

**Talking Points
Keynote Address by**

YM DATO HAMDILLAH H A WAHAB
DEPUTY MINISTER
MINISTRY OF INDUSTRY AND PRIMARY RESOURCES

FORUM ON OUTSOURCING:

*“Outsourcing as Strategic Tool for SMEs Development and
Competitiveness”*

9 August 2007
Mutiara Ballroom, Sheraton Utama Hotel
Brunei Darussalam

ORGANISED BY

Ministry of Industry and Primary Resources
Asia Inc Forum and partners
Baiduri Bank,
Brunei Shell,
Brunei Economic Development Board [BEDB]
Microsoft, and supported by
Young Entrepreneurs Association of Brunei [YEAB]

- BISMILLAHIRAHMANIRRAHIM
- ASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH
- Dato Hj Hamid bin Jaafar, Permanent Secretary at the Ministry of Industry and Primary Resources
- Mr.Tan Tzann Chang, Programme Director of Institute of System Science, National University of Singapore, our resources speaker for this morning's forum
- Sponsors of this Outsourcing Forum Brunei Shell Petroleum Co Sdn Bhd, Baiduri Bank Berhad, Microsoft, Asia Inc Forum and supported by YEAB
- Distinguished Resources Speaker, Panelists, fellow colleagues in Government and
- Ladies and Gentlemen
- A very Good Morning to all of you

- First and foremost, I would like to thank the organiser for inviting me as GOH and giving me the opportunity to officiate this Forum.

- I am more than happy to be here cause amongst friends. And I see this morning's forum and subsequent workshop as timely and key initiatives to underscore Outsourcing and its National Importance for the following reasons.

- Firstly, His Majesty recent birthday titah, where he "asked government agencies to provide more channels for further growth

And development of SMEs” so that they can “truly contribute towards national development”.

- My second reason refers to the comments made by my own Minister, YB Pehin Menteri Dr Haji Ahmad last Monday at the awarding ceremony for companies that have compiled to HACCP standards. YB Pehin repeated MIPR’s ambitious target of B\$ 4.5 billion in gross output from primary resources, non-oil and gas manufacturing and tourism sectors by 2023. My point is “how do we get there and deliver the first \$1 billion in the next 5 years?”
- Looking at the program for this morning’s forum, I believe that this forum will be worth your while, not only in terms of renewing or strengthening business links but also in gaining new ideas and knowledge that can strengthen your business and help open new windows of opportunities in our National journey.
 - As mentioned by Dato Hamid in his Welcome Speech, the estimated global outsourcing industry has been valued anywhere between USD 600 billion to USD 1 trillion per year. I was also made to understand that “overall, the industry is growing at a bullish rate, some day approaching 30% per annum”¹. Based on these figures, I would say that there is indeed a huge market potential in the outsourcing industry and if I may disgress a little, it’s global value is same order of

¹The Black Book of Outsourcing 2007

Magnitude, to that of the halal industry², which Brunei is also embarking on...now.

- It is no surprise therefore, that many countries have looked at the outsourcing industry as an avenue for growing their respective economies as well as enhancing their competitiveness. Some of the thriving players in the outsourcing industry are well known like India, China, Philippines and the United States. According to the Brown-Wilson Group, publisher of the Black Book of Outsourcing, out of the USD 1 trillion dollar market in global outsourcing, 57% goes to United States, 4% goes to India and 3% to China, Philippines and Southeast Asian countries. 36% goes to other countries outside those areas. I would be happy to target 0.1% ((100)!

- Ladies and Gentlemen,
- Having stated the economic potential of the outsourcing industry, several questions come to mind. But I will focus on 2 only which I believe are relevant to this forum and may be our first step as a child:
 - The first question is “How can we best utilize outsourcing to create more business opportunities for SMEs, achieve MIPR’s

²Estimates for the global Halal market for food and non-food products was estimated to be worth

Approximately USD\$2.1 trillion annually

[<http://www.chinapost.com.tw/supplement/detail.asp?onNews=&GRP=K&id=89333> and

<http://www.islamonline.net/English/News/2006-02/26/article06.shtml>] and Estimated value US \$580 billion

per year for the halal food industry – (Kasehdia Consulting 2006)

2023 gross output target as B\$ 4.5 billion as well as contribute to the national efforts towards economic diversification?”

- The second question is “What can be done to encourage the growth of an outsourcing industry in Brunei that will benefit our SMEs as they prepare for the first step in the global outsourcing journey?”
- Before I present my own thoughts, let me first lay down the most basic definition of outsourcing³ which is simply “the farming out of services to a third party”. In this regard, outsourcing is not new. According to Andrew and Nada Kakabadse from the Cranfield University School of Management, *“From Roman times onwards, outsourcing has been a popular form of partnering, realizing cost advantage and professional service provision through contracting out services such as tax collection and highway maintenance. The Victorians continued the tradition with outsourcing of social provisions through the Poor Laws⁴, alms houses and prison maintenance and management.”* At home, our wives do it well. We bring in Domestic helpers to do what our wives and our men cannot or rather do not wish to do. That’s at least a B\$ 300 mm industry on its own!!
 - Looking at what’s happening in the market, I would say that the basic concept of outsourcing has not changed since then.

³Outsourcing as defined by the Institute for Supply Chain Management is “A version of the make or buy Decision in which an organization elects to purchase an item that previously was made or a service that was performed in house; often utilised for services. It involves sourcing and using a supplier that provides the completed item or services rather than buying the components and manufacturing them in-house”.

⁴Wikipedia explains that “The **Poor Law** was the system for the provision of social security in operation in England and the rest of the United Kingdom from the 16th century until the establishment of the Welfare State in the 20th century. It was made up of several Acts of Parliament and subsequent Amendments.”

Fuelled by several factors such as developments in ICT, the increasing liberalization of trade, improving logistics and transportation, outsourcing has become an important tool for governments, corporations or any institution in achieving their respective short and long term objectives.

- Now let me present my insights on the question of “How can we best utilize outsourcing for developing SMEs?”
- In my view, there are 2 fronts whereby we can utilize outsourcing for developing SMEs.
 - First is on the domestic front. In this respect, I believe that Brunei is ahead of the game. Brunei Darussalam has a tradition of outsourcing in both government and corporations. We could say that all of the contracts that are tendered out or contracted out by His Majesty’s government are forms of outsourcing. In 2005-06, I would guess, outsourcing in both Special Expenditures (mm\$525) and RKN expenditures (mm\$485) amount to about \$1 billion per year.
 - This also applies to BSP and BLNG projects. I don’t have the most recent numbers, but I would say that the money value of outsourcing by Brunei Shell Companies is easily \$0.1 billion per year.
 - Together, they are quite and we can safely assume that much of our economy could be founded on outsourcing. That situation is validated by the observation that when the government or Oil

And Gas Industry reduce their respective expenditure, the economy slows down.

- Thus, on the domestic front, the government and large corporations in Brunei present the greatest avenues of outsourcing for SMEs. In my view they can support the growth of SMEs by continually reviewing their long term strategies and objectives with a view to reducing costs further, increasing efficiency and the quality of products or services they provide. Such reviews lead to outsourcing opportunities for SMEs as companies and the government zero – in on their core business and outsource the non-care elements of their business or function. There are many examples but a simple one to illustrate the point is the Entrepreneur’s Development Centre. Realizing their limitations in certain areas, they have been outsourcing to SMEs some of their training programs. In 2005 and 2006, a total of 61 courses were offered. 41 of these were outsourced. I am quite sure that most if not all of the partners in this forum do outsource some of their functions. What we need is to consolidate further our long term sourcing strategy, identify areas of focus and find ways of outsourcing these areas to qualified SMEs.
- The second front is on taking advantage of the outsourcing potential in the regional and international market, i.e. exporting of Brunei made goods and/or services as well as attracting outsourcing activities into Brunei.

- The very first issue that comes to mind when exporting from Brunei as mentioned is the relatively high cost in Brunei. When compared to the countries that have gained a foothold in the global outsourcing industry such as India, China and Philippines, It is generally accepted that our costs are higher.
- However, that should not be a limitation to develop competitive enterprises in that industry. We just have to look at the United States, which has around 57% of the global market in outsourcing. Their labour cost would probably be high, If not higher than Brunei.
- We just have to work harder and smarter at finding niche markets that makes use of our current strengths. That would include the Halal industry, specific industry sectors as in the tourism industry like nature tourism as well as in Islamic financial services.
- Noting the experience gained by Brunei oil and gas contractors from BSP, BLNG and Total Elf in Brunei as well as those already servicing companies abroad, I believe that we can grow a network of businesses that can meet the requirements of overseas customers. But we need to work together, Identify the niche market, consolidate our resources and develop an economy of scale so that we stand a better chance of competing against the low cost service provider.
- As an example of one Brunei Success Story, a local Company has gone to China to provide LNG Tank Inspection service in

The Guangdong LNG project following its participation in BLNG \$0.5 billion Rejuvenation and Upgrading Project in the early 1990s.

- Having provided a little of my own thoughts on the outsourcing possibilities for Brunei, let me go to the second question. “what can be done to encourage the growth of an outsourcing industry in Brunei where SMEs are significant players?”
- I believe that those are the issues that should be explored at the panel discussion later this morning. I know that you have your ideas and I encourage you to actively participate in the discussions and make constructive suggestions on how we can move forwards in outsourcing.
- I particularly encourage our SMEs to take this opportunity to learn more about outsourcing and how you can use outsourcing to grow your business within Brunei and abroad. This point has also been raised by His Majesty in his recent birthday titah when he “advised SMEs to be more creative and independent in exploring local and foreign business opportunities” and “added that he wanted to see more ‘Made in Brunei’ products be exported to regional and international markets in the medium and long term time-frames”
- From the point of view MIPR, you can be assured that we are working hard with other government bodies in partnership with the Private Sector to further improve the policy, regulatory and administrative environment and to identify and allocate niche areas that will facilitate the development of

competitive enterprises in the country, especially those engaged in outsourcing activities. The immediate challenge is to consolidate the individual's Ministry Plans so that we can move forward more aggressively under the banner of Brunei Inc.

- Ladies and Gentlemen:
- In making those suggestions, I am aware of the many challenges that will be faced by all stakeholders. Among them are questions on transfer of intellectual property rights, legal framework, capability of local SMEs to meet the requirements of outsourcer and our own individual capability to deliver and to work together. But in my view, those challenges presents to us an opportunity to strengthen public-private sector partnership that is an essential foundation to achieving economic diversification.
- Lastly, I commend the organizers and working committees for the making this forum and the workshop a reality.
- On this note, I wish you all every success and with the Kalimah “Bismillah Hirrahmanir Rahim”, it is with great pleasure that I declare this Outsourcing Forum open. Have a productive workshop
- Wabillah hi taufik Walhidayah Wassalammualaikum Warahmatullah Hiwabarakatuh