Planning & Tactical Road Maps for Malaysian Organizations to Become Leading Global Service Providers" which was completed by four members of the IDC in 2009 was also used as a basis of the Malaysian study. It is important to note that this study by IDC was done specifically for outsourcing members and have yet to be released into the market.

3.2 Global Outsourcing Structure

Globally outsourcing activities today can be broadly classified as Project Based Information Technology services, Information Technology outsourcing and Business Process Outsourcing (BPO).

(a) Project based Information Technology services are defined as engagement of service providers to consult, design, integrate, implement and provide maintenance or support services.

(b) Information technology outsourcing is the transfer of the responsibility of an ongoing management and execution of an information technology activity, process or functional area to an external provider to gain efficiencies and improve performance.

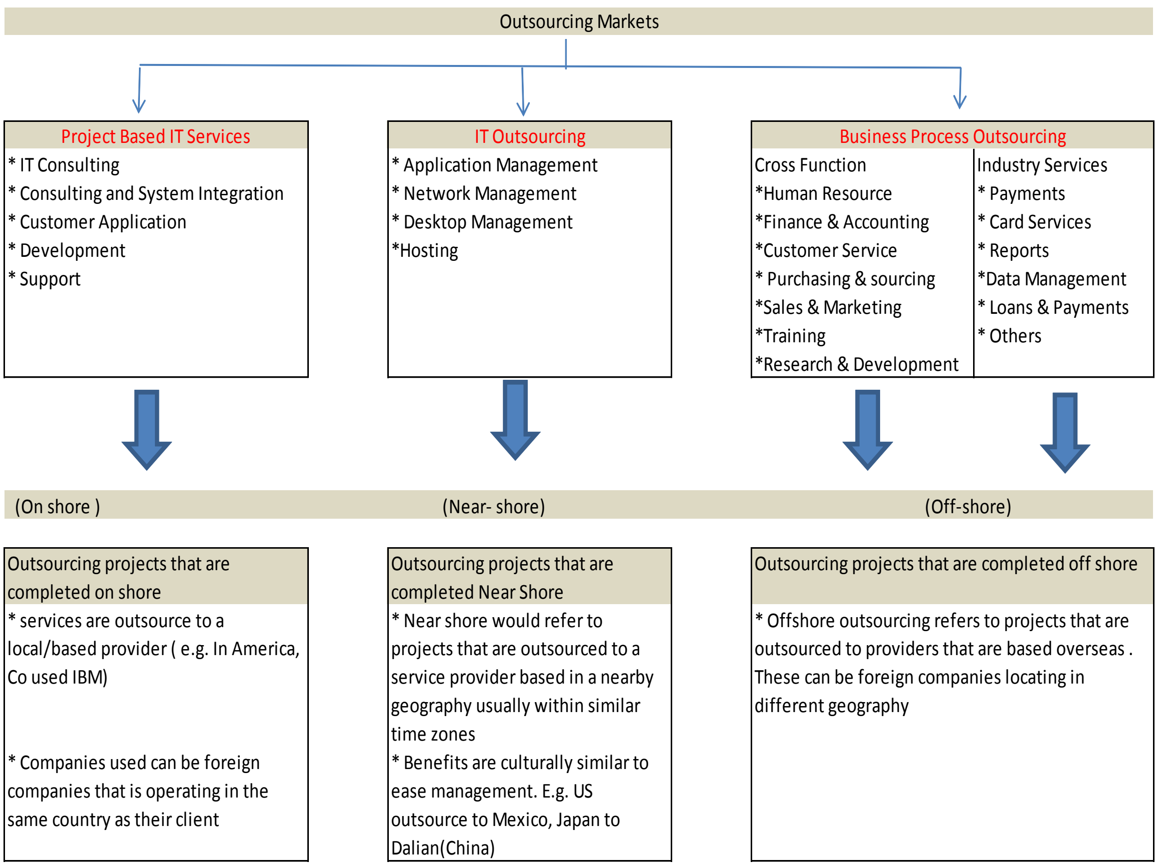
(c) BPO is defined as the transfer responsibility of ongoing management and execution of business activity, process or a functional area to an external service provider to gain efficiency and improve performance.

Figure 1 below provides the classification and the manner in which the activities are carried out and an explanation with regards to the definition of on-shore, near shore or off shore activities. On shore activities are activities which have been outsourced to another company within the country and accessibility is/are within close proximity. Examples of on shore activities are where companies in Malaysia who use the services of other outsource providers within Malaysia for processing their financial reports or recruitment activities.

Near shore comprises of activities that are carried out in close neighboring countries. An example will be companies in Singapore who outsource their facilities to Malaysian companies or vice versa. The decision to outsource to Malaysia could be stem from a cost perspective while the decision to outsource to Singapore could be one on technology although cost is always in equation when decision making of outsourcing is carried out.

Finally off-shore activities are ones which are outsourced to a different location where differences in time zones, culture and economy may exist. Decisions to offshore are based on a set of parameters that are very much related to specific business objectives. Therefore it is important to understand how the global activities are integrated. Offshore outsourcing is a popular strategic initiative for multi-national corporations (MNC) such as HSBC Bank Plc who had outsourced their call centre and data processing activities to HSBC Malaysia. A recent addition to offshore practices would be the AIG Group who set up the Asia Pacific hub in Malaysia to service the markets within this region.

Figure 1: Worldwide services Taxonomy



Source: IDC, 2009

The outsource provider can either be a local Malaysian company or a foreign based company. The practice of foreign based companies who set up outfits in Malaysia to act as a site their outsourcing activities is known as captive market In other words, the outsourcing company (Client) and the outsource Provider is within the same organization or a subsidiary of the larger organization. Most often than not, the driving reason for this is purely cost benefits. HSBC is one such example of a captive market in Malaysia. Apart from cost benefit, other contributing reasons include internal policies (such as HSBC) and the inability to identify a third party provider who meets the requirement. In such circumstances, setting up its own operations in a lower cost region/ area is the most viable decision.

However there are also a growing number of MNCs who opted for third party Providers to handle their operations. What caused the shift in the trend? It comes as no surprise to find that the operational performance level of the 3rd party providers that propelled may Clients to make this decision. Nevertheless cost, technology, business processes, etc or a combination of factors also forms part of the drivers. Despite all the positive aspects of outsourcing to third party providers, the risk involved with such strategies cannot be ruled out. Proper assessments, control and mitigation are crucial to address and manage various risks elements such as lost of information, security and business continuity among others. Risk cannot be eliminated but yet it can be mitigated or controlled to be the control specification.

3.3 Malaysia outsourcing evolution and current structure

Malaysia was originally an agriculture country and the shift to industry begins with the influx of electronics companies into Malaysia in the late 1980s when Malaysia was identified as a low cost area for manufacturing. As more and more investment poured into the country, the economy shifted from agriculture based nation to a manufacturing based nation. Skills and infrastructure were changed to accommodate the growing manufacturing industries. Over time the manufacturing demanded for better services, faster turnaround time. The need to improve the supply chain activities and cost reduction prompted companies to venture into outsourcing as a strategic alternative to remain competitive. With Malaysia's long tenured working relationship with multinational companies, the natural step forward when offshore outsourcing began was to bring these activities over to Malaysia where the cost is lower and a good working relationship has been established. This prompted a new wave called outsourcing in 1990s. It must be noted that outsourcing had existed even prior to this period. However it was on a smaller scale and was not classified as a strategic focus back then. It is only in the 1990s that companies started adopting outsourcing as a strategic option to remain competitive and the since gained momentum.

The manufacturing era provided an opportunity to develop the locals with skills and capabilities to help them embrace change and enhance their competency to that of their host companies. This coupled with the desire to remove processes that can be handled offshore was the beginning which prompted the outsourcing arena in Malaysia.

The 2001 global economic downturn which severely impacted Malaysia prompted the government to seek alternatives for diversity. The launch of the multimedia super corridor project and development of "intelligent cities" such as Cyberjaya and Putrajaya (A.T Kearney 2004) was part of the government's efforts to place Malaysia as an attractive location for outsourcing in the world market. Centers were set up to spur research and development activities, information and communication technology (ICT) investments were increased and the development of local ICT companies followed suit. The three (3) main sectors of growth identified in the Malaysian multimedia super corridor (MSC) are software development, share services and outsourcing as well as creative multimedia. The initiative is to position Malaysia as a "one-stop agency" to attract foreign investments and at the same time strategically position shared services outsourcing as a key major industry to foster the future growth of the country.

It is estimated that the global services market is worth USD770 billion and is projected to increase at a rate of 8% over the next five (5) years (IDC Special Study, 2009). Malaysia services market is approximately USD3million which is a small fraction of the overall global market. With the expected growth rate and provided that Malaysia is able to meet the criteria for outsourcing, there is no stopping Malaysia from slicing a huge share of the expanding global pie. Currently, IT outsourcing services in Malaysia comprise 50% of the market, followed by business process outsourcing (BPO) services at 32% while knowledge services outsourcing (KPO) services remain in its infancy stage at a mere 2%. Although Malaysia has been acknowledged as one of the preferred destinations for outsourcing, sources have identified key challenges and hurdles which must be overcome before it can become the preferred first choice destination. The challenges identified states that Malaysia lacks the scalability required for high volume services due to its relatively high employee costs and small talent pool which present an obstacle in terms of the availability of suitable human resources. This is further compounded by the lack of alignment between the outsourcing industry and the present education curriculum, as well as the shortage in government funding which also dampens the industry's advancement. The following sub sections will review these elements in detail as well as Malaysia’s proactive (or reactive) stance in dealing with these challenges.

3.4 Malaysia as an outsource provider in the future

As of September 2009, a total of 2,436 companies were certified as MSC status and are classified into categories of technology clusters namely information technology, shared services and outsourcing clusters, creative multimedia cluster and Institute of higher learning and incubators. Out of the 2,436 companies only 1,923 are operational where 1,462 of them fall under the information technology cluster followed by creative media with 200 followed by shared services and outsourcing with 173 companies. The Information Technology cluster was the biggest contributor to the Malaysian revenue, followed by the Shared Services and Outsourcing (SSO). However in terms of employment outlook the Shared Services and Outsourcing cluster was the biggest contributor to overall employment. It is noteworthy to see that both clusters in combination provided a total of 92,201 jobs in 2008 in Malaysia. (MSC Malaysia Annual industry Report, 2008)

According to consulting firm A.T. Kearney's 2007 Global Services Location Index, Malaysia maintained its No. 3 ranking, outpacing the Philippines which was ranked No. 8 and Singapore at No. 11. India and China maintained their top and second placing, respectively, while Thailand ranked in fourth.

However A.T Kearney's rating is not fully supported by other survey sources who indicated that Malaysia currently is not viewed as a location with a large pool of skilled workforce with the ability to feed the global demand. Malaysia's success thus far has been fuelled by its early provision of call centre and customer care functions, global support of oil and gas as well as the electronics industry. Malaysia's ability to extend these services in the early 1990s was the fundamental basis that made it successful. Despite the head start through various government initiatives, Malaysia's performance has been "dwarfed" by countries like India, China and Philippines. Outsourcing transcends purely from cost. Malaysia's outsourcing industry has been built on attracting investments in captive markets and third-party outsourcing operations from a number of prominent global leaders such as DHL, Shell, BAT, HSBC and Standard Chartered. The local providers predominantly offer Information Technology Outsourcing (ITO) services. However the services offered is on a much smaller scale compared to the global ITO providers and there is little or no differentiation in terms of capability that will provide a competitive edge. The reality is that as competition becomes intense from the neighboring South East Asia and Asian countries, the challenge to Malaysia, lies in the wake to provide a unique value proposition which differentiates itself from other players.

The other area which is worth considering is the composition of the outsourcing businesses in Malaysia and an evaluation of the success rate of the outsource providers in the country. The question of whether Malaysia is positioned as a site solely for captive markets or service provider as a whole will determine its strategy as a global player. Captive markets are propelled by sheer cost advantage and the returns to the country or site will be creation of jobs for the local market. The amount of cost savings that is derived from outsourcing will form part of the home country's revenue. However in the second avenue where Malaysia established itself as a global player, it will not only bring in revenue to the country but also sustainability and diversity which provides the much needed competitive edge. The set up of MSC is in essence the path way to the second avenue.

Figure 2: Revenue and service provider

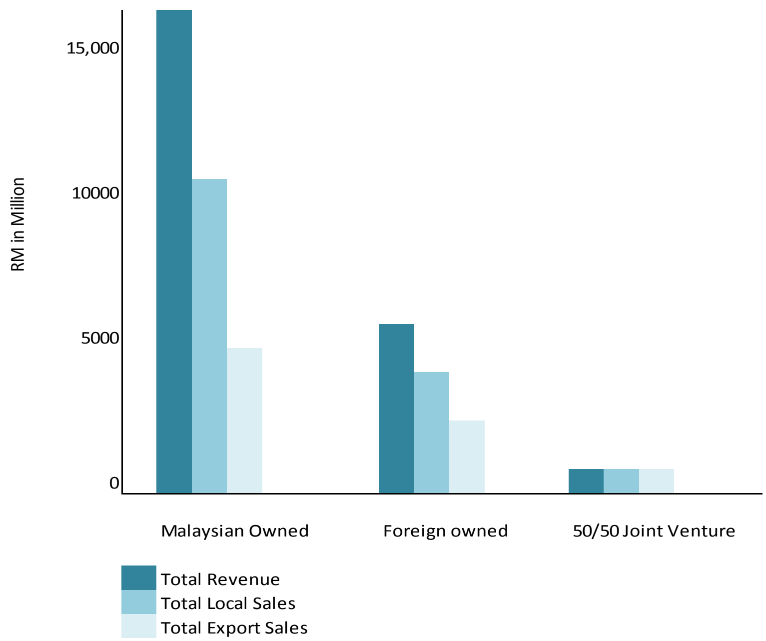


Figure 2 indicates that Malaysian-owner companies accounted for majority of the local sales and export sales in 2008. However there is still a substantial amount of the local sales which were taken up by foreign owned companies.

"If we do not grow at 30%, the rest will catch up," says Abdul Humid Sheikh Mohamed, executive director at Symphony House Bhd, a Malaysian information technology firm whose business processing unit prepares payrolls for clients and manages call centers.

The other comment from Bobby Varanasi indicates that "while some [outsourcing] locations leverage 'cost' drivers, some leverage 'competencies'. He believes that Malaysia should leverages on competencies due to the size of our population and our capability of serving the higher-value needs of outsourcing customers. In addition he also indicated that "Malaysia's competencies around banking, financial services and insurance (BFSI), energy, retail, technology, logistics, supply chain management (SCM), and so on, are very well-known and recognized the world over while economic cost-structure and talent pool position itself for low-end services.

3.5 Human Capital

Human capital focus primarily on three aspects which consists of abundance of workforce, cost of workforce and the quality of the workforce. Abundance relate to the number or population that has reached the age of being able to enter the work environment. This heavily depends on our population and demographics. The government recognized the need and importance to have an abundant workforce when it attempted to pursue outsourcing as an area of focus in 2003 with the start of the Multimedia Super Corridor. Undoubtedly one of the 2020 plan is to increase the population of Malaysia.

Currently the population of the country stands at 25.7 million with an adult literacy rate of 91.9% of which 8% are university educated with an annual university graduate of 163,000 per year (CIA World Fact book, 2009). Taking a closer look at the literacy rate proves that Malaysia is relatively an educated country but the level of education may not be adequately sufficient for the country to pursue into high technology areas as only 8% have tertiary education. Most jobs in Malaysia demand a minimum of a Bachelor's degree. With this mind, there has been an influx and growth of institute of higher learning and currently there are eleven (11) universities in the country and the government's strong support for education will definitely increase the number of graduates in the forth coming years.

The next step in human capital is to access the employability skills of the workforce. Employability skills are skills which cut horizontally across all industries and vertically across all jobs from entry level. It should not be confined to skills required to gain employment but also to progress within an enterprise to achieve one's full potential and also be in the position to contribute. The country historically has a workforce with skills equipped to service the oil and gas industry which has been in Malaysia for 130 years and the manufacturing industry for a period of more than two decades. The manufacturing sector is predominantly owned by US, European and Japanese firms. This had certainly generated a pool of talent with engineering, planning and management capabilities. Frost and Sullivan's study in November 2005 stated that Malaysia probably had more enterprise resource planning professionals than any other country in the Asia-Pacific region. However, we need to bear in mind that these group of employees will be leaving the workforce over the next ten years and these positions will have to be filled by the next generation. In addition Malaysia is suffering from a massive "brain drain" where competent and skilled workers are opting to migrate or work in other countries. As of 2008, an average of 4,000 skilled professional has moved to Australia and this is reported to be increasing year on year. All these issues are recognized by the government and measures coupled with incentives have been positioned to provide opportunities for the industry to be competitive in salary demands on par with the global MNCs. Incentives provided are mainly to entice them to return to home country as part of its strategy to retain skill workforce.

In recent years a deep concern has developed on the availability of skill talents in Malaysia. The research carried out by Kamal Khir (2006) and concerns in the media indicate that local graduates are lacking in both technical knowledge and generic skills, which will definitely be a challenge for Malaysia in terms of rating the quality of human capital. In another survey conducted by the Malaysian Government on graduates in 2005, it was found that 60,000 of the graduates were unemployed due to lack of experience, poor English, poor communication skills plus they have pursed studies that are not relevant to the market place. In addition it is found that IT graduates are not trained with skills such as software languages, analysis, design and architecture which would make the education future-proof and have the ability to withstand the progress of technology in the industry. IT graduates are educated as users of a software product but heavily lacks the knowledge and principles of computer science or the ability to understand the mechanics of software engineering. These are essentially the much required skills in most business value chains. Besides the hard skills, employers are looking for graduates who have the ability to be proactive enough to identify and respond to problems which is a fundamental requirement irrespective of the type of job. SigMax E was identified as a quick growing SSO industry due to it cost cutting philosophy but lost it steam when the company suffered from start up bumps in being unable to fill senior positions.

Recognizing the gap, Malaysian government had begun emphasizing the growing importance of certified individuals to work on "high value" projects and made training and development important. Legislation too have been crafted namely Human Resource Development Fund (HRDF) for the manufacturing industry, provisions for training for financial institutions as part of Bank Negara directive and setting up of Multimedia Development Corporation to identify and advocate learning in its attempts to increase the skills of the workforce. Multimedia Development Corporation (MDeC) is a high powered government-owned corporation and was established to facilitate the development and promotion of MSC Malaysia. A myriad of capability development program were introduced to encourage individual and company certification which include incentives to qualified companies to obtain reimbursements along with free training to enhance capabilities and skill sets of the workforce. Recently it was announced that PIKOM (Association of the Computer and Multimedia Industry of Malaysia) would be working with institute of higher learning to ensure that skills needed by the industry is part of the materials learned. As of to-date MSC Malaysia have close to 79,000 "knowledge workers" and is expected to hit 100,000 by end of 2010 within its vicinity. The expenditure on education is 6.2% of Gross Domestic Product (GDP) and Malaysia is ranked 5th out of 25 (CIA World Factbook, 2010). This clearly indicates the seriousness of the government in creating a skilled workforce. In addition to that, as part of the 2010 budget, tax reliefs which were granted to broadband subscription indicates that the nation is well on its way to creating a generation of knowledge workforce.

PIKOM has organized certification where they recognize personnel with international expertise and skills to handle projects for outsourcing providers. As of to-date there are two persons who have been certified, one from IBM and one from Sunway IT shared services. This is a good start and an indication that local outsourcing providers are serious on enhancing their skills. In line with this, it is also important to examine the age structure of the world population where 63.6% is within the working age.

Table 1: Age Structure & Percentage of Population

Age Structure	Percentage of Population	Remarks
0- 14 years	31.4%	Male (4,153,621) Female (3,914,962)
15 -64 years	63.6%	Male (8,210,373) Female (8,143,043)
65 years and over	5%	Male (569,245) Female (724,575)

Source: CIA World Fact book – (2009) published February 19, 2010.

The medial age is 24.9 years which indicates that the population is generally young and the literacy rate of the age group between 15 -24 years is at 98.3% as of 2007 (Source: CIA World Fact book, published February 19, 2010).

With appropriate efforts and clear, structured goals, it is highly likely that Malaysia will definitely see results in the near future and have the right skilled human capital moving into the workforce.

3.6 Cost

Cost is an important consideration and a primary factor in deciding to opt for outsourcing. In fact, research (e.g. Deloitte Research, McKinsey Global Institute) claims that labor cost are the main drivers behinds the firms' decision to offshore while other costs such as administrative and telecoms cost are part of its consideration. Operating cost reduction can be from labor cost, productivity, overhead cost such as investment into technology, tax incentives etc. Therefore in order to Malaysia to maintain its competitiveness heavily depends on its ability to derive cost efficiencies. This is especially important in captive share services hub as its primary objective is to reduce cost. HSBC call centre is a good example as it is a subset of HSBC Group Plc and mainly strives for cost savings. Captive markets generally provide jobs opportunities and is highly a result of reduction in labor cost and tax incentives. Once the cost has eroded they may shift the operations to a lower cost region. At a glance, the starting graduate salary of IT personnel in Malaysia is at RM 2,500 ringgit (USD765) a month while the starting salary for an undergraduate in India is only half the amount. In terms of cost competitiveness Malaysia ranks 8th out of 26 countries (SourceLine.com, 2009). It must be noted that cost does not necessarily result from salary cost but could steam from the other operations related costs such as lack of skill labor which resulted in the delay of projects. Aspect such as economic and political stability may affect the financial stability and productivity level which translate to cost in the long run. Malaysia's economic strength lies on its adequate foreign exchange reserves, low inflation, moderate interest rate and relatively low external debt. In additional, Malaysia strongly encourages Foreign Direct Investment and in 2005 has modified its monetary system to one that is a managed float and benchmark against a basket of different currencies. This helps to reduce foreign exchange cost and risk.

Infrastructure too is an important consideration in the outsourcing arrangement and this is duly supported by an article in the Economist (2003) that majority of outsource jobs are those digitalized and capitalized on telecommunications efficiencies from international venues. If there is a need for operation adjustments, then the location with facilities that is able to provide more optimum benefits compared to others will be selected to ensure that the cost is reduced. Malaysia Super corridor project is envisioned to be Asia's version of the Silicon Valley and has attracted companies such as IBM and Computer Science Crop to establish an IT hub. Malaysia is currently ranked 4^{th} out of 26 other outsourcing locations globally identified in terms of technological readiness (SourceLine, 2009). It is therefore able to support the claim that the country's infrastructure is definitely comparable to the major developing locations in Asia.

Governmental policies had also played an important role in allowing unrestricted employment of local and foreign workers which gives freedom to companies to source capital globally to MSC Malaysia Infrastructure coupled with the right to borrow funds globally. As mentioned earlier the cost of an IT graduate is cheaper in India than the local graduate in Malaysia and this allows IT companies to remain competitive by bringing in foreign workers who have the skill requirements into Malaysia. Competitive financial incentives including nil income tax for up to ten (10) years or an investment tax allowance, nil duties on import of multimedia equipment and globally competitive telecommunications tariffs is definitely a boost. This is a huge overhead expense which will reduce the operational cost and at the same time encourage in moving their activities to MSC.

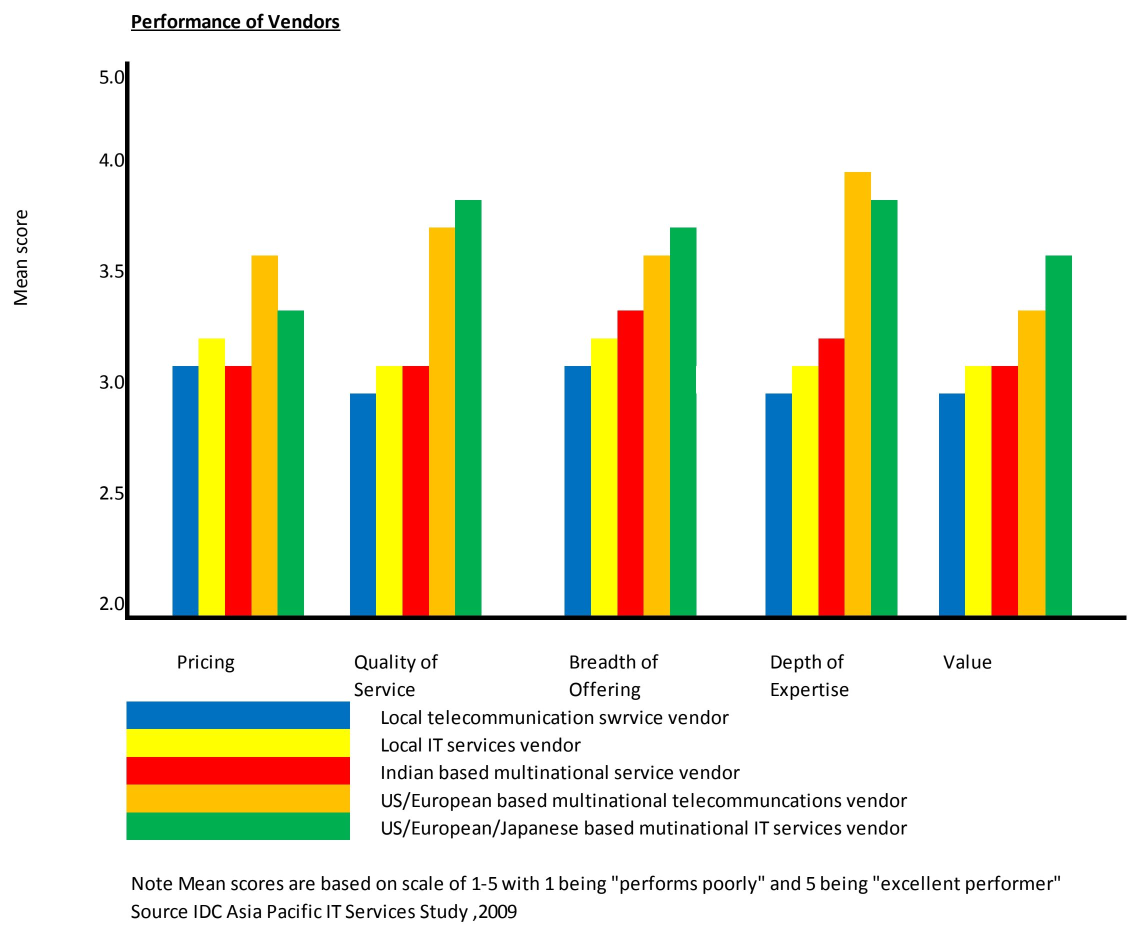
3.7 Quality

Quality is another important consideration. The level of quality must be maintained at an acceptable level when the activities are outsourced as there should be no difference to the customer irrespective of whether they are being served by the Client or the Provider. As such most outsourcing contracts or agreements have specific measurements and indicators to gauge the level of service provided. The word "customer" intimates the relationship between clientele and vendor rest with the common view of "custom" which is a code of conduct in which trust, fair exchange and courtesy is expected. With these expectations, almost all outsourcing agreements come with a service level agreement (SLA) specifying the expectations in terms of quality, quantity and are usually time bound. Usually there is frequent assessment of the outputs against the SLA to ensure that what is stated in the agreement meets the standard expected.

In order to understand Malaysian customers' perception of the service providers in Malaysia, IDC conducted a survey in 2009 where 106 companies responded. The survey results were used to determine the level of quality demand of the service provider where quality is extended to breadth of offerings and depth of expertise and value. The rational behind this is that with breadth of offering of the services, the required expertise and value perceived will encompass quality of services rendered.

Figure 3 below clearly indicates that the quality of service provider is above the average and the higher bracket falls into the multinationals that are US/European based. It also indicates that our local vendors are below par compared to the multinational service providers. Although our pricing is cheaper, customers are looking to receive a service that can provide confidence and has a proven track record in delivery of services. In other words, price is not a determinant factor but it does have a strong influence on the decision. It is also important to note that the absolute mean score has not fallen below 2.7. Local vendors are therefore not poor performers but are lagging behind multinationals and there is definitely room for improvement in terms of quality of service and depth of expertise. Although Malaysia is part of the Asia/Pacific and offers attractive location for offshore outsourcing, the local market still has considerable domestic opportunities for local players to tap for revenue generation.

Figure 3: Performances of Service Providers



Having said this, all is not lost as over the last few years Malaysia have evidenced strong homegrown service providers who have made their presence known globally. Symphony House was founded in 2002, by a group of three companies with different strengths. They pooled together to form Symphony House and today it is one of Asia's leading BPO outfit and is a partner of choice for more than 3000 clients comprising of public listed, private listed and Fortune 500 companies together with large conglomerate across Asia Pacific regions, EMEA. Symphony is among the top 100 Global off-shoring Company and is the only Malaysian Company to be listed for three consecutive years in the Global

Services 100 List. Other major local players are Cuscapi Berhad, Kompakar Group, SigMax-E. Each of them has a niche or focus area where they have done well and some have even move into the global scene.

3.8 Innovativeness

Innovation simply refers to changes that represent something new and it can either be new ideas, new methods or devices that build new directions of performance or seek to produce better results. Innovation is also fresh thinking and approaches that add value to consistently create wealth. In other words, innovation will drive productivity which in turn will drive the flow of income. Innovation is not something new in the Malaysian context as the early 1980s witnessed major reforms and innovations being introduced to streamline service delivery systems and inject efficiency into service. It is undeniable that there is strong indication of growth in the outsourcing business but the competition is getting tougher as more players are entering this lucrative market. In order to become and sustain as a key player, there is a need to streamline processes, increase cost-savings and establishing oneself as a premium offshore destination. The New Economy model will require innovation to grow market share and drive down the internal cost structure to stay ahead in the industry.

One area of innovativeness for Malaysia is to identify a niche market for itself to serve as an identity. The other area to look into would be in ensuring deals are profitable as well as maintain customer base. It must look at gaps which are not filled, increase focus on partnership development and shifting from CAPEX to OPEX model. What does CAPEX to OPEX model actually means? In 2008 the key contributions to the Malaysian IT outsourcing market stemmed from areas of hardware deployment and support, system integration, consulting and etc. Moving into the future customers will be focusing more on "quick hits" where Clients (companies who wished to outsource) would like to see short term gains before moving into longer and larger deals. With this shift there is a need to build partnership and "deals" that will evolve around various aspects of operational excellence and efficiency, customer retention, achievement of customer delight and business flexibility. Finance and accounting which was the fastest growing "big bubble" thus comprised of "lifts & transfer" operations that did not involve heavy move of knowledge and processes of end-user. Moving forward there will be a push towards converging business and IT, streamline processes and increase efficiency.

One of the strong points highlighted during our interview with Bobby Vanarasi was the tendency and ability of our local IT players to provide a set of solutions to the Client. Nevertheless it was noted that there is an over-emphasis on their technical squad when in reality there should also be focus on understanding the business of the Client and to be a partner to provide solutions so that they can instill confidence in the customer that expertise is abound in the provider which aids towards improving opportunities for renewals and continuous relations.

Outsourcing is not only confined to offshore or near shore, instead it can be within the country itself. Most Malaysian companies are still operating in the same manner as they did in the 1990's and in order to remain competitive they must look into the option of outsourcing to a local vendor. So far the outsourcing work which has been given out is payroll, human resource services, accounting and IT. There is room to increase market development to build a strong domestic outsourcing industry. Building the industry in Malaysia will in turn expand the local markets and at the same time provide opportunities for local supplier to enhance their skills which in the longer term attract global MNCs. This is very similar to the forerunners in the manufacturing who started off by working for MNC and subsequently became sub-contractors before finally stepping up to undertake larger projects.

From the materials reviewed thus far, there has been tremendous support provided by the government in trying to bring Malaysian outsourcing providers to be on par and compete in the global market. Is this level of government intervention healthy to the industry? India has entered the industry about eight years ago later than Malaysia and yet they have been able to position themselves as the No.1 player in the industry. The lack of government intervention in the capital market has created room for entrepreneurs. Entrepreneurial activity is normally fueled by both incumbent (often family owned) and new entrants. As the stakes are high, sheer determination is necessary to be successful. Most successful Malaysian public listed companies have started in this manner and they have become global players. However it cannot be denied that with the government maneuvering the steering wheel, it has to some extent dwarfed the entrepreneurial ventures from forging forward.

At this juncture, Malaysia seems to have a spectrum of applications, products and services. While diversity is good, it has also created a difficult to create a niche where Malaysia can excel in. One area of opportunity that is clearly present is on the Islamic Banking front. With the growth of Islamic Banking globally and Malaysia being an Islamic nation has created an opportunity for the nation due to its forefront knowledge in this area. Coupled with the language advantage and strong government backing, there is a keen opportunity for Malaysia to “select” this as a niche base. Malaysia’s legacy in skill sets can be leveraged to help set-up this niche market. However the main question remains whether this opportunity will be fully exploited by local providers.

Generally there is a lack of interest among the larger local companies to consolidate as there are no compelling reasons for these companies to merge or be acquired. Outsourcing Malaysia (OM) has proposed a merger and acquisition (M&A) fund to facilitate the consolidation of these major players and if this can take place, then it is highly likely that the country will witness larger local players with the combined skills, resources and financial means to move into global markets.

3.9 Flexibility

Flexibility refers to the ability of the outsourcing provider to response to the changes in the environment, needs of the clients in terms of volume capacity or the scalability of their structure. It also refers to the ability of the local laws to be flexible and meet the changing needs of the industry. Too much of rigidity in the legislation can result in difficulty for the businesses in Malaysia to sustain as an attractive hub for outsourcing and will most certainly diminish its competitiveness.

In is safe to say that Malaysia has indeed been flexible in its strategies in the last 2 decades as evidenced by the announcement that all MSC status companies are exempted from local ownership requirements, shift in governmental policy requirement which states that foreign investments into the country should at least have 30% local equity shares as well as the emergence organizations such as Outsourcing Malaysia (OM), MDeC and PIKOM.

Flexibility also means scalability where contracted jobs can increase and decreased. As discussed earlier, moving forward pricing will need to be based more on outcomes instead of inputs or fixed pricing. With the current globalised market, restructuring and downsizing is inevitable. Some companies were required to downsize their operations within a very short notice in order to respond to the market conditions and maintain competitiveness. Companies are also looking for models such as "hoteling" where the outsource provider will be able to provide utility based services when they venture into emerging sites. Small firms on the other hand use outsourcing to obtain the capability to support their business function as they do not to pay to "own" these expertises. Instead they choose to "rent" these services without additional cost to their payroll. To a large extent, this is what flexibility means to a Client when they can rent services as and when required and the volume may be adjusted accordingly.

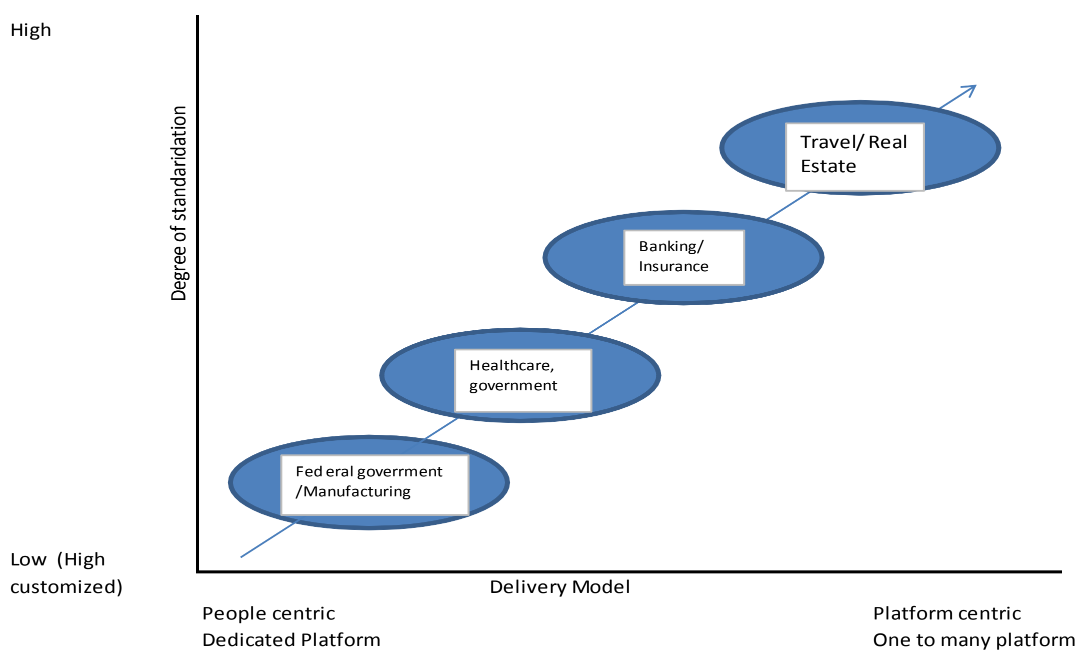
Even from the security point, it is important to note that not all companies have the same level of security concerns. Damages caused by stray instances of data theft may not impact all Clients equally. Therefore it is important to know the level of criticality as it is not justifiable to invest in the same level of security management or imitate Vendors as this will definitely increase cost.

It is therefore important to understand the different levels of services which the current outsourcing providers have and whether this requirement is feasible. The platform which is used for the traditional transactional based BPO may not be able to support the demands of the customer moving forward. In a survey conducted in March 2009 with 696 IT executives and Chief Information Officer across the Asia Pacific region to gather their thoughts on current usage and planned IT usage, it is found that 11% of them are already using Cloud Computing service models where the platform is involves shared environment. This shared environment allowed higher application usage and can dedicate some application to specific usage while others can be shared. In the study 41% of the respondents indicated that they are evaluating this alternative or in the midst of piloting. To the question on what is preventing them from moving into this area, 17% indicate that although this platform is promising, there may not be enough services available to make it compelling. In times of heavy competition, organizations will need to look at return on investment (ROI). In these cases it will be how well a relationship/ partnership can be built with a win-win situation or deal. Again the question remains if the Service Providers view this as a viable opportunity for investment into an uncharted territory.

Assessing flexibility should not be confined to hard skills but also the evaluation on the workforce adaptability to work across culture, language and work ethics. Malaysia is a multi racial country and most of the population can speak two to three different languages. Being a multi racial country provides flexibility and adaptability to different cultures and a high percentage of the workforce have gained education overseas or have worked in MNC thus giving them the exposure to deal globally with the Western work culture and ethics.

If we look that the history of services which are outsourced, the new services which are emerging include banking, insurance, travel and real estate where processes are less standardized and as such the platform for delivery and expectation may be different.

Figure 4: IT Platform and delivery spectrum



Source IDC, 2009

From the list of foreign companies in Malaysia as depicted in Figure 5, it is quite clear that companies are willing to use 3rd party providers in the US/European countries while India is also featured as preferred 3rd party providers in recent times. Malaysian companies therefore need to find out what is hindering them from becoming an identified 3rd party provider if we have the means of attracting global service providers to set up operations in Malaysia. The point of proof is probably in quality, stability and security (which we have not addressed). These will be discussed under risk.

Figure 5: Build locally to springboard overseas

Local Malaysian Companies	Foreign MNC with Operations in Malaysia	Foreign Technology Service Vendors in Malaysia
Telcos, Local Banks, Manufacturing, Retail, Public Sector, Oil& Gas etc.	Wal-Mart, GE,GM, Toyota, Citibank etc.	HP/IBM/Accenture/ Infosys, Cisco etc
Accelerate outsourcing maturity to build local market demand	Incentivise to relocate their global capital operations to Malaysia	Incentivise to relocate delivery centres in Malaysia
Provide and industry to attract overseas vendors as well as allow OM to build business scale, expertise and reference accounts	Build local industry size as well as provide reference accounts for OM. Springboard to move up the value chain into US/Europe for these clients	Provide opportunity for OM members to develop expertise and scale through sub contract, build Malaysian Brand as a service destination

Source: IDC 2009

3.10 Risk

Risk is a major consideration for companies when deciding on outsourcing. Risk can be in many forms which includes security in terms of data protection and confidentiality, back-up and continuity plans, network infrastructure robustness, recovery scenarios etc. The amount of risk is dependable on the amount of outsourcing value, the outsourcing span and contractual agreements. If any of these are incorrectly assessed, the transaction may be irreversible or high costs incurred. Barthelemy and Adsit (2003) studies indicate that three quarters of the US managers surveyed by the American Management Association reported that outsourcing outcomes have failed to meet their expectations.

Outsourcing may cause companies to release pertinent information which the company would not like to share otherwise. In some cases although outsource processes are not the core business activity, they are still and integral part of the organization and any disruption can cause operations to cease. For example when the payroll function of a company is outsourced, any delay will impact the workforce who supports the core business resulting in a possibility of work disruption. Loss of information too is considered security breach in these companies.

Risks will increase if the process being outsourced is critical and/or has strategic important. Generally processes of this nature are not outsourced, however potential cost savings have induced many Clients to opt for outsourcing. Nevertheless failure to meet /

response to the situation / magnitude will have an impact on the client's business when the vendor fails to deliver to the expected service level. One of the reasons why some MNC are setting up their own shared services is primarily due to confidentiality where they are unconvinced that there is sufficient security features in the Vendor's environment. Measurement of controls is entirely dependent on the provider complying with what is stated on the service level agreement (SLA) established at the time of outsourcing. In a way outsourcing does reduce managerial control as that part of the operations is left to the control of a 3rd party provider.

Some companies do not take into consideration "non-performance cost" which can be a detrimental error. Non-performance cost refers to cost incurred by the buying organization to correct the deficiencies when the Vendor fails to meet the delivery, quality or price requirements. Since early 1990s, most companies had adopted the concept of total cost ownership into the contract as a remedial measure, although this has not totally eradicated the non-performance cost.

Today's environment where technology invariably is associated with the future and relates to progress and success, outsourcing can hinder the company if the Vendor is not keeping up with technology. Rarely do we remember technology failure or obsolete, and most of the time cost savings create an over optimistic conclusion. In addition, most of the outsourcing locations are in the developing nations and one of the challenges is corruption of local government. Recent times have witnessed a number of corruption cases and many governments have placed anticorruption as a priority. However whether corruption has severely impacted this industry has yet to be seen.

Risk of currency fluctuation is another aspect which is of considerable concern. The 1997 crisis in South East Asia had impacted many foreign transactions. Since then the government has put in more controls through Bank Negara to ensure some level of currency protection by pegging it against a basket of currency. The other type of risk is the cultural and language issue which has been discussed earlier under flexibility. Lack of transparency in handling the operations is also a concern fro concern for some companies. There is a need to build trust and that could only be done over time and on reference. Following the Enron case the level of transparency in Malaysia has improved and most companies have a whistling blowing policy plus code of ethics which is taken very seriously as part of their risk compliance.

As discussed previously, if Malaysian companies want to be part of the global scene, one area they can target is the captive markets. If they can get the captive market it will means that they have build a brand for themselves. This will means development of reference clients which is large. In addition there is a need to build trust so the need to ensure that international standards are entrenched in the company and its systems. One such effort can be seen in Kompakar Group where the company is certified under ISO 27001 for Information Security and Capability maturity model integration Level 5.

3.11 A Summary of Malaysian Arena

As a location, Malaysia has much to offer to foreign outsourcing providers but local firms in Malaysia are not sophisticated users of outsourcing services mainly due to a couple of reasons. The large companies have economies of scales and they may not see outsourcing as a strategic initiative. Further most of the large local companies have long tenured staff that do not view outsourcing as a strategic initiative but rather with pessimistic light with jobs losses due to retrenchment of employees. Top management may view outsourcing as a means of reducing own business and/or loss of trade secrets. They may also not have the adequate resources and know-how to start shared services within the company. Outsourcing should be viewed as a business opportunity for companies and new career path perspectives for employees. Despite the amount of publicity done by the governmental bodies, there is the need to build the industry internally in Malaysia by expanding the local base to create opportunities to move ahead.

Currently there are still short term opportunities for Malaysia to position itself as a regional delivery centre. In the long term, it needs to be able differentiate itself in terms of capability, quality, cost, reliability and also identify a niche area for itself. Malaysia still has cost advantage over the other developed nation but may have lost its competitive edge with regions who are active participants in outsourcing. In terms of skill sets and capabilities, Malaysia has not lagged too far behind and should endeavor to use all the opportunities provided by the government to harness this opportunity.

B. A CROSS COUNTRY COMPARISON

3. 12 Introduction to other established markets in Asia Pacific namely: India, China and Philippines

In Asia, three countries have been identified as players since 2003; India, China and the Philippines. The three tables below further clarify the reason India, China and Philippines are chosen as the established markets for outsourcing.

Table 2: Already a player

Market for offshore services	USD (billions)
India	12.2
China	3.4
Philippines	1.7
Asia (excluding China and India)	2.3

Source: Gartner; government Websites for countries shown; India's National Association of Software and Services Companies (NASSCOM); International Data Group; Software associations in countries shown; McKinsey Global Institute. (2004)

The table above shows a country's worth of offshore services to the world economy since 2003. As seen, India supplied USD 12.2 billion worth of offshore services to the world economy, proving to be the highest market in the world. This is followed by China with USD 3.4 billion.

Table 3: A good choice

Countries	Location Cost Index specific to cost-driven US company
India	2.0
China	2.2
Philippines	2.1
Malaysia	2.0

Source: Location Cost Index database, McKinsey Global Institute (2003)

The table above shows the attractiveness of a location for offshoring; where the lower cost index is the preferred location. The table clearly illustrates that India and Malaysia are extremely attractive in terms of the location for offshoring. This is followed by Philippines and China, respectively.

Table 4: National strengths and weakness in criteria for offshoring locations

Country	Total Cost	Vendor landscape	Access to market	Risk profile	Business environment	Quality of infrastructure
India	1.5	2.2	3.5	3.9	3.7	2.8
China	1.8	3.7	1.8	3.4	3.6	2.5
Philippines	1.4	4.5	3.5	3.9	3.7	2.8
Malaysia	1.7	4.7	3.3	2.2	3.4	2.5

Source: Location Cost Index database, McKinsey Global Institute (2003)

The table above demonstrates the strengths and weaknesses in certain criteria for offshoring locations; where 1 is the most attractive and 5 is the least attractive. For the total cost criteria for locations, Philippines appears as the most attractive, followed by

India, Malaysia and China; respectively. India emerged out as the best in terms of vendor landscape, China emerged out as the best for the access to market and Malaysia emerged as the best in terms of risk profile for location. As for the quality of infrastructure for offshoring locations, a tie between Malaysia and China is seen.

3.13 India

At the present moment, offshore outsourcing to India is one of the most popular practices. Though it is generally spurred by the cost reduction factor, this is just one of the reasons one should consider offshore outsourcing. Most parties who outsource to India are unaware that these service providers do not just offer cost effective solutions, but also value addition by improving productivity and quality.

According to Ravi Menon (2010), India remains the destination of choice for content, design, media distribution and other outsourced publishing work. Sixty-six per cent of respondents in a recent publishing survey said they would prefer to outsource publishing and pre-press work to India over competitors like the US, UK, China, Australia and the Philippines.

A survey conducted by research firm; Value notes Database found that among 237 publishers, consultants and service providers, largely from the US and UK, noted that India remains a favoured publishing sourcing destination with 66 per cent of the respondents rooting for it. 42 per cent of the companies (that was surveyed) plan to increase outsourcing by 25 per cent, while 33 per cent will continue to outsource at the present levels (Ravi Menon, 2010).

The survey results show that sixty-four per cent of the respondents still have faith in their (Indian) vendors. Cost pressures and capability constraints continue to be the key drivers for outsourcing in India. However, in some cases, outsourcing has put additional pressure on in-house teams to spend more resources on evaluating the outsourced work.

India has an edge because of the decent quality of English speaking people who are willing to do routine work at a highly competitive price. As long as India maintains this edge, remains consistent and predictable, India has a place as the software backyard and the back office of the world. A large IT manpower pool and dominance of English in higher education system helps to build India as a preferred choice for off shoring (Vijay Bhat, 2004).

According to N.F.Kaka, S.S. Kekre and S. Sarangan (2006), India, having captured 46 percent of the global business-process-off shoring (BPO) market, is the leading offshore destination and will probably remain so for some time. India's outsourcing business stands at USD 1.5 billion outsourcing comprise of IT software and BPO. In 2002, it attracted 15 percent of total foreign direct investment and accounted for 10 percent of all exports. By 2008, it is expected to attract one-third of all foreign direct investment and to generate USD 60 billion a year in exports creating nearly a million new jobs in the process (Diana Farrell and A.S. Zhainulbhai, 2004). India is also no longer being viewed only as a competitor but also as an enabler to (this) industry's growth in other regions (N. Shivapriya, 2009).

It is predicted that India can corner almost 70 percent of the $25 billion global outsourcing market by 2010 and is expected to have a compounded annual growth rate of close to 50 percent (Evalueserve, 2004; Khanna, 2006). As mentioned, the key drivers for growth are a combination of the lack of a skilled workforce in developed markets and the realization in client organizations that costs can be saved and operating efficiencies improved by outsourcing even high-end processes to firms elsewhere (S. R. Raman, P. Budhwar and G. Balasubramaniam, 2007).

India offers the deepest experience in business process outsourcing and a large labor force second only to that of China. Due to these two reasons, India will continue to be ahead of the pack in terms of offshore destinations. The strength of India's people is no accident. Every year the educational system graduates two million proficient English speakers with strong technical and qualitative skills. India also benefits from its experience as it has been an offshore destination for over a decade (S.H.Kachru, 2004).

3.14 China

China already ranks No. 2 of the Global Services Location Index, due to the large supply of skilled staff and the quality improvements of Chinese providers (Thomas Meyer, 2009). China is just a few years away from catching up with India as the destination of choice for companies looking to outsource all or parts of their operations (J. Zhang, 2004).

The Chinese cities can overtake Indian cities by 2011 due to its massive investments made in infrastructure, English language, Internet connections, and technical skills, which are favorable towards off shoring (J. Ribeiro, 2007). The Chinese cities could also benefit from the fact that Indian locations are reaching their capacity limits. According to forecasts published by market researcher IDC, Shanghai could by 2011 become a more attractive location than Bangalore, and Dalian more attractive than New Delhi (Thomas Meyer, 2009).

China's presence in the service provider world is good news, since much of the impetus to outsourcing is cost management, particularly in the area of labour. China's cost advantage sounds compelling (J. Zhang, 2004). But of course, there's more to consider than just the labour cost. Quality of work, reliability, efficiency, flexibility, ease of communication and cultural issues are just as relevant in laying out an outsourcing strategy, as are macro factors such as geopolitical risks.

However, English is still an obstacle to the Chinese. This hinders China from expanding into English-speaking markets. It might be pointed out that though a project can get by well enough with broken English, documentation with bad English has practical implications (J. Zhang, 2004).

On the other hand, China's pool of potential talent is enormous. In 2003, China had roughly 9.6 million young professional graduates with top seven years' work experience and additional 97 million people that would qualify for support-staff position (D. Farrell and Andrew J. Grant, 2005). China has made dynamic advances in the education sector. According to the World Bank, already as many as 19% of the relevant age cohorts are enrolled at university (Thomas Meyer, 2009).

According to Forbes magazine, one-quarter of all foreign Doctor of Philosophy (PhD) candidates in the United States are from China; and over 170,000 Chinese who have studied abroad have now returned home (Thomas Meyer, 2009). This may positively affect China's research and development (R&D) capabilities positively.

In the economic environment, China has taken big steps toward its goal; creating a framework for a market economy under the rule of law (Wu Jinglian 2006), after undergoing over 20 years of steady and fundamental economic reform. Even though the non-state sectors have made great progress, the country still has a long way to go in improving the structure of corporate ownership. At present, the state-owned enterprises still controls the most important resources (Wu Jinglian 2006). According to J. Zhang (2004), the banking sector is heavily burdened with bad debt. Over-investment and overcapacity can be seen in some sectors in the economy, and at the same time corruption also undermines the efficient allocation of economic goods.

China officially entered the World Trade Organization (WTO) to embrace the international economic scene in December 2001. Still, in order to be able to familiarize to the new situation, China must abolish laws and regulations that do not kowtow to the WTO rules and establish laws and regulations that promotes fair competition.

On another note, many multinational companies in China are losing the battle to protect their intellectual property (IP), largely because they rely too heavily on legal tactics and fail to factor intellectual property (IP) properly into their strategic and operational decisions (M. Dietz, S. Lin and Lei Yang, 2005). According to J. Zhang (2004), there is almost no cultural awareness for IP rights. It's been said that in China, anything that can be profitably copied will be copied.

In a nutshell, China's relatively large supply of skilled labor is a major prerequisite for its position as an off shoring location (Thomas Meyer, 2009). China's two major disadvantages are; the command of the English language and the protection of intellectual property. Languages can be learnt, violations of intellectual property can be combated. Both this requires the use of political ability to act, which the Chinese government has proved to take appropriate action (Thomas Meyer, 2009).

3. 15 Philippines

The Philippines has long been established as an ideal destination for outsourcing, due to the country's large pool of English-speaking workers, affinity with Western culture, information technology (IT) infrastructure, government support, and lower operational costs. The call center sector is rapidly growing - call centers are being established not only in greater Manila area but also in other cities and provinces considered as emerging locations which are suitable for voice-based BPO work. It was reported that the call center sector posted US$5 billion in revenues in 2009 (Karen Cayamanda, 2010) and Philippines is poised to tap the knowledge process outsourcing sector and become an excellent alternative for these tasks. The country is now also emerging as an ideal destination for business processes that require specialized skills.

According to The Standard Financial Journal (2010), the Philippines is one of the world's second-largest English-speaking populations. With a literacy rate of 94%, The Philippines has a large pool of professionals and a cost-competitive infrastructure. The country also has the second lowest hourly wage for off shoring professionals (C. P. Beshouri, D. Farrell and F. Umezawa,2005), as labor costs in the country are approximately one-fifth lower than those in the US and Europe, making it a relatively attractive destination for their outsourced operations (The Standard Financial Journal, 2010). On a much lighter note, the Filipinos are also universally known as very hospitable people. They are considered by nature emotional and passionate about life, due to their country's long association with Spain. The Filipinos are also known to the world over as hard-working, easy to get along with, and always ready to lend a helping hand. Their attitudes towards other peoples are said to be extraordinary. And this may just be the country’s edge against their rivals.

Offshore outsourcing to the Philippines can be achieved and managed through internet-based collaboration, standardized online applications such as chat, email, video conferencing, and search engine optimization, and this has made it faster and easier for clients and companies who wish to outsource (G. Vandershane, 2009). Due to this, the Philippine economy has become more elastic; and more jobs have been presented to people.

It is a known fact that the outsourcing industry is one of the key drivers of the Philippine economy, especially during the recession, which is why the government is taking steps to make the country suitable for outsourcing work. (Karen Cayamanda, 2010). Hence, the

Philippines government is very much supportive in the multidimensional growth which may help the outsourcing industry gain more potential skilled whom are ready to be employed from time to time (Karen Cayamanda, 2010).

However, the Philippines sub par business environment suffers from strict labor laws, high levels of corruption and a surfeit of bureaucracy. (C. P. Beshouri, D. Farrell and F. Umezawa, 2005). Obtaining approval to open a call center in the Philippines, takes twice as much time as it does in India and according to C. P. Beshouri, D. Farrell and F. Umezawa (2005).

According to the International Property Rights Index by the Property Rights Alliance, the Philippines ranked 74th overall out of 115 countries surveyed. This simply shows that the Philippines has a rather poor record in Intellectual Property Protection.

All in all, the Philippines have been able to be in one of the top positions in outsourcing and gain a strong foothold in the industry in spite of its many disadvantages. In fact, the very fact that it is being talked about in the same light as India and China, speaks volumes about the gains made by it. However for it to consolidate and grow its position, the country has to watch out for certain issues that have been mentioned above.

3.16 Emerging Market: Vietnam

Recently, the Asian markets have gained a lot of attention from multinational players and are seen as drivers for increased growth and revenues. With the success of offshoring to India and China, MNCs are looking at other Asian countries as BPO and IT offshore locations (Manish Bahl, 2007). According to Nicole Kobie (2008), Vietnam could potentially overtake India and China as a site for outsourcing by the year 2012. Research Vietnam, an in-country outsourcing intermediary, claims that outsourcing costs in Vietnam are half the some of their rivals. These figures are echoed by Andersen Vietnam, which estimates that current charge-out rates of Vietnam-based developers are about USD 20,000 per person per year, as compared to USD 40,000 in India (EU Business Asia, 2002).

Vietnam's strategic geographic location, skilled French-speaking labor pool, favorable business policies and competitive cost structures (20-30% less than India) are some of the key advantages that position Vietnam as an attractive destination for IT companies (Manish Bahl, 2007). Now, vendors look for a multi-faceted package of the right skill-set, competitive cost structures, and favorable country dynamics from an economic, political and business policy perspective. The competition is no longer about cost arbitrage alone, as the increasing emphasis is now on the countries that can cater to a specialized segment.

According to Manish Bahl (2007), the combination of these factors above has kept India and China far ahead of other Asian countries. However, countries such as Vietnam, Malaysia and Philippines are slowly beginning to narrow the gap. Competitive pressures are driving large corporations to seek high quality, cost-effective off shoring resolutions in new and emerging markets in the quickly evolving global arena. Vietnam, Malaysia and the Philippines have aims to become large, specialized off shoring hubs and have found some success. In spite of favorable economic indicators, Asia's emerging countries share a lack of vision in developing a niche off shoring position and high political and security threats (Manish Bahl, 2007).

Table 5: The Asian Concert

	India	China	Philippines	Malaysia	Vietnam
Tertiary education, % of age cohort	12	19	29	32	16
English as an official language	Yes	No	Yes	No	No
Share of pirated software, %	69	82	69	59	85
AT Kearney Global Services Location Index (ranking)	1	2	8	3	19

Sources: AT Kearney, CEPII, DB Research, Global Insight, IDC, IMF, World Bank, 2008

In the previous rankings, surveys do not take into account Vietnam as an off shoring market. The table above clearly shows that India, China, Malaysia and Philippines are the established markets, while Vietnam has now emerged as a competitor. In fact, Vietnam is ahead of China, Philippines and Malaysia in terms of the percentage of age cohort, in the Asian context.

In the subsequent discussion, an evaluation of how each of these three top players have performed and is the caused that have made them reached the position they are currently ranked.

Vietnam is viewed as a practical alternative to China for foreign (particularly U.S.) companies seeking to establish their lower-cost manufacturing capacity. This is due to the increasing costs of labor in China, rising Chinese taxes on foreign companies, difficulties with the business environment in China, and the perception among some U.S. firms that the political risk of doing business in China may increase due to rising trade tensions.

Carmel (2003) provided a useful taxonomy for classifying and comparing software exporting nations. This taxonomy places most OECD nations as well as major offshore outsourcing nations (e.g. India) in the top tier, while Vietnam is classified in the fourth tier (J. Gallaugher and G. Stoller, 2004). However, due to problems with its education system, foreign firms seeking to develop their operations in Vietnam may observe that the Vietnamese workforce lacks certain vital skills.

While Vietnam suffers from a variety of market conditions that typically limits technology expansion, the market has been so technology starved that demand-pull is outweighing the many challenges that they face (J. Gallaugher and G. Stoller, 2004). There are several factors that facilitate Vietnam for outsourcing. This includes; lower production costs, a strong labor pool, and a growing number of government incentives, national stability and a large overseas expatriate community.

Language skills in Vietnam are pale compared to the rich pool of speakers in other outsourcing hotspots (e.g. India). However, the Vietnamese benefit from an alphabet based on Roman characters and a historical legacy that has created a greater awareness of French and English.

Despite Vietnam's promise, a host of issues limit the nation's potential growth as a dominant player in offshore outsourcing. These issues are related to policies, infrastructure, and comparative limitations. The present government clearly struggles with finding what it feels is an appropriate balance between pro-market and pro-socialist ideology, often with mixed feelings. The Vietnamese government continues to suffer from a reputation for slow-moving, corrupt and capricious relations with foreign firms (Goodman and Press, 1995) as well as lack of transparency and legal protection for firms doing business in the country.

For all its growth and promise, the Vietnamese market for quality export-oriented service is still very small. The Vietnamese firms will have to grow to be considered for a larger, more comprehensive deal (J. Gallaugher and G. Stoller, 2004).

On another note, the Vietnamese internet connections are slow and expensive and there are strict controls on the flow of information. While the government has pledged to address the problem of telecommunication costs, Vietnamese telecommunications are considered among the costliest and the most restricted in Asia (Peng, 2002).

According to J. Gallaugher and G. Stoller (2004), piracy is rampant in Vietnam. The lack of dependable intellectual property protection will restrict the growth of the domestic software industry as well as limit the appeal of Vietnam as a market for high-quality imported products and training materials.

Vietnam is considered to be a dynamic nation with great outsourcing potential, with a robust economy that has an unbelievable growth rate. With a stable and secure government, it is now considered as a lawful nation under one roof. Vietnam is on its way to write a new chapter in the history of outsourcing software development**.** The world will be watching this new revolution in offshore development happening in Vietnam. As an emerging software outsourcing destination**,** Vietnam will be a perfect fit for companies, without having to spend a lot of money (J. Gallaugher and G. Stoller, 2004).