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Understanding and Managing Business Process Outsourcing
- A Study on the Impact and Management of CRM Outsourcing

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Abstract

Business Process Outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that in turn owns, administers and manages the selected process based on defined and measurable performance criteria.

While the potential to realize great gains but with the equal possibility of inflicting considerable damage to the organization, business process outsourcing should be a focal point for businesses in the pursuit of competitive advantage. To build deep understanding of the business process outsourcing this research strives to understand the impact of BPO on organizations and critical factors of beneficial BPO.

Given today's trends in customer relationship management (CRM) outsourcing and the deep and broad involvement of process changes with an outsourced CRM practice CRM process is selected out of the wide range of primary business activities as the main focus of this business process outsourcing study.

The study results of eight CRM BPO cases reveal that the absorptive capacity can affect the knowledge collaboration and business innovation among the vendor and the outsourcer. The realized absorptive capacity (knowledge transformation and exploitation) can inspire further investment on potential absorptive capacity (acquisition, assimilation) and build up a positive circulation among the activities of knowledge absorption.

The impact of CRM BPO on organizational knowledge management depends on the dynamics of customer requirements and process complexity. Organizations under higher velocity of customer and process changes tend to leverage knowledge for product and market innovation. Whereas organizations of stable environment tend to treat the BPO as a vehicle for cost reduction and do not plan on strategic moves.

Organizations applying BPO would need to have an understanding of their absorptive capacity of the knowledge provided by the BPO vendor and initiate proper activities to acquire, assimilate, transform and exploit the continuous flow of customer information.

Key words: business process outsourcing, knowledge management, absorptive capacity, customer relationship management

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Introduction

Business Process Outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that in turn owns, administers and manages the selected process based on defined and measurable performance criteria (Gartner, 2004)

The worldwide business process outsourcing (BPO) market is expected to reach 121.5 billion in 2006 (Gartner, 2004). The BPO market grew more than 25 percent per annum during 2002-2004 in the United Kingdom; and in Europe, BPO revenues may well increase from $43 to $72 billion Euros between 2002 and 2005. The United States has also experienced noteworthy BPO growth. (Willcocks et el. 2004). A market of this size has inevitably stimulated an examination of the nature of this special approach of business process management.

Companies tend to outsource supporting functions (Porter, 1985) such as human resources, finance and accounting, procurement, IT services, etc to a third party mainly to be able to focus their resources on their core activities and, hence, reduce their operational costs. However, as the BPO concept grows and is increasingly adopted worldwide by many firms to expand to their primary activities (Porter, 1985) including: research and development, marketing, manufacturing, supply chain, logistics and customer services various dimensions of benefits have emerged such that BPO has now become one of the important strategies in the business world (Kiely, 1997).

Typically, companies that are looking at business process outsourcing are hoping to achieve cost savings by handing the work to a third-party that can take advantage of economies of scale by doing the same work for many companies (Willcocks et el. 2004). Or perhaps the cost savings can be achieved because labor costs are lower due to different costs of living in different countries (Sommer, 2003).

With accumulated knowledge of process management across different user organizations BPO has become a powerful approach to help enterprises achieve a wide range of strategic business goals, such as: accessing new technology faster and easier, improving centralization and standardization, obtaining professional support, boosting competitiveness, improving response speed, and flexible capability of expansion (Wilcocks et al, 2004).

However, relocating internal resources with and external agency has its downsides and can lead to severe problems to the organization (Kakabadse and Kakabadse,

2003). Observed downsides with business process outsourcing include (Mullin, 1996; Quinn, 1999): the loss of control over core competencies, the loss of knowledge accumulation, dependence on the suppliers, the loss of strategic flexibility, concern about business confidence, and the increase of planning complexity.

While the potential to realize great gains but with the equal possibility of inflicting considerable damage to the organization, business process outsourcing should be a focal point for businesses in the pursuit of competitive advantage (Kakabadse and Kakabadse, 2003). To build deep understanding of the business process outsourcing this research endeavors to search answers to the following questions:

- What are the impacts of business process outsourcing?
- How do organizations manage the business process outsourcing to maintain and increase competitiveness?

Given today's trends in customer relationship management (CRM) outsourcing and the deep and broad involvement of process changes with an outsourced CRM practice CRM process is selected out of the wide range of primary business activities as the main focus of this business process outsourcing study. The worldwide CRM services market is expected to increase at a compound annual growth rate of 18.6% to reach $45.5 billion in 2006 (IDC, 2004). The U.S. CRM services market is expected to total over $18 billion in 2006, a growth rate well above that of the overall IS/IT services market (IDC, 2004). A CRM system synthesizes all of a company's customer "touchpoints"- including e-mail, call centers, retail stores and sales reps – to support subsequent customer interactions as well as to inform financial forecasts, product design and supply-chain management (Yu, 2001). A CRM process encompasses the thorough understanding of customers, brings together business strategy, business processes, business applications, IT infrastructure and supporting technologies and platforms. Because the supporting CRM technologies and processes are highly complex and usually require intricate integration and implementation of major business applications across the enterprise, they are prime candidates for outsourcing to third-party specialists (Allen and McMenamin, 2003).

Business Process Outsourcing - CRM outsourcing
Customer Relationship Management is a set of methodologies, software, and usually Internet capabilities that help an enterprise manage customer relationships in an organized way. It includes all business processes in sales, marketing, and service that touch the customer. For example, an enterprise might build a database about its customers that describes relationships in sufficient detail so that management, salespeople, people providing service, and even the customer can access information,

match customer needs with product plans and offerings, remind customers of service requirements, know what other products a customer has purchased, and so on. In contrast to customer care, Customer Relationship Management tends to be used to deal more specifically with the integration of all business functions with each other.

Rather than saddle themselves with the difficult and expensive task of running their own CRM applications, many enterprises are opting for an alternative: farming this responsibility out to someone else. Outsourcing of CRM applications ranging from SFA (salesforce automation) to call centers is becoming increasingly popular, as customers become aware of the trials, tribulations, and multimillion-dollar costs of internal deployments, choosing instead to allow a third party to handle the worry (Law et al, 2003).

Management Strategy – manage knowledge by business dynamics

Although there are many factors for managing a beneficial CRM outsourcing processes building an aligned CRM outsourcing services with the customer and process environment would be one of the critical issues for business managers and service providers. Applying a matrix of customer and process change (Boynton et.el, 1993) this study plan to examine the needed system design and services of CRM outsourcing for different types of business environment.

The customer/process change matrix is depicted in figure 1 and described in the following sections. Propositions about building aligned CRM outsourcing services are proposed and explained.

The concept of customer/process was presented in early 90s (Boynton et al, 1993, Pine, 1993, Boynton, 1993) to propose that organizations structure differently to compete in the market due to the dynamic changes in both customer needs and process design. The model was later enhanced with in-depth understanding of the knowledge management of different types of business environment (Victor & Boynton, 1998). The preliminary propositions of this study are formed based on the concept that *the impact of CRM outsourcing is more positive if the CRM outsourcing service is aligned with the organizational environment*. The following propositions describe the components of aligned CRM outsourcing service:

- Different types of organization require different kind of CRM outsourcing services
- Different types of organization require different functions of CRM system support

- Different types of organization require different types of CRM knowledge management

Although change can be understood in a variety of ways, change in the present competitive environment may be understood best by means of what we call the customer-process change matrix (Figure 2).

As its name implies, there are two broad categories of change in this matrix. Customer change involves the demands for new products or services. The changes firms face in their markets because of competitor moves, shifting customer preferences, or entering new geographical or national markets are categorized as product changes. Process change involves the procedures and technologies used to produce or deliver products or services. The term process, as it is used here, refers broadly to all the organizational capabilities resulting from people, systems, technologies, and procedures that are used to develop, produce, market, and deliver products or services.

Figure 1: Matrix of Customer and Process Change

Dynamic	**Mass Customization**	**Invention**
Customer Change	**Mass Production**	**Continuous Enhancement**
	Stable	**Process Change** Dynamic

These two types of change can be either stable or dynamic. Stable change is slow, evolutionary, and generally predictable. Dynamic change is rapid, revolutionary, and generally unpredictable. Taken together, these types of change provide the following four possible combinations of change conditions that can confront an organization, as illustrated in Figure 1:

- Stable product and process change
- Dynamic product and process change
- Stable product and dynamic process change

- Dynamic product and stable process change

An understanding of the specific product and process types for which a firm has been designed and an understanding of how changing conditions require new strategies and organizational designs can help managers position their firms for competitive success. Besides, the understanding of customer and process change can assist the decision makers be independent of one another and assess the different effects on the strategic options available to the firm. These changes can also affect the core capabilities and organizational designs required for success. For example, a firm may face market conditions that are changing moment by moment, but still may position itself to build relatively stable process capabilities that are flexible enough to respond to this dynamic product change. Finally, for each combination of change conditions, the managers and their firms approach the design and management of structure, I/T, and strategy quite differently. Different change conditions resulted in critically important but different roles for I/T (Boynton, 1993).

In short, the product-process change matrix serves as a valuable lens through which managers can align the strategic requirements within their firms with the advanced I/T capabilities that are increasing the competitive success of firms that use it.

Absorptive Capacity

The ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends is critical to its innovative capabilities (Cohen and Levinthal 1990). Absorptive capacity is a limit to the rate or quantity of scientific or technological information that a firm can absorb. Conceptually, it is similar to information processing theory, but at the firm level rather than the individual level. Zahra and George (2002) extended the theory by specifying four distinct dimensions to absorptive capacity: acquisition, assimilation, transformation and exploitation.

Acquisition: Acquisition refers to a firm's capability to identify and acquire externally generated knowledge that is critical to its operations. There are 3 attributes of knowledge acquisition routines which can influence absorptive capacity: intensity, speed and direction.

Assimilation: Assimilation refers to the firm's routines and processes that allow it to analyze, process, interpret, and understand the information obtained from external sources.

Transformation: Transformation denotes a firm's capability to develop and refine the routines that facilitate combining existing knowledge and the newly acquired and assimilated knowledge.

Exploitation: Exploitation as an organization capability is based on the routines that allow firms to refine, extend, and leverage existing competencies or to create new one by incorporating acquired and transformed knowledge into its operations.

It was suggested (Zahra and George 2002) that the greater a firm's exposure to diverse and complementary external sources of knowledge, the greater the opportunity is for the firm to develop its absorptive capacity. A firm with well-developed capabilities of knowledge transformation and exploitation is more likely to achieve a competitive advantage through innovation and product development than those with less developed capabilities. Whereas firms with well-developed capabilities of knowledge acquisition and assimilation are more likely to sustain a competitive advantage because of greater flexibility in reconfiguring their resource bases and in effectively timing capability deployment at lower costs than those with less developed capabilities.

Impacts of BPO – CRM Outsourcing -*CRM Value*

The studied impact of CRM outsourcing ranged from cost reduction (Piccoli et al, 2003; Ragins & Greco, 2003), increased sales (Zeng et el, 2003; Kenyon & Vakola, 2003), increased customer satisfaction (Chen & Popovich, 2003; Piccoli et al, 2001; Zeng et al, 2003), optimized supply and demand (Zeng et al, 2003) to organizational changes with an integrated and complete view of the customer (Zeng et al, 2003). It has been reported that many businesses have invested in various CRM elements but that they did not seem to realize the benefits. Although time lag in the benefit realization process could be one of the reasons for this, as many reports have pointed out, the misconception of treating CRM management as an operation automation project has generally been noted with regard to CRM projects. Focusing on call center productivity, service quality, and response time, while leaving out the needs for business involvement and evolvement, could be the fundamental reason for the low benefits as well as low investment in CRM in the past few years. Hence, the measurement of CRM is misled by operational indexes such as call center productivity, service quality, and customer response time.

Several studies have proposed ways of measuring the value of CRM. Chen and Ching (2004) proposed that the performance of CRM could be measured by organizational benefits (profit increases, reduced costs, new opportunities) and customer benefits (social benefits, psychological benefits, economic benefits, customization benefits). Winer (2001) indicated that CRM-based measures should include customer acquisition costs, conversion rates (from lookers to buyers), retention/churn rates,

same-customer sales rates, loyalty measures, and customer share or share of requirements (the share of a customer's purchases in a category devoted to a brand).

In reality, managing customer relationships effectively and efficiently boosts customer satisfaction and retention rates (Jackson, 1994; Levine, 1993; Reichheld, 1996a, b). The rewards of executing an effective CRM program are largely self-evident: increased customer value, higher customer retention, increased customer recruitment, and ultimately higher profitability (Ling and Yen, 2001). Companies that successfully implement CRM will reap the rewards in customer loyalty and long-run profitability. The CRM value should be reflected in a combination of both qualitative and quantitative indexes.

Research methodology

Since there has been little in-depth research on the impact of business process outsourcing , multiple case studies of multiple industries for this research is applied. Use of multiple case studies is the recommended method for studying poorly understood phenomena in a real-world setting (Yin 1994).

First, this project conducted initial discussions with a number of users of different CRM outsourcing organizations. A semi-structured questionnaire is planned (see appendix) based on the description of business dynamics, absorptive capacity and CRM value in the previous section. Second, interviews are planned with eight organizations (described in table 1). Interviews are conducted with multiple interviews with some key informants. These interviews are typically one to two hours with 2-4 interviewees. To reduce the possibility of recency-effect bias several data triangulation tactics are planned. During each interview, subjects are asked to think retrospectively regarding the details of business conditions, the implementation project, benefits and problems in the first year of use, benefits and problems since then, likely future developments, and to supply supporting evidence. The results will be cross-validated with internal and external documents and various interviewees in the same organization.

Using a three-step process approach similar to that described by Eisenhardt (1989) for within- and cross-case analysis, all interviews will be transcribed, compared with other interviews and documents from the same organization, and tables of benefits

and problems in the first and later years. Besides, interviewees' explanations for those benefits and problems, are prepared.

Table 1 description of cases studied

Studied cases	Industry	Processes outsourced
Bank A	Banking	Credit card customer service
Bank B	Banking	Credit card customer service
Insurance C	Insurance	Customer service
Insurance D	Insurance	Customer service
Health E	Health	Sales, Customer service and sales
Software F	Software	Customer support and service
Software G	Software	Customer support and service
Consumer H	Consumer	Sales, VIP customer service and logistic

Research Results

The eight different cases have outsourced their customer service processes to a single vendor. According the dynamics of their customer and processes these firms are practiced in four different types of business environment as shown in figure 2. Details of the research result is shown in table 2.

Figure 2: business dynamics of the studied cases

Dynamic		
	Insurance C Insurance D* Software F *	Bank B* Consumer H *
Customer Change	Bank A	Health E * Software G

| Stable | **Process Change** | Dynamic |

Case A is a commercial bank with a credit card base of two hundred thousand. This organization is a government owned bank of more than thirty years. Credit card is not the major source of business income and the bank maintains the credit card business

as part of offers to consumer banking customers. These customers are less active in comparison to other banks. However, they are loyal customers with stable flow of contribution. The strategy of products and services is to maintain the market with current customer being satisfied.

Case B is a branch of a global bank. Consumer banking is the main source of business income. Business objectives are to leverage external resources for reducing costs as well as increasing quality of customer services. Outsourcing is the world strategy to focus on strategic movements in growing new customers and sustaining existing customers. The strategy for utilizing the BPO services is to satisfy changeable customers with continuously develop products and services that can grow new customers as well as sustain and nurture profits from existing customers.

Insurance C is a firm with customer base of more than two millions. The company has well-established team of marketing, sales and product development. They rely highly on experienced researchers in planning new products and market promotions. The strategy for applying BPO services is to reduce cost for replacing the bureaucratic function of customer services.

Insurance D is an active member in Asian market. They have several global alliances and are proud of their global customer services. In addition to the traditional policies this company developed customized services to customers of all kinds. They are under the pressure to promote different packages to customers and the CRM BPO service was applied by the head office to gain control over and build direct assess to customers.

Health E is a company of a stable customer base in juvenile products. CRM BPO is applied to serve customers of hospital and pharmacy. The strategy for attaining customers is to provide quality services with customer problems solved on time and ahead of time. CRM BPO has been considered a channel for collecting customer information.

Software F is a global commercial software producer in the risk management area. The company hired CRM BPO to build direct contact with customers to acquire first hand information on product and services. Its market is competitive with customers requiring different kinds of risk management services. However, it was difficult to quickly react to customer requests due to inconsistent quality of retailers in managing customer changes.

Table 2: the study result

Cases	Absorptive capacity	Customer dynamics	Processes dynamics	CRM value
Bank A	L	L	L	Some cost benefits
Bank B	H	H	H	More effectively developed products Cost benefits
Insurance C	L	H	L	Reduced effort in managing CRM operation
Insurance D	H	H	L	Customer growth Cost benefits
Health E	H	L	H	Service innovation Service quality
Software F	H	L	H	A new channel for customer contact
Software G	L	H	L	Reduced effort in CRM
Consumer H	H	H	H	Product development Efficiency service and delivery

Software G is a global commercial software producer with high market share around the world. The company has a well-established process in collecting and disseminating internal and external customer information. Due to its position in the market Software G is confident with its product and services. It hired CRM BPO to reduce cost of operation. The challenge is to raise the quality of customer service so that customer loyalty can be enhanced.

Consumer H is a global cosmetics company which applied CRM BPO to serve VIP customers who contribute more than half of the revenue. Sales, customer services and logistics were outsourced to the BPO vendor. The strategy of using CRM BPO is to eliminate the administrative cost of managing the call centre.

Discussion

The research results reveal two things:

- the absorptive capacity can affect benefits realized from CRM BPO
- the dynamics of customer and process change can affect benefits realized from CRM BPO

It is found that companies with higher absorptive capacity in acquiring, assimilating, and exploiting customer information from the CRM BPO vendor tend to experience more benefits than operational efficiency. Bank B, after outsourced the CRM service for a year started to learn more about customer consuming pattern. They benchmarked with its global practice in mid-east countries and promoted more kinds of credit card packages to new groups of consumers. Insurance D have regular meeting with CRM BPO vendor and discovered new segments of students and housewives with inspiration from the vendor. They learned the consuming pattern of customers. Software F was highly relying on retail channels for sales and customer services. With a strategically planned data collection in six months by the CRM BPO vendor the company started several campaign events through BPO vendor and built a wealth of information about customer preference in adopting risk management software. The company was able to develop more customers from different segments that were not reachable by the traditional channels. These companies either planned ahead or learned after have all gained customer benefits in different areas. Whereas companies that have lower level of absorptive capacity such as Bank A, insurance C and Software G tent to gain little benefits except for cost reduction.

In addition to the absorptive capacity of these firms, business dynamics of these firms seem to another factor affecting CRM value realization. As depicted in figure 3 that firms of high customer and process changes tend to gain CRM value in the area of products and services. They learned more about customer behavior and changing processes quickly to produce new products or services. In addition to the case of Bank B which has promoted more credit packages Consumer H has involved R&D department in the global quarterly conference combining CRM BPO vendor, product researchers and product developers to seek new ways of serving customers and producing new combination of product offers.

Companies that are under higher customer changing pressure and flexible processes tend to attract new customers by developing market campaigns in new segments. Insurance D have requested in-depth data analysis on customers to search for new customer groups. This was done in the second year of working with CRM BPO when

the database has accumulated sufficient data for analysis. Software F planned to use CRM BPO as a strategy for gaining access to customers. Through several customer campaigns the database has accumulated plenty of information on potential customers and extended contact from current customer base to a broaden customer network. Software F was then able to grow sales in these newly-planned segments. Insurance C though has a flexible process providing customized services to their loyal customers has not gained much from the corporation. The company did not request and use the information generated by CRM BPO vendor and they believed in their own way of satisfying and growing customers.

Figure 3: Customer benefits of different business dynamics

HIGH		
	Market innovation Cost reduction	Product innovation Cost reduction
Customer Change	Cost reduction	Service innovation Cost reduction

LOW   **Process Change**   HIGH

Companies of stable customer change and continuously improved processes are more keen on improving customer services based on customer feedbacks, customer survey and interaction with frontline service operators of the CRM BPO vendor. Regular meeting was conducted between Health E and the vendor and improvement plan followed. Customer satisfaction was high and the Health E was able to increase revenue by cross selling more products to customers of hospital and pharmacies. Software G has world class processes in serving customers they have implemented ITIL (Information Technology Infrastructure Library) quality standards in customer services and continuously improve services according to the guidance of head office. Office of marketing and products spent more time implementing marketing strategies designed by the head office. Therefore, they did not pay much attention to knowledge generated by the BPO vendor.

Companies of stable business environment by their nature do not have high motivation in developing customer value from the BPO project. The key

organizational measurement is productivity. Therefore, they are not equipped with high absorptive capacity in cooperating with vendors.

Conclusion

The study results of eight CRM BPO cases reveal that the absorptive capacity can affect the knowledge collaboration between BPO clients and BPO vendors. The higher the absorptive capacity the more the realization of strategic benefits. The realized absorptive capacity (knowledge transformation and exploitation) can inspire further investment on potential absorptive capacity and build up a positive circulation among the activities of knowledge absorption.

In addition to the firm's absorptive capacity business dynamics can affect benefits gained from the corporation between CRM BPO clients and vendors. Organizations under higher velocity of customer and process changes tend to leverage knowledge in developing new products. Organizations of high customer changes and flexible processes tend to develop new market segments with the knowledge of customers. Organizations of stable customer demand and continuous process changes are able to improve services with close link with the frontline service staff. Organizations of stable customer and process changes tend to rely on BPO for cost reduction and do not spend effort on utilizing customer knowledge.

Organizations applying BPO would need to have an understanding of their absorptive capacity of the knowledge provided by the BPO vendor and initiate proper activities to acquire, assimilate, transform and exploit the continuous flow of customer information. By utilizing this knowledge, organizations would also need to understand their business nature and be aware of the pattern of CRM value generation. As discussed in the introduction section business process outsourcing can deliver operational and strategic value to the firm depending on the firm's business objectives of customer relationship management.

Findings of the CRM outsourcing provide a useful approach for practice and future research. It is hoped that the CRM outsourcing framework and management propositions can assist effective BPO management by understanding the characteristics of the business environment; managing possible impacts on dimensional areas, and highlighting pivotal points in developing initial and further benefits from business outsourcing. Researches on cross-industry or cross-national

BPO management can use these cases as a base for forming understanding of BPO management in different environmental settings.

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APPENDIX: **Semi-structured questionnaire on CRM BPO**

Please rate the following statements based on your understanding of industry average performer.

1 much below average, 3 about average 5 high above average

Business Dynamics

Customer changes

1   2   3   4   5

Customer require frequent change in the products and services

Customers frequently request information

Customers demands change frequently

Customers can move easily to other suppliers

The market is changing that new players join in easily

Process changes

The sales process is changeable according to business requests

The marketing process is changeable according to business changes

The product development process is changeable according to business changes

The customer service process is changeable according to business changes

Absorptive Capacity

Knowledge Acquisition

The company' ability of identifying the needed information regarding customer relationship management

The company's ability of understanding where to acquire information about customer demands and changes

The company's ability of acquiring information regarding market demands and customer changes

The company's ability of timely acquiring information about customer changes from CRM BPO vendor

The company's ability of acquiring proper information about customer changes from CRM BPO vendor

The company's ability of acquiring quality information about customer changes from CRM BPO vendor

Knowledge Assimilation

The company's ability of analyzing information obtained from CRM BPO vendor

The company's ability of processing information provided by the CRM BPO vendor

The company's ability of interpreting information provided by the CRM BPO vendor

Knowledge Transformation

The company's ability of developing processes in acquiring customers based on information

provided by CRM BPO vendor

The company's ability of developing processes in serving customers based on information

provided by CRM BPO vendor

The company's ability of improving processes in acquiring customers based on information

provided by CRM BPO vendor

The company's ability of improving processes in serving customers based on information

provided by CRM BPO vendor .

Knowledge Exploitation

The company's ability of refining processes in acquiring and serving customers based on customer

feedback provided by the CRM BPO vendor

The company's ability of extending processes in acquiring and serving customers based on

customer feedback provided by the CRM BPO vendor

The company's ability of leveraging CRM BPO knowledge in acquiring and serving customers

CRM Value

Achieving customer satisfaction

Providing value for customers

Keeping current customers

Attracting new customers

Attaining desired growth

Securing desired market share

What are market performance indicators else that significantly growth after CRM implementation?