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Outsourcing and Performance of the Manufacturing Firms in Malaysia

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Abstract

The performance of an organization is regarded fundamental in influencing its sustainability. The performance can be determined using financial and non-financial indicators. Financial indicators such as net profits, return on assets, return on equity and return on investments are key determinants of performance. The non-financial measures such as customer base, market share and employee retention supplement the financial measures. The study examined the effect of outsourcing on the performance of manufacturing firms in Malaysia. Outsourcing is the procurement of commodities/services from other external sources that are not within the firm. Outsourcing also refers to delegating in-house functions/processes/services to a third party. It is a commonly practiced strategy in private and public firms. The study was literature based on the current study's findings that depended on the existing literature. The study findings revealed that outsourcing has a positive effect on performance. Outsourcing intends to seek an expert to handle business operations outside the existing firm. It is impossible to revoke the outsourcing contracts and return the functions to the parent firm. Outsourcing non-core activities can improve efficiency and productivity because another entity performs these smaller tasks better than the firm. This strategy may also lead to faster turnaround times, increased competitiveness within an industry, and the cutting of overall operational costs. The study concluded that outsourcing positively affects the performance of manufacturing firms in Malaysia. Organizations have embraced outsourcing methods to lower the cost of doing business. It is also concluded that many organizations encounter the challenge of bringing together many business operations that they cannot manage alone. The study recommended that manufacturing firms can outsource essential services and products that are not produced internally. Managers need to use clear outsourcing techniques to realize their full usefulness. They should also provide more frameworks for choosing outsourcing vendors, which will benefit the firms in the event of a need to prevent a financial crisis.

Keywords: *Outsourcing, Performance, manufacturing firms, Malaysia*

1.0 Background of the Study

The performance of an organization is regarded a fundamental in influencing its sustainability (Jayaraman & Liu, 2019). The performance can be determined using financial and nonfinancial indicators. Financial indicators such as net profits, return on assets, return on equity and return on investments are key determinants of performance. Nonfinancial measures such as customer base, market share and employee retention supplement the financial measures (Damanpour, Magelssen & Walker, 2020). Performance is the driving force of every organization in the World. Organizational performance measures how services are offered, the quality of products, the return on investment and the level of customer satisfaction with the products of an organization (Foss, Klein & Bjørnskov, 2019). The performance, in simple terms, checks the precision with which an organization has attained its pre-set strategic goals. The performance of an organization can either be determined by financial or nonfinancial measures. Financial performance measures are extracted from the published accounts and information of the company and can include indicators such as net profit margin, return on assets, return on equity and return on investments (Munjal, Requejo & Kundu, 2019; Uğurlu & Pali, 2021). Financial performance measures are the ultimate goal for any business, while nonfinancial performance measures are subjective.

The success of an organization is defined by its ability to manage and regulate all of its resources and functions. To keep on realizing profits, firms usually broaden their market base and take advantage of economies of scale (Foss, Klein & Bjørnskov, 2019). This happens from the evolution of diversification as a well-known approach. When competition became a global phenomenon, organizations discovered that diversification had simply widened their management system. Currently, high rates of competition are being realized between different firms; therefore, these firms have to find other new methods to cope with this competitive environment and make a reasonable profit. Saeidi, Saeidi, Sofian, Saeidi, Nilashi and Mardani (2019) asserts that competitive edge is a key issue that enables the firm to deal with market changes and other unanticipated challenges better than its rivals. Many firms usually obtain their competitive advantage through outsourcing. Hence, the current study examined the effect of outsourcing on the performance of an organization.

Outsourcing is the procurement of commodities/services from other external sources, not within the firm (Metz, 2020). Simply outsourcing may be described as a process whereby firm delegates some of its in-house functions to a third party and this party gains total control over those functions/processes. The consumers tell their provider what they want and how they want the work to be conducted, and the operations' regulations are with the third party but not the parent firm. Outsourcing refers to a process in which a firm delegates in-house functions/processes/services to a third party. Outsourcing also refers to delegating in-house functions/processes/services to a third party. It is a commonly practiced strategy in private and public firms. Outsourcing seeks an expert to handle business operations outside the existing firm. It is impossible to revoke the outsourcing contracts and return the functions to the parent firm. Outsourcing non-core activities can improve efficiency and productivity because another entity performs these smaller tasks better than the firm. This strategy may also lead to faster turnaround times, increased competitiveness within an industry, and the cutting of overall operational costs. Outsourcing can be important in enhancing the performance of an organization which is key in influencing sustainability.

Damanpour, Magelssen and Walker (2020) argued that outsourcing is a good management strategy, expressed as the method of utilizing external resources to execute functions originally managed by employees within the firm. Uğurlu and Pali (2021) reported that outsourcing is how a firm gives out some of its major services to a more competent and effective service provider. Mubako (2019) expressed outsourcing as a strategy firms use to have an external supplier conduct a role that workers would have otherwise conducted in the firm. In general, most of these firms look for the best service providers to outsource their functions; therefore, this ensures that the work is done by specialists meaning good and quality work. The performance can be determined using financial and non-financial indicators. Financial indicators such as net profits, return on assets, return on equity and return on investments are key determinants of performance. The non-financial measures such as customer base, market share and employee retention supplement the financial measures.

Wang, Tan and Wahid (2020) noted that outsourcing is becoming one of the key strategies a business ought to adopt because of the increase in globalization and through this technique, firms have a high chance of getting a competitive advantage when commodities or services are executed efficiently by external service provider. For a firm to be used for marketing fluctuations and challenges of projecting the effects of those problems, it means they have to focus on their key competencies and capabilities (Bratianu, Hadad & Bejinaru, 2020). Outsourcing is the short form of "outside resource using." Outsourcing is allocating functions that should be conducted internally in the firm to an external service provider. It is becoming one of the most important strategies compared to other business strategies. Generally, outsourcing is regarded as part of a firm's process, whereby it hires external suppliers, despite the kind of relationship between these firms. Most firms use outsourcing to a certain level, either in production, customer service, supply chain, after-sales technical support, accounting and auditing, human resource, or marketing (Favour & Tamunomiebi, 2020). The decision of which functions to outsource and which to keep in-house is anchored on the need to develop skills, invest in resources, and stay abreast of changing technology in any areas kept in-house.

The outsourcing process comprises a long association between the supplier and the beneficiary, with a high level of risk sharing (Sloniec, 2021). Outsourcing seeks an expert to handle business operations outside the existing firm. The decision-making process management should use when considering outsourcing depends on a "make or buy" philosophy. The process of outsourcing focuses on cutting costs and driving the primary focus of successful firms. The renewed focus on outsourcing has been propelled by changes in information technology, communication and reengineering firms. Outsourcing is a common strategy within private and public firms (Kurilova, Lysenko, Pronkin, Mukhin & Syromyatnikov, 2019). Nevertheless, every firm uses one type of outsourcing or another in consulting services, information technology, management services, product engineering, research services, or advertising services.

Outsourcing seeks an expert to handle business operations outside the existing firm. It is impossible to revoke the outsourcing contracts and return the functions to the parent firm. Outsourcing non-core activities can improve efficiency and productivity because another entity performs these smaller tasks better than the firm (Modak, Ghosh & Pathak, 2019). The majority of workers whose firms outsource their business activities can have the same challenges as those who have undergone downsizing, while firms claim that the essence of outsourcing is to enhance firm performance (Felix & Wong, 2021). Workers lucky to retain their positions after outsourcing believe their chances to continue working in the firm are minimal. Hakansson and Axelsson (2020) noted that when the outsourcer is not satisfied with the service, it can be difficult to terminate the contract since outsourcing contracts need a stipulated period. It can be expensive to revoke the outsourcing contracts and return the functions to the parent firm.

2.0 Literature Review

Jayaraman and Liu (2019) performed research to determine the activities or services outsourced by firms in India, to determine the primary reasons for outsourcing for firms in India, to examine the level of their performance due to the outsourcing method, and lastly, to determine the association between outsourcing tasks and firms' performance. Three hypotheses were designed to determine the associations between outsourcing and performance. The results of the study have indicated that all firms part of the study outsource some of their main activities and non-main activities. The findings have revealed that firms in India outsource to have accessibility to special expertise, as indicated by all participants and to lower costs, as indicated by the participants. Moreover, the results reveal that outsourcing activities affected the firms' performance, as indicated by participants concerning their views on the impact of outsourcing on cost efficiency, productivity and profitability. Furthermore, the results reveal a weak positive and substantial association between outsourcing activities and cost efficiency. At the same time, it indicates a weak and moderate positive insignificant association between outsourcing activities with productivity and profitability. The research suggested that firms in India should continue to enhance how they regulate their outsourcing activities by focusing on non-core tasks instead of outsourcing their main tasks. These will assist the firms in producing better quality products that will increase product demand and profitability by lowering competitiveness. Firms should only allow the external service provider to conduct some of the activities since these might lead to losing control over particular production or operation activities. The service provider should only regulate certain activities which cannot influence or damage the whole firm's performance.

Modak, Ghosh and Pathak (2019) reported that companies have repeatedly sought strategies to obtain a competitive advantage over their rivals; one area that companies have invested is to enhance their competitive status in a new business environment which aims to enhance the role of outsourcing in their operations that is reported to provide a competitive advantage and enhance performance to these companies. Moreover, companies in the process of improving the usage of outsourcing arrangements, and unfamiliar complexion, are unaware of how to utilize this method to enhance their performance properly. The research hence sought to examine the impact of outsourcing decisions on the company performance of Evins Communications Ltd., Particularly in determining the impact of outsourcing for worker competence on company performance, investigating the impact of outsourcing for decreasing cost on company performance, determining the impact of outsourcing for innovativeness on company performance; and to examine the impact of outsourcing to concentrate on key competencies on company performance of Evins Communications Ltd. The research used the explanatory survey study design targeting the 50 management personnel of the four departments of HR, auditing, supply chain/logistics and marketing. The purposive technique was utilized to get all the participants. Questionnaires were utilized to gather data. Data was evaluated utilizing descriptive, correlation and regression analysis. The research, therefore, suggested that: Evins Communications Ltd ought to offer better service terms and good training to assist improve worker competence and lower costs of outsourcing its HR roles for good performance; they should use strategic and well-crafted outsourcing to lower operating and overhead costs for higher company growth; Evins Communications Ltd should keenly consider the issue of outsourcing to make sure that while outsourcing assists in innovations, no commodity quality is tampered with and no money is lost, and should plainly show the non-core operations to outsource and examine the potential cost and benefit to be garnered if the non-core operations are outsourced.

Maditati, Kummer, Munim and Schramm (2022) indicated that outsourcing positively affects performance. Organizations have embraced outsourcing methods to lower the cost of doing business. Organizations encounter the challenge of bringing together many business operations that they cannot manage alone. The study noted that outsourcing has a positive effect on performance. Outsourcing is the procurement of commodities/services from other external sources that are not within the firm. Outsourcing also refers to delegating in-house functions/processes/services to a third party. It is a commonly practiced strategy in private and public firms. Outsourcing seeks an expert to handle business operations outside the existing firm. It is impossible to revoke the outsourcing contracts and return the functions to the parent firm. Outsourcing non-core activities can improve efficiency and productivity because another entity performs these smaller tasks better than the firm (Zhang, Yang & Pan, 2022). This strategy may also lead to faster turnaround times, increased competitiveness within an industry, and the cutting of overall operational costs. Outsourcing can be important in enhancing the performance of an organization which is key in influencing sustainability. The performance can be determined using financial and non-financial indicators. Financial indicators such as net profits, return on assets, return on equity and return on investments are key determinants of performance. The non-financial measures such as customer base, market share and employee retention supplement the financial measures (Akhtar, 2022). The study recommended that firms outsource essential services and products not produced internally. Managers need to use clear outsourcing techniques to realize their full usefulness. They should also provide more frameworks for choosing outsourcing vendors, which will benefit the firms in the event of a need to prevent a financial crisis. Firms need to outsource tasks only after they have confirmed beyond a reasonable doubt that the service provider can handle the task perfectly.

Awe, Kulangara, and Henderson (2018) performed research to examine the impacts of outsourcing on firm performance. Performance is referred to how perfectly or badly a person or a firm is doing in attaining it is given activities. Managers want their firms to attain top performance levels, no matter which methods or strategies are used. Other objectives included productivity, expenses and quality. It was discovered how productivity, expenses and quality influence a firm's performance. The review's results reported that outsourcing in the firm was ineffective. It also indicated that outsourcing influenced performance, expenses and quality of products and services produced, thus subsequently influencing the performance of a firm. Bulk buying, procurement of certified products and services, employing qualified workers and analysis of the procedure to identify the best line of fit and the best product in the market, and checks to ensure products and services procured are recommended.

Wong (2021) conducted research to determine the impact of outsourcing on the performance of Malaysian Telecommunication Limited. The research utilized a quantitative approach. A stratified sampling method was used to select the managers, while simple random was used to select the remainder of the participants. Quantitative data was evaluated utilizing descriptive statistics. The results indicated that outsourcing at Malaysia Telecommunication Limited favorably led to cost efficiency. The research reported that outsourcing at Malaysia Telecommunication Limited led to increased performance. It was noted that outsourcing at Malaysia Telecommunication Limited favorably led to high performance. It is concluded that outsourcing significantly influences the performance of Malaysia Telecommunication Limited. Outsourcing at Malaysia Telecommunication Limited needs to be enhanced to increase cost efficiency. Outsourcing at Malaysia Telecommunication Limited ought to be enhanced to increase productivity. Outsourcing at Malaysia Telecommunication Limited should be enhanced to increase profitability.

Munjal, Requejo and Kundu (2019) researched to investigate the impacts of outsourcing on the performance of firms. Substantial unanticipated activities remain as to how outsourcing strategies to influence firm outcomes, whether some strategies have stronger influences than others, and whether complementary or synergies among such strategies might further improve firm performance. The research goal was to investigate the forms of tasks outsourced by the firms, the reasons for outsourcing and to determine the impacts of the outsourced tasks on the firms' performance. The methodology was anchored on qualitative and quantitative evaluation of the chosen firms' financial data for five years and the utilization of other moderating aspects to investigate the firms' performance. The study used questionnaires that consisted of the dichotomous and the rating scale that was simple to administer to the participants and saved time. The primary role or personnel being outsourced that emerged from the research was security and then cleaning tasks. These outsourced activities cut across all the firms chosen for the research. It was also noted that the main factors that affected the decision to outsource a function/task by the administration was to lower cost and to enable employees to focus on the important operations of the firm. The outsourced tasks were peripheral that could easily be called off without affecting the entire firm's operations. Security was noted to be the most outsourced activity and interestingly, many security firms grew. The government is hence required to make policies to improve these firms' operations to enable them to create employment opportunities for the growing population of unemployed people and to assist in developing Greece.

Afum, Agyabeng-Mensah, Acquah, Baah, Dacosta, Owusu and Owusu (2021) discovered that globalization's development has made outsourcing one of the broadly used business methods for delivering outstanding services to clients in the manufacturing industry. Moreover, despite the increasing trend in outsourcing arrangements, there needs to be more literature on how outsourcing tasks influence organizational performance in the manufacturing industry. To narrow this gap, the research sought to investigate the effects of outsourcing on Australian firms' organizational performance in the manufacturing industry. The study goals were to examine whether cost influences organizational performance, evaluate whether quality influences organizational performance, determine whether technology adoption influences organizational performance, and determine whether risks influence organizational performance. The researcher employed a descriptive research design strategy in conducting this research. The research chose a population of 60 managers from three main sectors: manufacturing, logistics, and supply chain, Engineering. The researcher utilized a simple random strategy to choose a sample. A simple random technique was utilized since the population was small. Data was gathered from the main sources by using questionnaires. The data was quantitatively evaluated according to the research goals. The study discovered that cost, quality, technology adoption and firm performance had a substantial, strong favorable relationship. There was an insignificant positive weak association between risks and firm performance. The researcher suggested that: Firms need not outsource tasks totally until they have confirmed beyond a reasonable doubt that the service provider can handle the task; firms ought to engage the service provider on the quality standards that are anticipated prior to entering into the contract, firms are required to the service provider according to the consistent technical and managerial abilities, service providers need to only deal with the specific risks that even if they happen will not influence the whole firm performance.

Sofian and Su (2022) conducted research to determine the impact of outsourcing techniques on firms' performance of fast-moving commodities companies in North West Thailand concerning reducing cost, innovation and firms' performance. The research embraced Cross-sectional design. The study tool utilized in the research was a structured questionnaire. The research population comprised 300 workers, chosen from 5 fast-moving commodities companies in North West Thailand, using snowball and stratified sampling methods. The hypothesis for the research was evaluated using ANOVA, correlation coefficient and regression analysis in testing hypotheses, where necessary. The results indicated that outsourcing has positively and substantially affected the performance of the fast-moving commodities industry. The results show that the sector has benefited from outsourcing its business function to lower the cost of its operations. Additionally, the researchers noted that outsourcing certain technical factors of business that have to do with knowledge and professionalism improves consumer relationships. The research suggests that fast-moving commodities companies ought to maintain business relationships that will assist in transaction negotiation with outsourcing vendors to increase the company's performance.

3.0 Findings

The study noted that outsourcing has a positive effect on performance. Outsourcing is the procurement of commodities/services from other external sources that are not within the firm. Outsourcing also refers to delegating in-house functions/processes/services to a third party. It is a commonly practiced strategy in private and public firms. Outsourcing seeks an expert to handle business operations outside the existing firm. It is impossible to revoke the outsourcing contracts and return the functions to the parent firm. Outsourcing non-core activities can improve efficiency and productivity because another entity performs these smaller tasks better than the firm. This strategy may also lead to faster turnaround times, increased competitiveness within an industry, and the cutting of overall operational costs. Outsourcing can be important in enhancing the performance of an organization which is key in influencing sustainability. The performance can be determined using financial and non-financial indicators. Financial indicators such as net profits, return on assets, return on equity and return on investments are key determinants of performance. The non-financial measures such as customer base, market share and employee retention supplement the financial measures. The decision of which functions to outsource and which to keep in-house is anchored on the need to develop skills, invest in resources, and stay abreast of changing technology in any areas kept in-house. The study discovered that the outsourced tasks are peripheral and can easily be called off without affecting the entire firm's operations. Many firms usually obtain their competitive advantage through outsourcing. The majority of workers whose firms outsource their business activities can have the same challenges as those workers who have undergone downsizing, while firms claim that the essence of outsourcing is to enhance firm performance. Most firms look for the best service providers to outsource their functions; therefore, this ensures that the work is performed by specialists meaning that good and quality work is at the end. Outsourcing intends to seek an expert to handle business operations outside the existing firm. Most firms use outsourcing to a certain level, either in production, customer service, supply chain, after-sales technical support, accounting and auditing, human resource, or marketing.

4.0 Conclusion

The study concluded that outsourcing positively affects the performance of manufacturing firms in Malaysia. Organizations have embraced outsourcing methods to lower the cost of doing business. It is also concluded that many organizations encounter the challenge of bringing together many business operations that they cannot manage alone. The study recommended that manufacturing firms can outsource essential services and products that are not produced internally. Managers need to use clear outsourcing techniques to realize their full usefulness. They should also provide more frameworks for choosing outsourcing vendors, which will benefit the firms in the event of a need to prevent a financial crisis. The study concluded that organizations had embraced the use of outsourcing methods to lower the cost of doing business which is caused by many factors that have to do with transferring specific business operation rights to certain firms to prevent losses and increase profits. It is also concluded that many organizations encounter the challenge of bringing together many business operations that they cannot manage alone. Firms need to outsource tasks only after they have confirmed beyond a reasonable doubt that the service provider can handle the task perfectly.

5.0 Recommendations

The study recommended that manufacturing firms can outsource essential services and products that are not produced internally. Managers need to use clear outsourcing techniques to realize their full usefulness. They should also provide more frameworks for choosing outsourcing vendors, which will benefit the firms in the event of a need to prevent a financial crisis. The managers should outsource or let service providers manage services or operations with certain risks which would not influence or damage the whole firm performance even if they occur. Managers need to use clear outsourcing techniques to realize their full usefulness. They should also provide more frameworks for choosing outsourcing vendors, which will benefit the firms in the event of the need to prevent a financial crisis. They should be careful and consider the issue of outsourcing to ensure that while outsourcing assists in bringing new technologies or strategies, no commodity or service quality is compromised and no funds are lost.

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