

# THE EFFECTIVENESS OF GLOBAL SOURCING IN MALAYSIA: RISK ASSESSING IN CONSTRUCTION INDUSTRY

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## ABSTRACT

Globalisation in general has laid the groundwork for change in companies in a way companies source and manufacture products. In fact, global sourcing is experiencing robust growth around the world especially in OECD countries. This research paper intends to study current trends in Malaysia's construction industry for global sourcing and to establish the risks associated with global sourcing and their mitigation plans in order to determine the effectiveness of engaging global sourcing in construction industry in Malaysia. Through an intensive literature search, identification of construction trends in Malaysia relating to current situation and issues was carried out. From the allocated risks, a list of risk mitigation actions and risk severity graphs are produced. Since this study specifically concerns global sourcing in Malaysia, a pattern for Malaysia is then compared and analyzed with other countries in determining the effectiveness of global sourcing by using descriptive analysis. The outcome of this research shows that Malaysia exhibits lower level in terms of global sourcing risks as compared to other countries. This study is significance for both international companies which favor Malaysia for global sourcing business as well as construction industry in Malaysia as it will give an overview about global sourcing and the risks associated with global sourcing in Malaysia and its mitigation plans; simultaneously prepare both Malaysia to enter global arena and the international companies to have a global sourcing deal with Malaysia. For future research, so as to promote Malaysia to the notice of international companies, a comparative study is conducted on the risk mitigation processes proposed by most international companies in order to ascertain whether or not the proposed risk mitigation suits Malaysian companies.

Keywords: Global Sourcing, Malaysia Construction Industry, Risk allocation, Risk Mitigation.

## INTRODUCTION

Globalisation and global sourcing are currently two prominent issues in many major organizations. "Globalisation has dramatically changed the interactions among the world's economies through increasing interdependencies" (Monczka et al 2009, 345). A recent study of companies undertaken to indicate the likely business drivers in the next 10 years shows that 49% of 359 respondents agreed that they would support globalisation (Jacoby 2006). Additionally, "globalisation has becoming a critical concept for global economy for most practitioners and analysts; it is an inevitable and unstoppable force, marks the relentless march of a globally integrated market and its associated practices" (Long 2004, 2).

"Globalisation in developing economies such as China, India (and Malaysia) represents opportunities for cost saving on the buying side and new markets on the selling side"(Monczka 2009, 345). Nevertheless, as one of the most globalised countries, Malaysia is poorly prepared to enter the global arena; "Malaysia essentially need to gear up for globalisation in order to ensure a place in the new information technology (IT) era" (Chen 2006, 1). The Economist Intelligence Unit (2009) in their report state that, through globalisation, companies will continue to find new markets in which to invest and they are eager to achieve cost reductions from off shoring business. Although the main issue in globalisation is to find a new market as a partner, the other main issue that has to be considered and cannot be eliminated is risk associated with global sourcing.

The main objectives for this research are:

- i) To study the trend of construction industry in Malaysia – current situation, related issues, and the cultural issues involved;
- ii) To understand the principles of global sourcing and the main associated risks connected with it;
- iii) To identify, study and understand the available data relating to global sourcing and to the current state of Malaysia's construction industry; and,
- iv) To determine the effectiveness of global sourcing in the construction industry in Malaysia as an initiative to increase profitability of project operations and outcomes by reducing cost