

Penang gives the green light

With a growing reputation as the 'Silicon Valley of the East', Malaysia's second smallest state is establishing itself as a key player in the market for shared services and outsourcing

Penang is fast becoming a regional hub for shared services and outsourcing (SSO). As demand for skilled finance professionals is expected to rise in the coming years, this certainly spells good news for the accounting sector.

This is especially so as Penang has already moved up the SSO value chain from merely offering seats in call centres to becoming centres of excellence, providing increasing levels of data analysis to support business needs for the different countries they serve.

Over the past 40 years, Penang has built up a reputation as the 'Silicon Valley of the East'. It has attracted a large number of technology giants such as Intel, Dell, Advanced Micro Devices, Agilent Technologies, Osram and Motorola, which have set up their regional and global operations on the island.

However, the Penang government recognised the need to diversify the state economy and make it less dependent on the electrical and electronics and tourism sectors. The obvious strategy was to expand the contribution of the services sector, especially through building up the SSO market.

According to InvestPenang director Datuk Lee Kah Choon, the convergence in the manufacturing and services sectors is expected to propel the SSO industry in Penang. 'This convergence

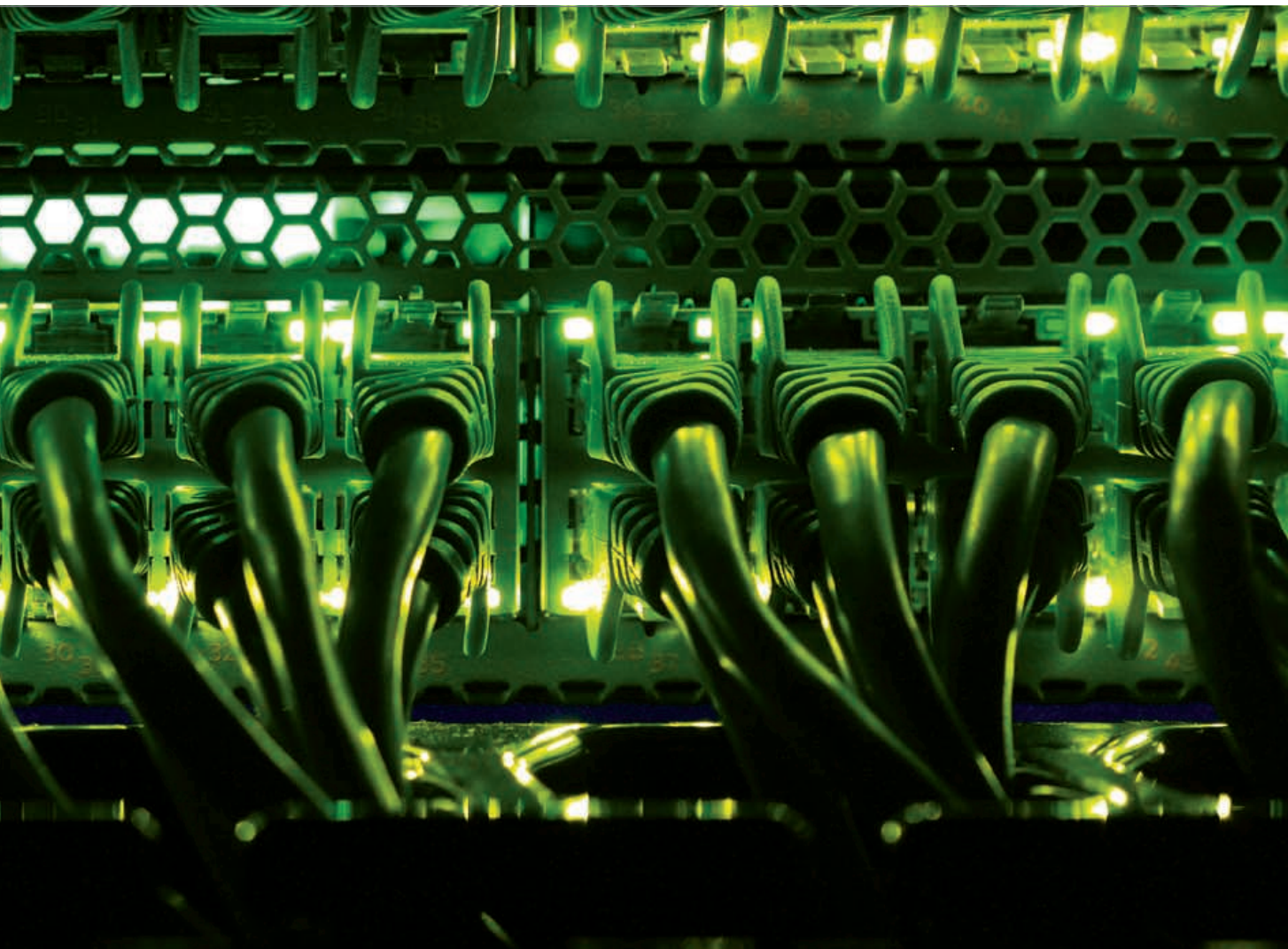
will further enhance Penang as a high value-added, high-technology, knowledge-intensive international SSO hub,' he says.

As far back as 2009, KPMG's *Exploring Global Frontiers* report identified Penang as one of the new emerging information technology and business process outsourcing (IT-BPO) destinations that allow companies to provide diversity to their global operations as well as to lower business costs globally. The availability of a skilled multilingual workforce coupled with Penang's proximity to major client bases were the main reasons that KPMG identified it as one of the 31 outsourcing hubs of the future – the only location in Malaysia and one of just four in South-East Asia to be identified in the report.

Singapore collaboration

As part of the state's effort to fulfil Penang's aspiration to be an international SSO hub, it is collaborating with Temasek, Singapore's sovereign wealth fund, to develop two integrated SSO technology parks over the next five to 10 years. The projects will have a total gross development value estimated at around RM11.3bn, says Lee, who heads the state's investment arm.

The Penang state government, through Penang Development Corporation, and Temasek signed a memorandum of



understanding in May 2014 to form a joint-venture company to develop BPO Prime and the Penang International Technology Park (PITP).

BPO Prime will be located in Bayan Baru in an established commercial area that is part of the Multimedia Super Corridor Penang Cyber City, a thriving IT hub, making it an ideal location for multinational corporations. Due for completion in the third quarter of 2018, it will provide quality commercial space with energy-efficient features catering to the needs of global BPO operations. The office towers will be integrated with residential towers, with the combined built-up area comprising 1.6m sq ft.

Meanwhile, the PITP project is located in Penang's next growth area of Batu Kawan and will be based on an integrated 'Work-Learn-Live-Play' township model.

Lee says that about 25,000 to 30,000 high-income jobs are expected to be created for these projects. 'The BPO Prime and PITP are the catalysts to boost Penang's economy to a higher level,' he says.

To spearhead a more focused growth of the SSO sector in Penang, the state government has also established a high-level Penang State SSO-CMC Council via InvestPenang. This body

provides direct advocacy and advisory services to the state government to enhance Penang as the destination of choice for investments in the SSO, creative multimedia and other related sectors, as well as to steer planning, development and promotion of these ecosystems.

Moving up the value chain

Over the years, a number of the global companies operating in Penang have moved up the value chain and established other value-added activities such as setting up shared service centres (SSC). Many of these SSCs serve the multinational companies' global accounting functions and are led primarily by local people, explains Lim Huck Khiam, a PwC Malaysia partner based in Penang.

'Currently Penang is home to many advanced global SSCs led by locals,' he says. 'Our multilingual workforce in Penang has the necessary skillsets and attitude to do well in an SSC environment. 'These SSCs have also grown from basic data processing locations to become centres of excellence. These do much more data analysis to support business needs and are capable of providing financial statements preparation support for the different countries they serve – basically, a one-stop centre,' says Lim. >>

Thousands of SSO jobs in Penang

There are more than 26 shared services and outsourcing (SSO) companies in Penang with over 8,000 jobs created for the SSO industry as of 2014, according to InvestPenang director Datuk Lee Kah Choon. Among the newest SSO companies in Penang are Citigroup, low-cost airline AirAsia, agribusiness group Wilmar and IHS.

Several ACCA Approved Employers are among the SSO companies in Penang. They include Dell Global Business Center (Approved Employer – Professional Development) and Jabil (Approved Employer – Trainee Development).

In Penang, the finance and accounting (F&A) shared services sector employs more than 90% of the island's total global business services (GBS) workforce, generating RM1.01bn in revenue with 95% being export, says Michael Warren, vice president of Multimedia Development Corp's Global Business Services division. Warren reveals that in 2014, MSC Malaysia captured 62 new GBS investments, 11 of which fall under the F&A shared services category. These 11 new companies are expected to create more than 3,500 new jobs – 45% of the total new jobs projected.

As of December 2014, there were 144 MSC-status companies in Penang, which constitutes approximately 4% of the total number of MSC companies nationwide.

'The stellar growth of this sector emphasises the pivotal role that accountants play in the finance and accounting shared services ecosystem. The quality and availability of talent is one of the reasons why multinationals choose to locate their GBS operations in Malaysia.'

Tackling the challenges

However, it would be naive to think that Penang has everything in its bag to become a runaway success in the SSO field. One of its biggest challenges is its size; it is the second smallest state in Malaysia, and that implies constraints in terms of staffing, infrastructure support and financial resources.

'Despite all the advantages that Penang has to offer, I personally believe we still need to continuously improve on what we have now,' Lee says. 'Public transportation, high-speed broadband and education are among areas that still need improvement.'

Given the challenges, finding the right niche is crucial for Penang. 'I believe that Penang positions itself uniquely from other SSO hotspots, especially premium locations like Cyberjaya and the Klang Valley,' Lee says.

'Our focus is towards medium-sized SSO investments with high-end or high-value-driven activities where there is strong application of advanced analytical and technical skills.'

In terms of infrastructure support and accessibility, Ooi Kok Seng, KPMG Malaysia's partner-in-charge, northern region, says that enhancement of services, such as more direct flights to Penang, will be also required. With tens of thousands of jobs expected to be created in the SSO sector in the next 10 years, Penang needs to ensure that it has sufficient talent to meet the growing demand.

Ooi says that there is a pressing need to train accounting and finance professionals to work in Penang's growing SSO sector. 'The state government of Penang has put a lot of emphasis in this area and, through the Penang Future Foundation, scholarships will be offered to undergraduates taking accountancy programmes,' he says.

'Currently, the major accounting firms operating in Penang have been able to train qualified accountants and supply the SSO companies. More colleges and universities will be established in Penang in the next few years to churn out accounting graduates for the SSO industry.

'We also need to attract talent and human capital from other states to work in Penang and increase the supply of quality office space,' says Ooi, although he adds that in the next three to five years this will no longer be an issue as BPO Prime will have come into play.

Ooi also notes that, under the ASEAN Economic Community, due to launch shortly, there will be free labour mobility with regard to certain professions.

'Being the second highest per capital ASEAN nation after Singapore, Malaysia may potentially attract professionals from other ASEAN countries,' he says. 'This may help build the current talent pool available in Penang.' ■

MK Lee, journalist

He adds that transforming from data processing to data analysis, and from bookkeeping to preparation of financial statements under different generally accepted accounting principles, are some of the key developments that are likely to grow the SSCs in terms of stature and service quality.

'This will in turn help them establish their credentials in their areas of expertise,' Lim says. 'With more success stories, it will lend more credibility to Penang as an SSO location of choice, contributing to the growth of the SSO Hub initiative as envisioned by the Penang state government,' says Lim.

According to InvestPenang, the SSO activities in Penang are mainly in finance and accounting, IT services and support, human resources, research and analysis, design and development.

The Multimedia Development Corp (MDeC), which oversees the country's MSC Malaysia ICT initiative, believes that Penang is moving in the right direction in growing its SSO sector.

'MDeC sees the finance and accounting shared services sector as an instrument to move up the value chain to higher value and more complex services, moving away from commoditised work such as call centres, which can be generally termed as low-value BPO,' says Michael Warren, vice president of MDeC's Global Business Services division.