

## Chapter 3

# Manoeuvring the Rough Commercial Landscape through Outsourcing: Repositioning Malaysian SMEs

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### **ABSTRACT**

*The global commercial landscape is moving dynamically and continues to loom in the rigour environment, forewarning the Small and Medium-Sized Enterprises (SMEs) to get their act together before the next wave of the rough economic landscape hits their bottom line. SMEs discover that they need to reposition themselves, and consistent with this, many SMEs embark on outsourcing as one of their business strategies to manoeuvre their companies so that they could survive and sustain during the tough time. Therefore, this chapter studies the prevalence of outsourcing among entrepreneurs in SMEs in Malaysia. Outsourcing is a convoluted process and can bring new development opportunity for the SMEs to quest for their competitiveness. A sample of ten SME entrepreneurs from Malaysia participated in this study. A series of interviews were conducted among these entrepreneurs to probe their behaviours and outlook on outsourcing. The results showed that SME entrepreneurs highlighted the importance and impact of outsourcing in managing and running their business enterprise. Some entrepreneurs perceived outsourcing as a key trend shaping the future of their activities in terms of reducing costs and increasing efficiency, flexibility, and performance. In sum, this study generates agenda for researchers to reach more conclusive evidence about the practice of outsourcing among SMEs.*

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## **INTRODUCTION**

The recent development in the Malaysia economic landscape has witnessed the increased attention given to SMEs. SMEs have been at the vanguard of the economic expansion and considered as the powerhouse of the country's economy which, if properly nurture and groom, could leapfrog Malaysia from a developing to a developed nation. Having noted that, given the dynamic and hostile business environment, Malaysian SMEs are being exposed to many challenges that pose adverse impacts on the survival and development of the businesses. The era of globalisation has compelled SME entrepreneurs to face massive changes regarding how they operate their businesses. It has also marked the end of the usual way of doing business, mandating new approaches into the forms of strategies that entrepreneurs need to adopt in order to ensure business sustainability (Shane & Venkataraman, 2000).

One of the many challenges is to get access to reasonably cost-effective financing and mostly venture capitalists do not see the potential of SMEs as many SMEs do not have the track record that a stable or large organisation does. Apart from that, many SMEs do not have skilled manpower because they could not afford to pay high salaries to get the skilled employees. SMEs cannot be competitive, innovative and creative without the skilled employees. On top of that, SMEs also experience lack of technological capability in which they do not have sufficient financing to acquire technology that may be actually be very pertinent for them to be competitive and have a strong market position (Zainuddin, 2012).

In light of the above arguments, the challenges faced by the SMEs have also encouraged entrepreneurs to craft and execute strategies relevant to the new episode of intense competition and to survive in the market place. Increasingly, many SME entrepreneurs are turning to outsourcing as a new management strategy. Malaysian SMEs outsource the non-core or secondary activities

to the external vendors through outsourcing, and they themselves only focus on core, main functions (Li-Ping and Ying, 2010). This business approach emphasis on the establishment of core competitive advantage, meanwhile it attempts to reduce costs, lower risk and improve economic efficiency and competitiveness. Apparently, knowledge about outsourcing behavior in SMEs in the academic literature is somewhat limited (Elango, 2008; Goa and Mitchell, 2010). Many researchers argue that it may be more efficient to outsource some activities than try to develop the capability to perform them in house (Weaver, 2000; Arbaugh, 2003). Therefore, it is important to understand why some SMEs embark on outsourcing while others prefer to wait and see how events unfold (Vilaseca-Requena, et al. 2007; Everaert, et al. 2007). Additionally, outsourcing among SMEs, evidence of its performance effects is also scarce. Appealing arguments have been made that by outsourcing SMEs may have better focus on their most value-creating activities, innovation (Elango, 2008) and manpower can be reduced (Bettis et al., 1992). In the context of this phenomenon, several questions become pertinent: of what benefit is outsourcing? What factors influence the Malaysian entrepreneurs to engage with outsourcing? What are the activities outsourced? And, does outsourcing improve their performance? Given the limited empirical evidence about how organizations are engaging on outsourcing in the context of SMEs this study utilises a qualitative approach in the effort to delve into the current practices of Malaysian SME in managing their ventures that describe their approach towards outsourcing.

## **SMEs AS MALAYSIAN'S ECONOMIC BACKBONE**

The socio-economic significance of SMEs, especially in the Asia Pacific region, has not been appreciated until recently. This is reflected in the relative neglect of the problems faced by SMEs by

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