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ABSTRACT

While firms increasingly utilize business process outsourcing (BPO) to manage operations and achieve strategic objectives, there is limited research on the implications for firms and consumers. This dissertation begins to address these implications by studying antecedents and performance outcomes of onshore and offshore BPO.

The first chapter studies factors that enable firms to outsource business processes. Our empirical analysis indicates that firms with stronger IT infrastructure and business process codification are more likely to engage in BPO. The second chapter studies implications of BPO for firm performance. Our empirical analysis indicates that quality benefits from BPO lead to cost and time benefits. The third chapter studies impacts of offshoring for customer satisfaction. Our empirical analysis indicates that as firms offshore IT and business processes, they simultaneously increase the value and quality of goods and services. This research is important as firms more broadly incorporate BPO into their global sourcing strategies.

Keywords

Business process outsourcing, BPO, outsource, onshore, offshore, IT infrastructure, codification, performance, quality, cost, time, customer satisfaction, perceived value, perceived quality.

INTRODUCTION

Firms are increasingly utilizing business process outsourcing (BPO) to manage their operations and achieve their strategic objectives. Gartner Research projects that the worldwide BPO market will grow from $111 billion in 2004 to $172 billion in 2009. In BPO, a firm places an IT-intensive business process, such as human resources or finance, with an external service provider. Two key characteristics differentiate BPO from the outsourcing of other functions such as manufacturing. First, BPO involves critical processes that are interconnected with other core processes in the firm, which makes it difficult to specify the transaction characteristics and contingencies in BPO. Second, even as the BPO market is emerging, a meaningful portion of BPO services are already being delivered by global resources from offshore locations (Apte and Mason 1995; Carmel and Agarwal 2004).

While the practice of offshore outsourcing to India and other countries is widely reported and debated in the media and practitioner literature, there are two shortcomings of the current debates. First, they often involve either a broad unit of analysis such as the industry level, or anecdotal evidence from a small number of firms. Industry-level analyses make it difficult to understand the specific impacts of offshoring for firms and consumers, and anecdotal evidence is difficult to generalize to a larger group of firms. Second, the current debates are often based on incomplete information, as individual firms are not legally required to report whether they offshore key business processes.

This dissertation is an initial step to address these shortcomings, and perform rigorous academic research on onshore and offshore BPO that will facilitate an understanding of the impacts for firms and consumers. Based on a solid theoretical foundation, the dissertation studies antecedents and performance outcomes of onshore and offshore BPO. The first chapter studies the factors that enable firms to outsource their business processes. The second chapter studies the implications of BPO for firm performance in terms of quality, cost and time. The third chapter studies the impacts of offshoring for customer satisfaction.

CHAPTER 1:   ANTECEDENTS OF ONSHORE AND OFFSHORE BPO

Despite the growing significance of business process outsourcing, there is limited understanding of the factors that enable firms to engage in BPO. The objectives of this paper are to identify the characteristics of firms that engage in business process outsourcing, and whether those characteristics differ for onshore vs. offshore BPO. We first develop a theoretical model based on literature from transaction cost economics, IT outsourcing, business process management, international business and strategy. We then validate our theoretical model using empirical analysis of 2003 data for 244 firms publicly traded in the U.S.

Our empirical analysis indicates that firms with stronger IT infrastructure (Brynjolfsson, Malone, Gurbaxani and Kambil 1994) and business process codification (Davenport 2005) are more likely to engage in onshore and offshore BPO. We also find a positive association between offshore BPO and cost cutting business strategy, and between offshore BPO and IT department focus on innovation (Teng, Cheon and Grover 1995). We do not find an association between offshore BPO and extent of international revenues or assets, and cite examples to suggest that these traditional measures of internationalization may not accurately reflect the true international capabilities of firms.

This study makes three contributions. First, we integrate multiple streams of literature to create a theoretical framework to understand the drivers of BPO. This theoretical framework extends the emerging literature on BPO (Willcocks, Hindle, Feeny and Lacity 2004). Second, we establish a link between IT infrastructure and BPO, using contributions from the information systems literature on IT outsourcing and business process management. Third, we distinguish between onshore BPO and offshore BPO, including contributions from the international business literature on internationalization, to investigate potential differences between onshore BPO and offshore BPO.

This study is important for both research and practice. From a research perspective, this study responds to a call for research on the emerging domains of BPO and offshore outsourcing (Dibbern, Goles, Hirschheim and Jayatilaka 2004). This study helps to identify the conditions under which firms are more likely to outsource their critical business processes, and whether the antecedents of BPO differ between the onshore and offshore contexts. From a practice perspective, insights from our study will help BPO vendors to target potential customers based on their observed characteristics such as IT infrastructure, process codification or internationalization.

CHAPTER 2:   QUALITY AND COST PERFORMANCE OUTCOMES OF ONSHORE AND OFFSHORE BPO

A frequent perception is that firms engage in outsourcing solely to save on costs. This perception is intensified in the case of offshore outsourcing, as wages in developing countries are as low as 20% of wages in developed countries. However, the motivation for IS outsourcing is moving beyond cost to other objectives such as quality (DiRomulado and Gurbaxani 1998). Further, in a software development context, improvements in quality can actually lead to cost and time benefits (Harter, Krishnan and Slaughter 2000; Krishnan, Kriebel, Kekre and Mukhopadhyay 2000). To study the performance outcomes of BPO, we first develop a theoretical model based on literature from operations management, performance measurement and vendor management. We then validate our theoretical model using an empirical analysis of 2004 data for 49 firms publicly traded in the U.S.

Consistent with previous research in operations management and software development, we find that a firm's performance measurement focus and strategy dictates whether the firm achieves quality, cost and/or time benefits, and that quality benefits from BPO lead to cost and time benefits. These results suggest that firms should place a strong focus on quality when evaluating processes and vendors for BPO, and that firms should incorporate a robust performance measurement system to ensure that their strategic objectives are achieved.

This study makes two primary contributions. First, we integrate literature from operations management, performance measurement and vendor management to develop a theoretical model for quality, cost and time benefits from BPO. Second, while recent research has investigated BPO benefits from the analytical and case-based perspectives, our empirical research investigates actual performance across a broader range of firms.

CHAPTER 3:   DOES OFFSHORING IMPACT CUSTOMER SATISFACTION?

Research for this study is conducted in partnership with India NASSCOM™ (National Association of Software and Service Companies) and the American Customer Satisfaction Index™ (ACSI) at the University of Michigan.

While researchers have noted the increase in offshoring IT and business processes since the 2000 timeframe, there is limited work on the implications of offshoring for firms and consumers. This study begins to address these implications by considering the relationship between offshoring and customer satisfaction. Customer satisfaction, expressed through the

American Customer Satisfaction Index™ (ACSI), is an important indicator of firm performance. Higher customer satisfaction scores have been linked to higher firm profitability, shareholder value and risk-adjusted stock returns (Fornell, Mithas, Morgenson and Krishnan 2006).

We analyze data from 68 firms and business units during the 1997-2004 timeframe, and find that offshoring is associated with an increase in perceived value and an increase in perceived quality, two key drivers of customer satisfaction. This indicates that as firms engage in offshoring IT and business processes, firms simultaneously increase the value and quality of their goods and services (Prahalad and Krishnan 2004). Our findings also indicate that offshoring is associated with an increase in customer satisfaction, and that the relationship between offshoring and customer satisfaction is fully mediated by perceived value and perceived quality.

The empirical finding on customer satisfaction across a group of firms is contrary to anecdotal media reports of individual firms (such as Dell) that experienced a decline in customer satisfaction with offshoring. In fact, our findings indicate that firms experience an increase in customer satisfaction when they place IT and business processes with offshore providers. The finding on perceived quality is contrary to a frequent assertion that cost savings is the sole motivation for firms to pursue offshoring. While cost is certainly a key motivation (Loh and Venkatraman 1992; Lacity and Hirschheim 1994), our findings suggest that firms may also pursue offshoring to improve the quality of IT and business processes.

CONCLUSION

With the increasingly prominent management practice of business process outsourcing, including offshore BPO, this research studies the factors that enable firms to pursue BPO, and the performance outcomes firms experience from BPO. The findings run counter to several points of conventional wisdom. While some argue that firms outsource only the processes they cannot handle internally, our findings suggest that firms must have strong process codification to outsource business processes. While some believe that firms engage in BPO solely for cost reasons, our findings indicate that firms also gain quality and time benefits from BPO. Finally, while anecdotal cases may suggest that firms suffer a loss of customer satisfaction when they engage in offshoring, our findings indicate that firms experience an increase in customer satisfaction when they offshore IT and business processes. These findings are important as firms more broadly incorporate BPO into their global sourcing strategies.

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