

## Impact of Business Process Outsourcing Practices on Financial Performance

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**Abstract:** This study reports an exploratory study that examines the adoption of Business Process Outsourcing (BPO) by companies in Malaysia and the impact of BPO usage on the financial performance of those companies. Empirical data were collected through a survey of 104 Small and Medium sized companies (SMEs) in the service industry. The survey reveals that the Malaysian SMEs are beginning to outsource their business processes, in particular call centres. More companies are outsourcing their business process in comparison to those who do not. The study indicates contradictory findings on the impact of BPO usage on the financial performance of the participating firm.

**Key words:** Empirical data, adoption, financial performance, call centres, Malaysia

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### INTRODUCTION

Business Process Outsourcing (BPO) involves one firm hiring another firm (outsourcer) to handle the business activities of the former. BPO is slightly different from Information Technology Outsourcing (ITO) as ITO requires the outsourcer to do IT related activities for the firm such as providing technical support, maintaining the data centre and providing hardware. On the other hand, BPO requires the outsourcer to administer the actual business processes that takes place within the firm.

The most common processes that are outsourced include functions related to cheque clearing, payment processing, credit rating and custody of assets. ITO reduces the cost of the IT budget for a firm whereas BPO increases the firm's performance, efficiency and productivity (Dong, 2010). BPO is growing as a result of the deregulation of telecom services, the increase in the bandwidth of networks, the scalability and sophistication of integration applications and business process management software and the opportunity for immediate cost arbitrage (Tas and Sunder, 2004).

Malaysia has climbed onto the BPO bandwagon. The country is one of the premier outsourcing destinations. According to a KPMG (2010), Malaysia is among the top five locations for shared services and outsourcing from China, India, Singapore and Hong Kong. The country has already hosted dozens of multinationals such as HSBC (global processing hubs), Citibank (regional trade processing centre), Royal Dutch Shell Group (global IT support centre) and DHL (Asia Pacific data centre) that

have tapped into the country's expertise in the energy, finance and logistics industries. As a result of the presence of these companies on Malaysia's BPO scene, it is estimated that the BPO industry in Malaysia will be worth USD\$1.9 billion by 2013 (Outsourcing Malaysia and Valuenotes, 2009). The massive potential of outsourcing, especially BPO, led to the launch of Outsourcing Malaysia in 2006, a joint initiative by the Association of the Computer and Multimedia Industry of Malaysia (PIKOM), Multimedia Development Corporation (MDeC) and Malaysia Debt Ventures. This initiative was intended to position the country as an attractive location for shared services and outsourcing (KPMG, 2010).

Although, Malaysia became an attractive hub for BPO, its attractiveness to local companies was not investigated. A study is now needed to examine whether Malaysian companies use the various BPO products and services offered by BPO companies located in Malaysia to improve their performance. That is the function of the present study and the research questions can be stated as follows: What is the level of BPO adoption among Malaysian companies? Which outsourced process is the most/least affected by BPO? Which financial measure is the most/least affected by BPO?

This study addresses these questions by administering a questionnaire survey to collect empirical data from small and medium enterprises in the service sector. As BPO is a recent phenomenon (Sidorova and Isik, 2010), the study conducted is exploratory and descriptive in nature.

The answers to the research questions will provide a better understanding of the current BPO practices adopted by Malaysian companies. Therefore, the aim of this study is to examine the BPO practices among Malaysian companies, particularly the Small and Medium Enterprises (SMEs), in the service sector. The study is significant for several reasons. First, it adds to the existing literature on BPO as a review of the literature indicates that studies on BPO, particularly in Malaysia are scarce. Studies that have been conducted in Malaysia on outsourcing mainly focused on IT outsourcing (Ahlan *et al.*, 2009; Arshad *et al.*, 2008; Qu *et al.*, 2010; Wong, 2009). Others researchers such as Bin Baba and Bin Mohammed (2007), focus on facilities management while Khong (2005) focuses on customer relation management. Second, the study provides empirical evidence of the types of BPO adopted and the impact of BPO on the companies' financial measures. Three, previous studies focused on the manufacturing sector (Bardhan *et al.*, 2007, 2006; Gwebu *et al.*, 2010) and another two on the financial sector (Gewald and Dibbern, 2009). This study focuses on the service sector. Fourth, the findings of the research provide an understanding of the BPO practices among Malaysian companies which may be used as a guide for companies that intend to incorporate BPO into their processes.

## **MATERIALS AND METHODS**

**Business Process Outsourcing (BPO):** BPO is the third wave of the outsourcing process (Mol, 2007). The first wave was the outsourcing of manufacturing processes which started in the mid 1980s and the second wave occurred in the mid 1990s with the outsourcing of Information Technology (IT) by many companies.

Some studies (Kshetri, 2007; Beverakis *et al.*, 2009) investigate the factors that drive BPO, especially offshore BPO. For example, Kshetri (2007) suggests that regulative, normative and cognitive elements are institutional factors that lead firms to adopt BPO. Another study by Beverakis *et al.* (2009) took a different perspective on the reasons that drive BPO. According to them, firms are involved in BPO because of competition in the marketplace. However, the involvement has many risks that the firms have to weigh before their involvement can become successful. Other studies (McIvor *et al.*, 2010; Yang *et al.*, 2007) propose decision models that can be used by organizations to assess the decision to implement BPO. For example, Yang *et al.* (2007) develop a decision model that integrates three factors-expectations, risk and environment to be considered before an organization

involves itself with BPO. A study by McIvor *et al.* (2010) presents an Alternative Integrative Model of the BPO decision. McIvor's Model integrates a number of critical success factors as means of evaluating outsourcing at the business process level.

A significant number of studies propose factors that contribute to a successful BPO exercise. These factors include building successful relationship between the client and the service provider (Bharadwaj *et al.*, 2010), internal cultivation of processes (Duan *et al.*, 2009), information capability design (Mani *et al.*, 2010) process standardization, the quality of the supporting tools and application software and governance of the BPO initiative (Tas and Sunder, 2004). Surveys of companies participating in BPO identify these factors. Although, the factors proposed in the above studies can be helpful, they are useful only if organizations know how to deploy them effectively. This is where process studies of BPO contribute by offering a recipe for successful implementation where the ingredients (factors) are deployed for BPO success. Among the studies that contribute to this recipe are studies by Atesci *et al.* (2010) and Luo *et al.* (2010). These studies were conducted using qualitative research, offering a deeper insight and more practical advice on BPO implementation. For example, Atesci *et al.* (2010) suggest that organizations need to: improve their sensing capabilities and keep abreast of strategic transformations at their outsourcing vendors be able to plan for and execute contingency plans and balance the risks and rewards of BPOs in terms of knowledge and capability dependencies.

Knowledge capabilities and risks are the focus of some studies in BPO. For example, Willcocks *et al.* (2004) argue that companies involved in BPO should take the opportunity to leverage the knowledge potential from the exercise. They further presented a framework for evaluating the knowledge potential within different types of outsourcing arrangements. On the other hand, Gewald and Dibbern (2009) and Shi (2007) investigate the risk aspect of BPO. In the Gewald and Dibbern (2009)'s study, perceived risks and benefits affect the intention to adopt BPO. Shi (2007)'s study, presented an overview of the different types of risks that a client faces.

**Types of business processes outsourced:** BPO allows organizations to focus on their core competencies (Atesci *et al.*, 2010) as they engage another firm to perform their other business processes. For example, a hospital could focus on providing medical services to their customers (patients) while outsourcing other processes such as facility management, to another firm

(Bin Baba and Bin Mohammed, 2007). Bhimrao and Janardan (2008) state that business processes can be outsourced on the basis of services/functions performed within an organization. These services/functions include human resources, operations, back office transaction processing, marketing services, customer interaction, information technology and software, finance and accounting, knowledge and decision making. Soiva reports the outcomes of the Outsourcing Institute's Fifth Annual Outsourcing Index which show that the most commonly outsourced function is information technology services followed by administration functions. However, the Eight Annual Outsourcing Index suggests that in future outsourcing the human resources function will be most common followed by IT functions.

**Impact of BPO:** A number of studies examine the value of BPO to the implementing organizations (Downing *et al.*, 2003; Gwebu *et al.*, 2010). Although, the aim of these studies was similar, the perspectives they adopted to achieve that aim were different. For example, Gwebu *et al.* (2010) investigate the value of BPO for the organization's supply chain, Downing *et al.* (2003) investigate the value of BPO for an organization's business processes, Kroes investigates the impact of the BPO announcement on shareholder value and Lee and Kim (2010) study the implications of service process outsourcing for a firm's value. Although, those studies were conducted from different perspectives, their findings are similar-BPO can bring value to the participating organization. In addition, these studies suggest that the practice can enhance financial performance and may lead to superior overall performance. However, none of these studies were conducted in Malaysia and whether or not the results are applicable to Malaysia remains to be seen. This study attempts to address that question.

The financial performance of a firm can be measured in various ways including capital structure, sales growth, profitability, total assets, return on investment, sales volume, turnover, market share (value), earning per share and liquidity. Different studies on outsourcing and BPO have used different measures. For example, Narayanan *et al.* (2010) use three financial measures: profit level, market share and cost reduction. Kotabe *et al.* (2008) analyze the effect of IT outsourcing using Return on Value Added (ROVA) which is total profitability divided by the firm's value added where value added is calculated as sales minus external sourcing. Gwebu *et al.* (2010) use ROA (calculated as net income/total assets) and ROS (calculated as net income/sales) to measure firm performance. Toyli *et al.* (2008) find that a firm's shareholder value and the quest for profitable growth are

the indicators that are most widely used. A firm's growth according to Garnsey *et al.* (2006) may be viewed through inputs (such as investments or employees), firm value (such as asset value, market capitalisation and economic value added) or outputs (such as sales revenues or profits).

Despite the existence of a numerous studies on BPO, there are still avenues for further research on this domain, especially in developing countries such as Malaysia. Despite being one of the main hubs for international BPO, the adoption rate by Malaysian companies remains largely unknown. If the level of adoption is small, this might indicate that the financial impact of the practice was low.

Empirical data were collected using a survey questionnaire. The questionnaire consists of three main sections. Section 1 examined types of BPO practice. Section 2 looked at financial impact. Section 3 collected data on the organizational demographics (business activities and the age of the business). The items in Section 1 (types of BPO) were based on the classification devised by Bhimrao and Janardan (2008). The study focused on all functions in that classification except knowledge and decision making as the target population for the study is SMEs which normally do not have/require knowledge and decision making services because of their small size and limited financial resources (Ainin *et al.*, 2010). The functions were Information Technology (IT), human resource (payroll); operations finance and accounting, marketing (market research), customer interaction (call centre, help desk and online support), back office transaction processing (order fulfilment) and operations support (RFP, bids and contract management).

Four IT functions (programming, data centre operations, network management and data management) were included as outsourcing of IT functions is one of the main business functions that organizations normally outsourced (Gwebu *et al.*, 2010). Respondents were required to answer whether they currently do not outsource, currently do not outsource but plan to outsource in the next 3 years, outsource partially or outsource significantly for each of the processes listed.

Items in Section 2 were based on the study by Salleh (2006). Respondents were asked to state the actual level of financial attainment using a 7 interval scale ranging from decreased tremendously to increased tremendously for each of the following financial measures: operating income, revenue, liquidity, capital structure, market share, earning per share, return on investment and cash flow from operations. These items and measures were chosen to reflect the firm's actual financial performance and the items have been tested on Malaysian SMEs (Salleh, 2006). The questionnaires were distributed to SMEs in the

service industry in the states of Selangor and Wilayah Persekutuan as the highest percentage of SMEs are located in these two states. The service industry was chosen as it is the largest contributor of the Malaysian economy. The service industry includes hotels, ICT, professionals and retail. This study focuses on three sectors, namely hotels ICT and professional companies. As this is an exploratory study, subsequent studies might include other sectors. The list of SMEs in these three sectors was obtained from the Malaysian SMI SME Directory (<http://www.smibusinessdirectory.com.my/>). The target respondents were the MIS/IS/IT Manager or equivalent as it was found (based on informal discussion with several companies) that for most companies in Malaysia BPO is placed within the scope of their work.

Based on the lists obtained, the researchers contacted every tenth firm by phone to identify the target respondent and their office and e-mail address and telephone number. One thousand companies were contacted and the questionnaire was posted via normal mail and e-mail to each of them. After one month follow up calls were made to increase the response rate. However, only 104 companies returned the questionnaire after 3 months of data collection.

## RESULTS AND DISCUSSION

Of the 104 responses, the highest response rate was from hotels followed by the ICT companies (Table 1). Approximately, 55% of the companies have been established for >6 years (Table 2).

The findings follow from the answers to the research questions: What is the level of BPO adoption among Malaysian companies? Which outsourced process is the most/least affected by BPO? Which financial measure is the most/least affected by BPO?

### Outsourced process the most/least affected by BPO:

Table 3 shows companies outsourcing (either partially or

fully) their call centres (74 and 71.2%). The process whose outsourcing was least common (the process least affected by BPO) is programming (30 and 28.8%). This finding is not surprising as normally when a company outsources a process such as accounting, finance or payroll, the outsourcer uses a system that has already been programmed.

**Level of BPO among the Malaysian companies:** Further analysis (Table 4) was carried out and it was found that only 7 companies did not use BPO and there were 12 companies that outsource all their business processes (11). The top quartile of companies in terms of level of BPO was categorized as high (>8 processes outsourced). The bottom quartile was categorized as low (1-5 processes outsourced). The remaining two quartiles with 6 or 7 processes outsourced were categorized as medium.

**The financial measures that are most/least affected by BPO:** Table 5-7 in the Appendix show the financial impact of BPO on the companies surveyed in this study. Among the companies that adopt BPO, most do not achieve higher financial performance. For example, only 29% of companies that outsourced their order fulfilment process feel that they achieve higher market earnings while an overwhelming 71% feel that it has decreased or has not changed. Second, there are mixed results in terms

Table 1: Company sector

Sectors	Frequency	Percentage
Professional	26	25.0
Hotel	46	44.2
ICT	32	30.8
Total	104	100.0

Table 2: Age profile of companies

Number of years established	Frequency	Percentage
1-2	21	20.2
3-5	26	25.0
6-10	29	27.9
11-15	8	7.7
>16	20	19.2

Table 3: Business process outsourcing level

Processes	Currently not outsourced		Plan to outsource in next 3 years		Partially outsourced		Significantly outsourced	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Programming	57	54.8	17	16.3	20	19.2	10	9.60
Data centre operations	26	25.0	33	31.7	37	35.6	7	6.70
Network management	14	13.5	39	37.5	40	38.5	9	8.70
Data management	9	8.7	24	23.1	61	58.7	7	6.70
Call centre	8	7.7	19	18.3	33	31.7	41	39.4
Payroll	8	7.7	18	17.3	58	55.8	11	10.6
Market research	10	9.6	35	33.7	20	19.2	30	28.8
Accounting	9	8.7	32	30.8	23	22.1	39	37.5
Finance	9	8.7	27	26.0	36	34.6	23	22.1
Order fulfilment	17	16.3	14	13.5	46	44.2	23	22.1
RFP, bids and contract management	9	8.7	9	8.7	37	35.6	36	34.6

of the comparison between companies that practice BPO and those that do not. While more companies adopting BPO claim to achieve financial benefits than those that are not involved in the practice, more BPO implementers also claim that adoption has had a negative financial impact compared to those that are not implementers. For example, 26 companies that outsource their call centre claimed that they achieve a positive return on investment compared to only half of those that do not outsource. At the same time however, 48 companies that outsourced their call centre claimed that they achieve no gain or negative financial impact compared to only 17 companies that do not outsource. The data were further scrutinized for significant findings in order to understand these confusing findings (Table 8).

Table 4: Level of BPO adoption

Number of BPO	Frequency	Percentage
0	7	6.7
1	2	1.9
2	2	1.9
3	6	5.8
4	3	2.9
5	4	3.8
6	33	31.7
7	19	18.3
8	16	15.4
11	12	11.5
Total	104	100.0

Generally, it can be seen that different BPO have different impacts on the four financial measures. Overall, the results show that the financial measure that is least affected by BPO is return on investment while the most affected is liquidity.

Malaysian SMEs in the service industry are beginning to outsource their business processes. The call centre is the most popular process that is outsourced. This finding implies that companies are serious about improving their relationships with their customers. Previous studies (Atesci *et al.*, 2010) have indicated that one of the reasons why companies outsource is to improve their competitiveness which can be achieved by improving customer satisfaction. There are also many companies in the outsourcing industry providing such services in Malaysia. One example is FSD Solutions Malaysia who provides inbound and outbound call centre services. On the other hand, the programming function is not outsourced by many companies. This finding is to be expected as when a company outsources accounting, finance or payroll, usually the outsourcer uses a system that has already been programmed.

Generally, the level of BPO adoption among the companies is at the higher end with >75% of the companies outsourcing more than six of their business processes. This result is encouraging as it indicates that

Table 5: The financial impact of BPO

Outsourced process	Types of financial impacts	BPO decision	Decrease or no change	Percentage	Some amount of increase	Percentage	Total	Pearson Chi-square
Programming	Liquidity	Does not outsource	59.0	79.7	15.0	20.3	74	0.286
		Outsources	21.0	70.0	9.0	30.0	30	-
	Capital structure	Does not outsource	56.0	75.7	18.0	24.3	74	0.348
		Outsources	20.0	66.7	10.0	33.3	30	-
	Market earnings	Does not outsource	46.0	62.2	28.0	37.8	74	0.449
		Outsources	21.0	70.0	9.0	30.0	30	-
	ROI	Does not outsource	49.0	66.2	25.0	33.8	74	0.219
		Outsources	16.0	53.3	14.0	46.7	30	-
Networking	Liquidity	Does not outsource	51.0	85.0	9.0	15.0	60	0.022
		Outsources	29.0	65.9	15.0	34.1	44	-
	Capital structure	Does not outsource	38.0	63.3	22.0	36.7	60	0.009
		Outsources	38.0	86.4	6.0	13.6	44	-
	Market earnings	Does not outsource	29.0	48.3	31.0	51.7	60	0.000
		Outsources	38.0	86.4	6.0	13.6	44	-
	ROI	Does not outsource	32.0	53.3	28.0	46.7	60	0.024
		Outsources	33.0	75.0	11.0	25.0	44	-
Data management	Liquidity	Does not outsource	31.0	86.1	5.0	13.9	36	0.106
		Outsources	49.0	72.1	19.0	27.9	68	-
	Capital structure	Does not outsource	19.0	52.8	17.0	47.2	36	0.001
		Outsources	57.0	83.8	11.0	16.2	68	-
	Market earnings	Does not outsource	17.0	47.2	19.0	52.8	36	0.008
		Outsources	50.0	73.5	18.0	26.5	68	-
	ROI	Does not outsource	18.0	50.0	18.0	50.0	36	0.055
		Outsources	47.0	69.1	21.0	30.9	68	-
Call centre	Liquidity	Does not outsource	27.0	90.0	3.0	10.0	30	0.044
		Outsources	53.0	71.6	21.0	28.4	74	-
	Capital structure	Does not outsource	15.0	50.0	15.0	50.0	30	0.001
		Outsources	61.0	82.4	13.0	17.6	74	-
	Market earnings	Does not outsource	13.0	43.3	17.0	56.7	30	0.004
		Outsources	54.0	73.0	20.0	27.0	74	-
	ROI	Does not outsource	17.0	56.7	13.0	43.3	30	0.434
		Outsources	48.0	64.9	26.0	35.1	74	-

Table 6: The financial impact of BPO

Outsourced process	Types of financial impacts	BPO decision	Decrease or no change		Some amount of increase		Total	Pearson Chi-square
				Percentage		Percentage		
Payroll	Liquidity	Does not outsource	23	65.7	12	34.3	35	0.053
		Outsources	57	82.6	12	17.4	69	-
	Capital structure	Does not outsource	25	71.4	10	28.6	35	0.787
		Outsources	51	73.9	18	26.1	69	-
	Market earnings	Does not outsource	20	57.1	15	42.9	35	0.269
		Outsources	47	68.1	22	31.9	69	-
Market research	ROI	Does not outsource	20	57.1	15	42.9	35	0.422
		Outsources	45	65.2	24	34.8	69	-
	Liquidity	Does not outsource	37	68.5	17	31.5	54	0.035
		Outsources	43	86.0	7	14.0	50	-
	Capital structure	Does not outsource	41	75.9	13	24.1	54	0.496
		Outsources	35	70.0	15	30.0	50	-
	Market earnings	Does not outsource	30	55.6	24	44.4	54	0.050
		Outsources	37	74.0	13	26.0	50	-
	ROI	Does not outsource	35	64.8	19	35.2	54	0.612
		Outsources	30	60.0	20	40.0	50	-
Accounting	Liquidity	Does not outsource	33	78.6	9	21.4	42	0.743
		Outsources	47	75.8	15	24.2	62	-
	Capital structure	Does not outsource	31	73.8	11	26.2	42	0.890
		Outsources	45	72.6	17	27.4	62	-
	Market earnings	Does not outsource	28	66.7	14	33.3	42	0.694
		Outsources	39	62.9	23	37.1	62	-
	ROI	Does not outsource	24	57.1	18	42.9	42	0.353
		Outsources	41	66.1	21	33.9	62	-
Finance	Liquidity	Does not outsource	34	75.6	11	24.4	45	0.773
		Outsources	46	78.0	13	22.0	59	-
	Capital structure	Does not outsource	31	68.9	14	31.1	45	0.400
		Outsources	45	76.3	14	23.7	59	-
	Market earnings	Does not outsource	26	57.8	19	42.2	45	0.216
		Outsources	41	69.5	18	30.5	59	-
	ROI	Does not outsource	31	68.9	14	31.1	45	0.240
		Outsources	34	57.6	25	42.4	59	-

Table 7: The financial impact of BPO

Outsourced process	Types of financial impacts	BPO decision	Financial impacts				Total	Pearson Chi-square
			Decrease or no change	Percentage	Some amount of increase	Percentage		
Order fulfilment	Liquidity	Does not outsource	2	14.3	12	85.7	14	0.053
		Outsources	57	82.6	12	17.4	69	-
	Capital structure	Does not outsource	22	62.9	13	37.1	35	0.094
		Outsources	54	78.3	15	21.7	69	-
	Market earnings	Does not outsource	18	51.4	17	48.6	35	0.049
		Outsources	49	71.0	20	29.0	69	-
	ROI	Does not outsource	21	60.0	14	40.0	35	0.708
		Outsources	44	63.8	25	36.2	69	-
RFP, bids and contract	Liquidity	Does not outsource	28	90.3	3	9.68	31	0.035
		Outsources	52	71.2	21	28.8	73	-
	Capital structure	Does not outsource	22	71.0	9	29.0	31	0.752
		Outsources	54	74.0	19	26.0	73	-
	Market earnings	Does not outsource	21	67.7	10	32.3	31	0.645
		Outsources	46	63.0	27	37.0	73	-
	ROI	Does not outsource	19	61.3	12	38.7	31	0.868
		Outsources	46	63.0	27	37.0	73	-

Malaysian companies, especially SMEs in the service sector, focus on their core processes to provide services to their customers and have delegated the other processes to the experts as also found by Atesci *et al.* (2010). It also illustrates that the companies have taken opportunities that exist for outsourcing services in Malaysia. This may support the government's goal of making Malaysia an outsourcing centre. The study

reveals contradictory findings in relation to the financial measure that is most/least affected by BPO. Different BPO have different impacts on the four financial measures studied. Networking seems to have significant impact on all four financial measures whereas some business processes such as programming have no significant impact. In general, ROI is the financial measure least affected by BPO. This is not surprising as outsourcing

Table 8: BPO and financial impact (significant results: Pearson Chi-square,  $p < 0.05$ )

Types of BPO	Types of financial impacts	Number of companies (%) with decrease or no change		Number of companies (%) with some amount of increase	
		Does not outsource	Outsources	Does not outsource	Outsources
Networking	Liquidity	51 (41)	29 (59)	9 (38.0)	15 (62)
	Capital structure	38 (50)	38 (50)	22 (79.0)	6 (21)
	Market earnings	29 (43)	38 (57)	31 (84.0)	6 (16)
	ROI	32 (49)	33 (51)	28 (72.0)	11 (28)
Call centre	Liquidity	27 (34)	53 (66)	3 (13.0)	21 (87)
	Capital structure	15 (17)	61 (83)	15 (54.0)	13 (46)
	Market earnings	13 (19)	54 (81)	17 (20.0)	20 (54)
Data management	Capital structure	19 (25)	57 (75)	17 (61.0)	11 (39)
	Market earnings	17 (25)	50 (75)	11 (16.2)	18 (49)
RFP, bids and contracts	Liquidity	37 (47)	43 (53)	17 (71.0)	7 (29)
Order fulfillment	Market Earnings	18 (27)	49 (73)	17 (46.0)	20 (54)
Market research	Liquidity	28 (35)	52 (65)	3 (13.0)	21 (87)

involves a fixed amount of investment which is actually a payment made to the vendors for the services rendered as specified in the contract between the two parties. This investment would not yield any added value in monetary terms but may add value in others terms, possibly by building successful relationships with customers. The results contradict the findings reported in the existing literature and indicate that BPO does not improve firms' financial performance whereas many outsourcing studies (Narayanan *et al.*, 2010; Lee and Kim, 2010) indicate that outsourcing processes improve financial performance.

The findings of this study could be useful to the numerous outsourcing companies in the outsourcing industry in Malaysia in several ways. First, there is an opportunity for companies to increase their market as they are still many organizations in Malaysia that have not adopted BPO. Second, the industry should capitalize on the efforts made by companies to improve their relationship with their customer by offering outsourcing services that allow them to do so. Third, in their promotional activities they should place more emphasis on the non-financial benefits of BPO rather than focus on financial ones.

## CONCLUSION

This study shows that the top three business processes for outsourcing are call centres, accounting and RFP, bids and contracts. This finding implies that firms are focusing on their core business in order to provide services to their customers and outsourcing other processes. This finding is in line with those of Atesci *et al.* (2010) who find that firms outsource to focus on their core business. This conclusion is also in line with the analysis offered by Soiva analysis. Therefore, it is suggested that BPO companies should review their current product and service packages to include more administrative processes to make them more attractive.

This will help them retain existing customers while attracting new customers. The study also demonstrates that SMEs in the three sectors studied within the services industry use the various products and services offered by BPO companies located in Malaysia and nearly all the companies outsourced some of their business processes. The high percentage of companies outsourcing their business processes demonstrates that there is demand for BPO products and services. Consequently, the productivity of the BPO industry in Malaysia should continue to flourish. In addition, the BPO industry as mentioned above is expected to increase in the next few years. Although, Malaysia is not the top location of choice for outsourcing, the Malaysian government should put incentives in place to encourage Malaysian firms to outsource their business processes to companies located in Malaysia rather than those in other countries such as China or India. The evidence is inconclusive as to whether BPO use has a positive impact on the financial performance of firms.

Nevertheless, the findings do indicate that the adoption of BPO has some financial impact on adopting firms. This is consistent with previous studies (Narayanan *et al.*, 2010; Kotabe *et al.*, 2008) which indicated that firms adopt BPO to increase their performance.

This research provides a basis for understanding BPO practices in Malaysia. Future research should be undertaken to understand why some companies adopt BPO while others do not. This could be carried out using either a quantitative or a qualitative research approach. A quantitative approach would provide a broader picture whereas qualitative research would provide a more in-depth understanding of the phenomena. In addition, future research should use multiple measures (financial and non financial) to evaluate the impact of BPO on company performance. Future studies should also expand the area of study to include other regions of the country

including East Malaysia. As with any other research this study is not without limitations. The first limitation is the sample size which is rather low despite numerous efforts taken to improve the response rate. The second limitation is that the survey focuses on only two states in Malaysia which may not be representative of the entire population. Third, the focus of the study was on SMEs. Future research should incorporate other types of organizations including the government sector.

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