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Business Process Outsourcing: A Strategic Choice for Competitive Advantage

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Abstract

The paper explores the strategic dimensions of Business Process Outsourcing. Outsourcing has brought about a shift in the forces of industry competition. We explain why company should requestion their structure and strategy. Today's state of the art and robust technology, especially information technology, has enabled BPO to be a strong link for organization's value chain. The paper subscribes that BPO is an evolution. After analyzing the emerging forces of competition, we present a competitive edge framework for gaining the competitive edge. The outsourcing advantage goes beyond cost savings. The competitive edge framework provides a context for competitive edge.

Key Words: ***Evolution, Structure, Strategy, Process and Competitive edge***

Introduction

In today's business world one thing is constant – change and transformation. One of the reasons for the phenomenon is the dynamic environment. The globalization and breakthrough innovation in technology offer new opportunities. Internet is surfacing as the information system of the globe or the global information system. Time was when firm's processes were confined onshore. This day firms consider comparative advantage of the nations. The business processes not necessarily remain on-shore. The milieu has stepped up globalization and Business Process Outsourcing (BPO).

This day BPO's impact is not confined to the economic environment, but the social and political environment. There has been a rise of knowledge workers, as current jobs are demanding more cerebral than physical skills. The trend validates outsourcing. BPO has brought about a shift in the balance of the forces driving industry competition. Firms need analysis of the forces driving industry competition. Structure and strategy of an organization is influenced by such forces. So this day organizations need requestioning its structure and strategy.

BPO and Structure and Strategy Perspectives

Innovation entails change – continuous or breakthrough. Van (1986) subscribes that innovation is a new idea applied to initiating or improving a product, process or service. Outsourcing affects the processes of business as it reorganizes the processes. Systematic innovation embody purposeful and organized search for changes, and such changes might offer for economic or social innovation (Drucker, 1985). According to Hagen (1962) 'creative innovation' or 'change' is the fundamental feature of economic growth. Outsourcing breaks the status quo by bringing in a change in the way the firm is organized. According to Day (1984), and Howell and Higgins (1990) autonomy facilitates employees to introduce and implement innovations in organizations. Dynamism and flexibility support innovation. An innovative organization needs flexibility and an open to change context. The hallmark of outsourcing is inherent flexibility and open to change context. Outsourcing organizes the business processes in a new way. The firm needs reorganization of its processes and rethinks what processes need to be retained and what to be outsourced. The reorganization and rethinking process nurtures creative and out of the box thinking.

According to Damanpour (1991) structural variables have been the most studied potential source of innovation. Peter F Drucker points out that organization theorists like Chris Argyis, Warren Bennis, Douglas McGregor and himself have been predicting and advocating a more free-form and humanistic organization. The structure of organization should be free form (Drucker, 1973). Breakthrough innovation taking place, especially in the technology environment, has made today's business environment dynamic and free-form. When the environment of the organization becomes dynamic, the structure of the organization becomes more free form (Mintzberg, 1979). So today's organizational structure would be more organic structure, than static. Organic structure encourages innovation (Robbins, 1996). So organizations can be more flexible through outsourcing and furthermore, flexible structure supports innovation.

The organizational culture that supports risktaking is conductive to innovation. Change in strategy brings about change in the structure (Chnadler, 1962). Researcher like Keen (2002) finds that historically business process innovation has driven innovation. Outsourcing is a strategic choice that entails restructuring of the organization. It needs reorganizing, rearranging and realigning of processes.

Organizations will be in great risk if they adopt reactive approach. Today's business demands proactive approach. According to Drucker (1988) innovation begins with the abandonment of the old and obsolete and innovative organizations spend neither time nor resources on defending yesterday. As per Hamel and Prahlad (1989) the essence of strategy lies in fast creation of competitive advantage for the future. Today's organizations need exploring the strategic choices of outsourcing and create competitive advantage for the future. Successful companies build portfolio of competitive advantages and face less risk in competitive encounters (Keegan, 2002). Companies need to see beyond its competitive advantage and explore competitive advantages of other companies. So organization needs to network with other organizations. Through networking, the firm can explore competencies of other organizations. Networking and competencies will reduce business risk.

According to D'Aveni (1994) company's ability to manage organizational dynamics hinges on its inherent flexibility -- structural and strategic. Outsourcing has made the environment more dynamic. Organizations need relentless self-questioning and reinvention to reveal the invisible box inside which the company operates. The organization can ask itself whether operating at its current level – doing what is predictable – can respond to competition. So organization needs requisitioning and rethinking the fitness of its structure and strategy.

The New Way of Organization

According to Aldrich (1999) the research on organization should not be confined to structure and stability. It should include emergence and change. He subscribes that by ignoring the origins, researchers have sidelined the question of why things persists, whereas question of evolutionary approach takes care of both the origin and persistence issue. Thus an analysis of the evolution of BPO will highlight the issues of emergence and change. For the last many a decades there have been organizational design challenges:

Organic Organization: Burns and Stalker (1961) propounded the concept of organic organization. An organic organization has inherent flexibility. They highlighted the need for flexibility to cope with the challenges of the dynamic internal and external environment. They emphasize on 'networks'.

Adhocracy: There has been emergence of new ways of organization, more on the ad-hocratic line (Tofler, 1970). Tofler (1980) points out that big organization are increasingly interlinked by temporary units. He termed this phenomenon as ad-hocracy. According to Mintzberg (1979) though Toffler used the term ad-hocracy in his book *The Future Shock*, it can be found in print as far back as 1964. Mintzberg (1979) cites that adhocracy is an organic structure and is dominated by expert's pull to collaborate Adhocracy is an innovative organization.

Shamrock Organization: Handy (1989) points out that the reason behind the changes in the way business work is the coming in of what he labels "the Shamrock Organization." Shamrock is a form of organization based around a core of essential executives and workers supported by outside contractors and part-time help. So, a shamrock organization need not have many full time employees, they outsource peripheral services.

Business process and flexibility: According to Kanter (1989) companies would identify and focus on their core capabilities. Strategic alliances will tend to be adopted for expansion strategy and peripheral activities be taken over by specialist service providers. She predicted the triumph of process over structure. Kanter subscribes that business needs be flexible. According to Hammer and Champy (1993) organization should put emphasis on the management of core business processes. They observe that many companies are reengineering their business to manage core processes. According to Peters (1992) the new organization would become highly flexible, enabling the organization taking on dynamic structure.

Value Chain Framework: Porter (1985) advocates the use of a values chain for the study of company's internal processes to determine how and where value is added. The value chain provides a framework to disintegrate a firm into discrete activities. The framework is used to analyze the activities of the firm. Linkages can take place with the value chains of other firms.

Core Competency: Prahalad and Hamel (1990) advocate the core competency concept – identify what your core competencies are, focus only on them and get out of everything else.

The organizational characteristics of BPO solve the design challenges:

- Organizational structure should be dynamic and flexible;
- Emergence of organization on adhocratic line;
- Emphasis on the use of organizational networks or links;
- Linkages of value chain;
- Organization should be structured around processes;
- An organization's peripheral activities can be taken over by outside specialist;
- Managing organization's core capabilities;
- Identifying the core competencies; focus only on them and get out of everything else.

The above characteristics of the new and better way of organization are fundamental characteristics of business process outsourcing. BPO had been a process innovation waiting for breakthrough technology innovation. Today's state of the art and robust technology, especially information technology, has enabled BPO to be a strong link for organization's value chain. So BPO is not a fad, or revolution; BPO is an *evolution* whose time has come.

Innovation in organization structure surfaced through the supportive legal, financial and logistical infrastructure in the 19^{th} century (Aldrich, 1999). This day technological breakthroughs have enabled organizations to try new structures and design new ways of doing business. According to Coase (1973) pulling together activities into single company lower transaction cost. However, in the late 1990s Internet lowered communication cost by many folds and, the consequent decrease in transaction cost made economic sense to try external sources (Singh, 2002).

Business Process Outsourcing and Competitive Edge

The competitive edge framework (Figure 1) shows the competitive edge that BPO presents. The competitive edge framework comprises of BPO enablers, BPO core focus and competitive edge. BPO enablers and BPO core focus are the preconditions for gaining the competitive edge. The framework provides a context for gaining the competitive edge.

BPO enablers

The BPO enablers empower business process outsourcing. The absence of any one enabler would disable BPO. Comparative advantage of nations, respectable offshore competency, and ethics would act as BPO enablers.

Comparative advantage

The BPO provider develops portfolio of processes, scans for comparative advantage of nations and outsource the processes where there is competitive advantage. The core workers manage the core business. The absence of offshore advantages handicaps business process outsourcing. They are the factor conditions of the nation that facilitates and enables BPO. The factor condition refers to a country's endowment of resources, which may have been created or inherited and are divided into five categories: human, physical, knowledge, capital and infrastructure (Porter, 1990). A country's advantageous factor condition is the credential for outsourcing.

Competency
The BPO provider would analyze the offshore advantages, and outsource the process to firms befitting the processes. So BPO nurtures an environment of specialization and lends credence to core-competency. According to Hamel and Prahalad (1990) core competency is collective learning, especially in coordinating diverse skill of production and integrating multiple streams of technology. They subscribe that competencies does not diminish with use, unlike other assets, they are enhanced as they are applied and shared. Further, core competency is difficult to be copied by competitors and has potential access to a wide variety of markets. Outsourcing has the advantage of other firm's core competencies. The portfolio of core competencies validates business process outsourcing.

Ethics
Both trust and commitment are recognized as essential ingredients for successful long-term relationship. According to Morgan and Hunt (1994) to be an effective competitor, especially in the global context, requires the firm to be a trusted cooperator in some network. In today's business context successful executives possess a common and impressive ability to effectively build and manage "relationship networks" (Masciarelli, 1998). Longterm relationship brings about one advantage – the reduction of risk and uncertainties in one partner's actions. The concern for intellectual property (IP) protection is very high for organisations looking at outsourcing (Dubey, 2003). The BPO provider has process security and image value apprehensions. BPO managers are concerned about the loss of control over the processes, confidentiality and security of the data when an outsider handles it (Ramachandran and Voleti, 2004) The BPO client's respectable practices of ethics insure BPO providers against such risks, and develops environment of trust and commitment. When firms don't cultivate a culture of respectable ethical practices, the practices of outsourcing results in lose-lose game in the long run. Unethical practices can lead to following issues:

- Image dilution;
- Relationship, especially, customer relationship dilution; and
- Process security infringement.

All the above problems have long term implications. Ethics is a practice and the impact would be far reaching. The ethics issue will be prominent and significant. It is difficult to imagine BPO without ethics. Ethics is the foundation pre-requisite for BPO.

BPO core focus
This is about the core focus areas of the BPO provider. BPO provider needs taking up key role because it is the provider who, being the initiator and the source has to collaborate and coordinate the BPO network. The following should be the core focus areas: core process management, goal programming and management, collaboration management, and brand management.

Core Process Management

The hallmark of BPO is the provider outsources the noncore activities to free them to focus on core processes. According to Hamel and Prahalad (1990) the company's core competency is the real source of competitive advantage. So, the company's effort should focus on managing the core process and build the core competency and get out of everything else. By outsourcing the non-core activities the firm can focus on building its core competencies. A company winning the race to build core competencies will almost certainly outpace rivals in new business development (Gamel and Prahlad, 1990). So core process management is the critical activity of the BPO provider.

Goal Programming and Management

In the BPO framework there is network of processes. The networks of processes propose to achieve firm's objective. The BPO provider should program goals for the outsourced processes and subsequently accord the goals to clients for achieving the higher objectives of the BPO provider. Thus the network is integrated through a coordination of goal benchmarks. Goal programming and management is a domain of core focus. The goal programming provides a forum for interaction on what goals is to be achieved and when. It is important to discuss the goals to be achieved, issues regarding ethical practices, brand image, and process security considerations. The BPO provider should give the conditions and benchmarking in unambiguous terms.

The BPO provider needs to make the client know in clear terms how the activities of the client would contribute to the attainment of the overall business objectives. So goal programming is required because the processes are not automatically directed towards the larger business objective to be achieved through the process. This would insulate misdirection from the differences in the vision and work culture. The client and provider must have clear understanding of each other's expectations. That is why, not only the goals, the process of goal programming is critical for the success of business process outsourcing. It would greatly reduce uncertainty. Through goal programming and management the BPO provider can coordinate the activities in the BPO value chain.

Collaboration Management

Companies establishing relationship with partners experience learning relationship, which gets smarter with each interaction. Such companies gain competitive advantage by positioning itself at a position of higher experience on the relationship learning curve. According to Bleeke and Ernst (1993) many multinational companies are realizing that they must collaborate to compete. In the long run, a company's only sustainable competitive advantage is its relationships with customers, business partners and employees (Masciarelli, 1998). Increasingly, corporations are entering into partnerships to avail themselves of competitive advantages in the marketplace (Li and Dant, 1999). Linder et al. (2000) have focused on four key areas to provide business process outsourcing relationship context: (1). Relationship depth, (2). Relationship breadth, (3). Whose (client or provider) assets would be available, and (4). Whose (client or provider) way of working would be followed. The collaboration competency and efforts depends on the relationship context. Today collaboration is crucial to stay ahead of competitions (Balasubramanian, Srinivas, and

Jayadev, 2001). As outsourcing forms networks with geographically dispersed corporations, collaboration competency is needed. Collaboration brings about supply chain integration. Networking of processes and coordination of process goals, need collaborative efforts. Firms need collaborative competency otherwise BPO is as strong as its weakest link.

Brand Management

According to Kepferer (1992) brand is source of value to the consumer and company, and strong brand offer certainty, guarantee and the removal of risk for the product or service. He subscribes that a dominant brand acts as entry barrier to the competitors because it acts as reference in its category; and a brand is a long term vision. When BPO creates value for the company and customer, it adds the brand value. Attrition of customer satisfaction erodes brand value. Brand cannot be outsourced. So brand management should be a core focus of BPO provider. Brand value addition or attrition through BPO is going to have a long term impact, especially on the product or services. So brand management is a core focus area of the BPO provider.

Competitive edge

The gains of BPO, as a strategic choice, should not be confined to cost advantages. In the initial phase of outsourcing firms could have the cost advantage considerations but as firms move up the outsourcing value chain the competitive edge of BPO would gain significance. Value Creation, Cost Advantage, Speed, Organizational Advantage, Scope, and Process Innovation, are the competitive edge of BPO.

Value creation

It is important for strategic reasons to measure and recognize how BPO adds value to the firm's value chain and what benefits are created for customer. Value creation would depend upon the portfolios of competencies of the BPO network and synergy of the collaboration.

The value creation can have different dimensions:

- BPO provider could appraise if its focus on core processes has improved its performances.
- Performances of the outsourced non-core processes could be evaluated in terms of the goal benchmarks.
- BPO provider could assess the synergy of process collaboration and its value addition to the firm's value chain.
- Brand value added.

Differentiation

The core competency of the BPO provider should be defined. It is the core competency that differentiates the firm from others. So the firm could lever differentiation by virtue of its core competency. The BPO provider networks with clients. The provider has access to portfolio of core competencies through outsourcing. The firm does not depend on single core competency factor. It gains the advantage of multiple core competencies through BPO clients. So outsourcing provides broader differentiation scope.

Cost Advantage
When technology made BPO feasible in the far end of 1990s, many companies in US and Europe started exploring BPO options because of the cheaper cost of operations (Singh and Jayashankear, 2002). A firm may not be capable of committing the optimum resources for the non-core processes. The firm outsource the processes and gains greater value because the specialist BPO client can offer greater value by virtue of experience and the substantial resources the client could commit on account of the economy of scale advantage.

Speed
Economies of experience, competency and infrastructure would capacitate BPO clients improving the time cycle of accomplishing the processes. The time saving would be significant, especially for innovative firms, to speed up introduction of products in the market. Many Indian BPO clients have made huge improvements in logistics and reliability of the supply even often at the cost of maintaining high inventory. Speed of new product introduction in the market is competitive edge for firms.

Organizational advantage
The organization of processes consigns inherent structural advantage. In today's environmental context one thing is constant: *change*. Firms not competent to cope up with change would be out of context eventually. The organization of network of processes capacitates structural dynamism. Adding or dropping processes could befit the environment's demand dynamics. Thus, BPO presents organizational advantage.

Scope
The BPO provider can scale up or down by aggregating or disaggregating processes. This flexibility capacitates scalability. The firm is enabled to scale up or down. It has strategic choices – speed, cost, differentiation, innovation and structural. Thus the organization has scalability in size and direction – scope. So BPO provides advantage of scope. Business process outsourcing offers strategic choices of value creation, cost advantage, speed, organizational advantages, and process innovation. So BPO offers strategic lever – advantage of scope.

Process Innovation
The cooperation and networking of organizations in the BPO value chain step up learning potential, and is expected to enrich knowledge, simulate innovations and result in renewal of products and processes (Quinn, 1999; Unseem and Harder, 2000; SCB and Nutek, 2000). According to Zhao and Calantone (2003) companies have begun to have a motto "how not to make things" – how to outsource tasks to other firms who could make things better. Their case studies conducted in six firms bring to light the emerging trends of outsourcing some tasks in new product development. This day the organization that has adopted BPO as a strategic choice would be exploring new ways and opportunities. The organization is on the path to a strategic and structural shift. So the process would orientate the organization towards greater flexibility and open to change context. BPO entails requestioning, rethinking, redesign and realign of business processes to befit competencies. Historically business process innovation has driven business innovation (Keen, 2002).

Conclusion

Outsourcing has brought about a shift in the forces of industry competition. In today's context whrein outsourcing is emerging as a new way of organization, organization needs requestioning and rethinking about the fitness of its structure and strategy. Researcher like Keen finds that historically business process innovation has driven innovation. BPO, as a strategic, choice can drive innovation

The analysis of the works of researchers and organization experts favors the various facets and characteristics of Business Process Outsourcing. BPO had been a process innovation waiting for breakthrough technology innovation. Today's state of the art and robust technology, especially information technology, has enabled BPO to be a strong link for organization's value chain. So BPO is not a fad, or revolution; BPO is an evolution whose time has come.

The BPO enablers empower business process outsourcing. The absence of any one enabler disables BPO. Comparative advantage of nations, respectable offshore competency, and ethics are BPO enablers. BPO core focus is about the core focus areas of the BPO provider. BPO provider takes the key role because it is the provider, being the initiator and the source, has to collaborate and coordinate the BPO network. The following are the core focus areas: core process management, goal programming and management, collaboration management, and brand management.

The competitive edge framework provides a context for competitive edge. The outsourcing advantage goes beyond cost savings. In the initial phase of outsourcing, firms do have the cost advantage considerations. When firms move up the BPO value chain, the competitive edge gains significance. Value creation, cost advantage, speed, organizational advantage, scope, and process innovation, would be the competitive edge of BPO.

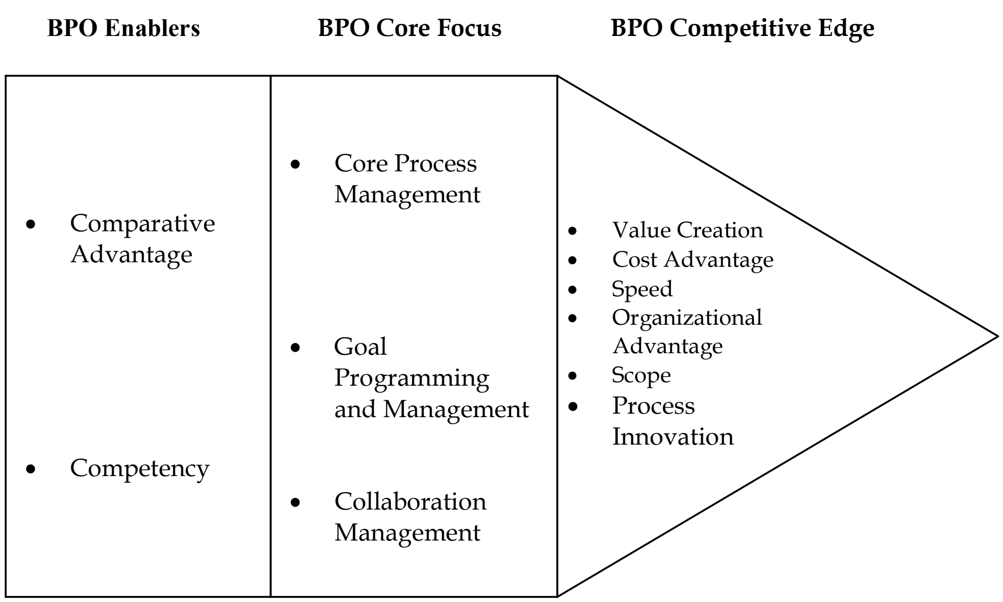

Figure 1: Competitive Edge Framework of BPO

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