Business Process Outsourcing (BPO): Current and Future Trends

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Abstract

Business process outsourcing (BPO) is a widely popular way that companies are conducting business all around the world. Employing such techniques can have a dramatic effect on your bottom line, but also open you up to many more advantages that ultimately help your business function more efficiently. The purpose of this report is to critically review past literature on the topic to gain a better understanding of why businesses will choose to outsource processes. This report will also seek to provide greater insights into the effects outsourcing has on the company and also the host country being outsourced. We found that there is an overwhelming trend to outsource processes from Australia and that brings other benefits such as getting closer to new market opportunities. The main body of this report outlines when and why a company should choose to outsource and the decision-making rationale around such concepts. Research also indicated that there is a booming industry for companies that assist in aiding the outsourcing process and connecting you with partners in various host nations. This report discovered that there are also some ethical and moral obligations that need to be carefully considered as recent criticisms have damaged the reputations of some businesses. Overall, the implications of our research hovered around a few key findings, the cost benefits associated with outsourcing and the greater efficiencies and quality in tasks that can be utilized in partnering with the right host company.

Keywords: business process outsourcing, BPO, outsourcing, offshoring, low-cost labor, international business, decision making, cultural compatibility, efficiency

1. Introduction

At this point in time across businesses all around the world, just about every standard business process has been outsourced to some extent. This is not limited by industry and includes processes like human resources, procurement, document management, customer service, call centres, finance and accounting, acquisitions and research and development (Halvey, Murphy, 2007). In the wake of the global financial crisis, there has been a BPO boom as companies search for new ways to reduce costs, improve processes and methodologies, gain access to new markets and ultimately remain competitive. Developments such as globalisation, more demanding consumers, corporate restructurings and advances in information and communication technologies (ICTs) have been important drivers of business process outsourcing (McIvor, 2010). As stated by Dossani and Dossani (2015), in the year 2011 alone, worldwide spending on BPO services totalled $153 billion (USD) and it is one of the largest and fastest-growing outsourcing activities. This paper is going to review some theoretical insights and prior published journal articles on the topic, all in an attempt to better understand the concept of BPO, how and why businesses chose to employ it as a strategy, and how it is affecting businesses all around the globe.

2. Defining Business Process Outsourcing

The report first defines BPO and extracts some clarity around the topic, as there is typically some general confusion. The phrase ‘outourcing’ brings to light some negative connotations, primarily that of shipping jobs offshore. Whilst this can be a component of it, it’s not always about jobs. Adam Mole of Transeo, a company specializing in assisting businesses with BPO states that “Outsourcing” is a function a business takes when it cannot or perhaps would rather not do a specific business requirement or function “in-house”. Whilst staff can technically empty their own bins and clean the office kitchen, they pay a cleaning company to come in and do that for them. Now it is important to note that the cleaning function is outsourced to a specialist company that works in a competitive market making it a cost-effective choice. None of the firm’s employees is wasting their time during shifts, nor are any jobs lost. The decision to outsource is so that staff can focus on the core business
of the company and continue to focus on income-generating tasks.

Similarly, we must differentiate between outsourcing and ‘offshoring’. Offshoring is the intentional decision of sending jobs offshore to another country. An example of this is Toyota when they moved production factories from the USA to various developing nations in Asia where labour and human capital was cheaper. On top of the lower production costs, it also allows for the opportunity to secure highly qualified and skilled workers, access to emerging markets and avoid trade barriers.

3. The Emergence of Business Process Outsourcing

Since the late 1880’s at the time the industrial revolution was beginning, small and large businesses have been wrestling with ideas of how they can implement a competitive advantage mechanism in order to increase their markets and profits. If we fast-forward to the 20th century, the most common business model was that of a large integrated firm where operational control was the focus. Owning and managing the whole chain of production and distribution would give you greater control of dictating your own revenues, as you weren’t relying on anyone else. In the 1960s there was a switch-up in tactics and there was a call for diversification to widen corporate bases and take advantage of economies of scale (Handfield, 2006).

This diversity in business operations had a goal of protecting the business profits from unexpected shocks or market turmoil, even though such expansions were initially costly and required management at multiple levels. From here in the 1970’s and 80’s we saw a large trend in businesses wanting to impart their global footprint, however, international expansions were difficult due to the lack of company agility caused by these bloated management structures and expensive transitions. With the invention of the Internet or the world wide web in the last 1980’s we saw the focus shift to creativity and flexibility where many large corporations wanted to focus entirely on their core functions, therefore managers were required to identify what was critical and what could be outsourced.

Outsourcing was not formally identified as a business strategy until 1989 (Mullin, 1996). Before this businesses relied on other companies purely because they lacked the skills and competencies internally for certain tasks to be completed. Asking another business to help you was perceived more as a reluctant ask and not necessarily the ideal choice.

Outsourcing saw its next boom years in the mid 1990’s when it became intrinsically linked to corporate strategy, particularly as a tool to implement cost-saving strategies. They now started to employ the services of other companies (domestically and internationally) even though they could complete the required tasks themselves. The focus shifted to efficiencies and lower-cost centers.

In recent times there have been countless examples of very large reputable companies employing BPO strategies. There is a shift to entering overseas markets by setting up local offices such as research laboratories, call centres and so on in order to utilise the highly skilled but lower-wage human capital that is available in countries such as India, China and the Philippines, as well as being about to get global around the clock service from multiple time zones.

Some examples include the following:

- General Electric outsourced 20,000 jobs to India (research and development, financial reporting, IT support, call centre)
- Accenture outsourced 5,000 jobs to the Philippines (accounting, back-of-house admin and software design)
- Oracle outsourced 4,000 jobs to India (software design, customer support)
- Conseco outsourced 1,700 jobs to India (insurance claim processing)

(Source: “Learning to Live with Offshoring,” BusinessWeek Online, 2006)

So as we can see, the focus today is more on the strategic implications outsourcing can have on your business. There has been a shift away to ownership of all tasks to developing and fostering strategic partnership that ultimately has the goal to increase overall revenue.

4. Theoretical Review on Decision Making for BPO

What is important to understand is what motivates a business to make the decision to outsource or offshore some of their functions. At what point does it come to that? Is it a reactive decision or do companies proactively make that choice? The timing around when a business takes the plunge is critical. This segment will discuss and analyse the behavioral decision-making process behind the choices manages to make when they employ BPO as
a strategy.

4.1 Motivations for BPO

There are varied reasons as to why a company will choose to employ BPO strategies. There are also different times in the company’s lifecycle for when this decision will be made. If we assess some of the key motivators we can see that there are some common themes that emerge. Below are the most frequently reoccurring reasons businesses executives look to employ BPO as a strategy:

1. To decrease costs – As we are aware, different parts of the world have very different socio-economic factors that make it cheaper to employ someone in a different overseas nation where wages are less and the general cost of living is cheaper. This presents businesses with an opportunity to save money on certain processes that are normally administrative, non-income generating, basic in nature and sometimes time consuming. It also alleviates the opportunity cost and allows your staff to focus on other duties that may be more important for the company. It also allows businesses to switch up and leverage different costing methods to get tasks completed, i.e. fee for service models (paying for the job itself), as opposed to fixed costs models (paying someone’s wage regardless of how long it takes to be completed).

2. Concentration on core business – this is one of the greater motivations as a business can essentially remove wasteful steps in their processes and focus their staff’s time on core business tasks. An example is a real state agent also having to draft up contracts, proof read them, type up the terms and conditions etc…. instead they could be making sales calls and showing clients into properties. This allows them to focus on the bigger picture, like business wide growth and differentiators to success, as opposed to how their in house accountant is feeling about their job.

3. Maximising efficiencies in non-core functions – Back to the real estate example, the sales team member is hired to sell houses, not do documentation. If there is an overseas company that specializes in documentation, that’s all they do and are experts at it, they probably could do a better job than the real estate agent anyway. If they can do a better job, cost less and free up time for your staff, it becomes an easy decision to use a BPO service provider.

4. To expand a global brand – when you’ve outsourced to a good BPO company, they can service your customers 24/7, speak a variety of languages and provide efficiencies or reach to people all over the world. They can serve customers in any time zone and not have to bare that weight on the host company in Australia for example, which would be horribly expensive to have staff working overtime on a Sunday night. It also promotes your brand overseas and develops brand equity in nations that would not have known you otherwise and essentially you are providing jobs and income to communities all over the world.

5. To enable flexibility – Companies that have outsourced their non core business functions are leaner and more agile operations that allow for quick scalability (up or down) if needed. This also allows for businesses to manage risks and opportunities more effectively, or even open up new divisions in their businesses that previously didn’t exist.

Alternatively, Relph and Parker (2014), suggest an additional motivator that can trigger decisions to be made for BPO. As we know motivation is based around an organisations desire to improve functionality and save costs, however these authors suggest that politics can also play a factor. The decision to outsource as stimulated by political motivation is rather unknown, but it exists they claim.

4.2 Decision-Making Process for BPO

It is clear to say that some of the benefits of employing BPO can be quite advantageous. However it can be argued that sometimes it is not needed at all because most tasks can be successfully completed efficiently and cost effectively onshore. It then becomes a question of what to look out for and what opportunities beg the question of should we outsource this?

Over the past decade there has been some scholarly commentary on the decision making criteria for making outsourcing and offshoring decisions. Many authors have advocated decisions based around core versus non-core dichotomy, hence leading to various decisions based around how you can maximise the efficiencies gained if choosing to outsource.

David Conklin (2005) in his paper says it is actually quite a simple decision to make. He suggests that if there is a task or process that isn’t contributing to your competitive advantage, it should be outsourced, or at least be a candidate for outsourcing.

Another author, Gewald and Dibbern (2009), suggest the best way to decide what to do is by adopting a business
process outsourcing model based on a risk-benefit analysis. These authors also mentioned there can be significant risks involved so at a later part in this essay we will discuss that extensive risks that may arise from BPO. This is agreed upon by Zhuojian and Dongming (2013) when they state that inadequate sourcing decisions can lead to poor outcomes, bad performance, low flexibility, high transaction costs and sensitive organizational content being exposed.

If the risks are too high, it becomes a consideration or trade off between the potential benefits you can actually attain vs the level of risk you may be exposed to. Gewald and Dibbern conducted trials in the German banking sector and their results concluded that in general BPO was perceived to have far reaching benefits, however given the sensitivity of their information, some banks were intentionally choosing to ‘not trust’ outsourcing companies with their client data in case something went wrong. Furthermore, they discovered that some of the banks that actually did use BPO services were mainly driven by a desire to allocate staff and time to core business activities whilst considering all financial risks. From their research they developed the perceived-risk theory that was directly applicable to all the banks they studied whereby these companies would firstly think how things could go wrong, i.e. how they can avoid any potential risks, then assess the benefits that could derive from costs versus opportunity costs of making the decision to use a BPO as a strategic tool for the business.

Luo et al (2010) mentions that company decisions on BPO should be forged around overcoming challenges. He defines challenges as being process and personnel based. Put simply if you can tighten, improve, shorten, reinvent a process in a better way offshore, BPO is the right answer. Even better, if there is someone you can outsource to overseas who is better qualified, more experienced, cheaper, adds more value, well then they could certainly replace some onshore personnel.

Relph and Parker (2014), show us a decision making model they created which highlights the underlying factors that need to be considered during the decision making process, they offer a framework (below) that analyses the benefits, risks and other motivators from a holistic level that ensure executives are making sound decisions for the company. It also assists in exploring other processes that can be refined onshore and not necessarily outsourced.

Additionally, another author (Alder, 2003) reviews a classic case study about a landmark outsourcing deal
between BP and Exult Inc from 1999. It was one of the first of its kind and certainly the largest where BP outsourced a significant component of his HR processes globally. Alder synthesises all of his research and determines that there are 6 critical factors that companies should focus on when making large outsourcing decisions, they are:

1. Dependency Risks
2. Spillover Risks
3. Trust
4. Relative Proficiency
5. Strategic Capabilities
6. Commitment versus Flexibility

I’d like to highlight an interesting point Alder makes, that is about dependency risks which is little covered across literature. Outsourcing is excellent, however if the host company becomes too reliant on a process or BPO company, it can become a risk as they can start to dictate what they want, change things, demand more money and other various threats that can tarnish the decision to outsource in the first place.

Another interesting perspective is pitched by Tjader, Shang and Vargas (2010) when they built a model known as the Analytical Network Process (ANP) which is a framework that aids decision making from the policy-makers perspective.

![Figure 2. Tjader, Shang and Vargas’s ANP Model for decision making](image)

5. The Risks of Business Process Outsourcing

There is quite an extensive array of commentary on BPO and its effectiveness it can bring to a business. There however isn’t as much discussion around the implications or risks that it can also bring too. Many business owners and company executives have expressed some concerns over the potential risks that BPO can bring.
The amount of outsourced services in 2015 by US companies alone totaled an astronomical amount of $88.9 billion dollars, this was reported by Statista. For America, BPO companies in either India or the Philippines performed the majority of this contracted work. The key point to highlight here is that not only are both these nations separated immensely geographically, both these countries are extremely different culturally.

What this presents us with is a potential breakdown in the cognitive processing by human capital in delivering expected results. Inherent risk is for quality and efficient must always be tracked and managed – for example; “a high quality finish” in the Indian culture still may fall short for the expectations of a western consumer.

Some of the main voices of concern come back to the concept of “just because you can outsource, doesn’t mean you should”. David Conklin in his 2005 paper concluded that whereby an activity is essential for a business to maintain its competitive advantage, it should not be outsourced. The main reason for this recommendation was based around risk. Anything that’s overseas, out of your immediate control or has the ability to vary in quality, should not be given away. If this is the premise of your business or competitive advantage, any variations or perceived differences from a customer could end up crippling your business or aid loss of market share.

There are a multitude of risks in any business decision but outsourcing a major functioning component of your business to another country has some common cross-cultural issues. Some of these challenges are detailed below:

- Politics – There can be many changing political situations in regions of south America and Asia where there is frequent unrest. This has the ability to lead to strikes, shorter days, factories being demolished or damaged, protests interrupting or a government could even pass a certain bill that affects your cross boarder trade options and costs.

- Managing Customer Expectations – Ensuring that all customers are happy and satisfied is the ultimate goal in customer service. Modern customs now have extremely high standards and will ditch your company with the slightest tinge of dissatisfaction. Managing how you engage them, especially the connotations that come with an ‘offshore’ call center is crucial.

- Budget Constraints – Many companies that utilise cross cultural BPO centers are expected to produce the highest quality service with very tight budgets. Corner cutting can be dangerous and investing in the right people and infrastructures needs to be considered carefully regardless of costs.

- Health Concerns – Since most BPO businesses offshore are situated across various conflicting time zones to the host country, this can equate to long or unusual hours for employees. This can effect efficiency and job satisfaction.

- Finding a good BPO business to work with – Across Asia, South America and other developing nations, finding high quality staff and skilled employees can be tough. The next challenging is them keeping the right candidates engaged as typically these staff members move around and tenure ends up being short which disrupts training and removes experience from the teams.

- Disruptions – Similar to the above, the countries like India and the Phillipines who are the leaders in BPO outsourcing sometimes have poorer internet connections, unclear phone lines, power shut downs, call traffic management issues etc, all of which can end up disrupting work flows.

- Brand equity and quality control – If an Australian customer has a bad experience with someone in an Indian call centre, this can reflect poorly on the host company and they can have their reputation damaged. It is hard for the host company to control the quality of the user experience.


Business operations have never been the same since the outsourcing and offshoring industries took hold of the world and today, we see that there are two clear front-runners in the global BPO market. This is India and the Philippines, this section will review the current profile of the Philippines, as Australia tends to prefer this location do to its geographical location.

The Philippines is a robust and fast moving nation that is considered to be the capital of BPO in southern Asia. It has become a very lucrative industry for the local economy, particularly in information technology and customer services.

It all started in 1992 when Frank Holz, under the Accenture group (Natividad, 2015), controversially started the first contact center in the Philippines employing a small local call centre team to handle pretty general non-specific back of house administrative tasks.
Since then, in 1997 we saw Sykes the first multinational BPO company set up shop. I have personally been involved with Sykes through my current role at Macquarie bank, they are considered once of the best in the business, mainly based on their scalability and sheer size, hence they partner with many large Australian banks and corporations.

Deep into the late 90’s we saw significant advancements in information and communication technology (ICT) that facilitated the main portion of growth in this sector (Natividad, 2015). Accessibility is easier than ever, especially due to the prevalence of the Internet and file sharing technologies. Here in Australia, there is a growing industry where businesses exist solely to assist you source local Philippine talent to work with. By the early 2000’s BPO work accounted for approximately 3% of the whole countries GDP, not bad for a brand new sector.

If we focus on the impact of BPO in more modern times, Errighi et al (2016) research confirmed that the economic influence of BPO in the country has tripled in the last ten years. The key performance indicators for this growth can be pinpointed to the competitive technology infrastructure available, a very highly skilled workforce, and the obvious low labour costs.

It is fair to say that customer call centres and administrative tasks represent the largest sector in terms of jobs and revenue, higher value added subsectors are also on the rise. BPO is expected to expand rapidly in the coming years, further strengthening the country’s participation in global supply chains (Errighi et al, 2016).

Below we can see a statistical snapshot of the important role BPO plays for the Philippines. The figures below are presented from Nikki Natividad’s research in 2015, it represent the milestones in the last 7 years.

2010 – The Philippines was declared the world’s BPO capital
- 525,000 employees in call centres
- $8.9 Billion in revenue generated
- The country continues to become an attractive location for foreign investors

2011 – The BPO industry becomes one of the biggest/fastest growing job providers
- $11B revenue generated and 638,000 Filipinos employed
- Revenue comprised 4.9% of country’s total GDP

2012 – The BPO industry grows even further
- BPO industry grew by 46% annually since 2006
- Revenue comprised 5.4% of the country’s total GDP

2013 – BPO starts yielding significant income and employment opportunities
- Revenue generated climbs up further to $15.5B
- 900,000 Filipinos are employed full time

2016 – BPO industry is thriving with work from large western businesses
- Projected to generate 1.3M new jobs
- 17% projected annual growth

In summary, the republic of the Philippines has many advantages for companies to utilise. A noticeable factor that they have over the other major player in the BPO space, India, is that their professionals are known to speak more fluent and understandable English, something that comes up frequently in client surveys.

Ultimately, whatever country is selected for offshoring and outsourcing requirements, your business will reap the reward if done correctly, these emerging offshoring countries have the power to significantly improve and contribute to your home firm.

7. The Future of Business Process Outsourcing

The future of BPO will be an interesting one to watch, especially here in Australia where almost every industry is saturated with many competitors hungry for market share. BPO can act as a way to save money to invest it elsewhere in your business, or to simply be available to call 24/7. There are many ways to use it to your advantage and for those reasons I believe it will increase significantly here once we see the development of some reputable companies that have shown an excellent track record of success.

However, similarly to the future of various other service industries, automation will play a big factor in the BPO

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space. For example, one of the main processes outsourced is data entry, this could be potentially automated in the future and an Australian company could purchase software that does that for them in house. On the flip side of that, experts argue that you can not automate ‘the human touch’ or a real voice on the phone so call centres, particularly telemarketing or where sale skills are required, may be around for a long time, another key process commonly outsourced.

One thing is safe to say however, the BPO industry will benefit greatly from new emerging technologies that will enable a greater experience for customers wherever they are in the world. These technologies include machine learning, robotics and cloud based online technologies.

There are varying insights from experts in this field who voice their opinions on the topic. According to Alex Genadinik (CEO of Problemio.com), he says that BPO is going to plateau for one main reason; there is a catch 22. What he means is that if you want a quality BPO service offshore, you need to pay for it. Sometimes the same amount you would have paid to keep the service in house, so it becomes pointless as you lose control for the same price. He then says as a business owner, the only reasons you’d employ BPO tactics is to remove tasks where high quality control isn’t the ‘be all and end all’, therefore allowing you to pay much less for a perhaps inconsistent service.

Thomas Wooldridge of Relamark Web Design and Marketing concurs and says that BPO is an offering that will always be needed and never have demise. He gives the example of a street directory in a car vs google maps – We will never use the old book to direct ourselves in the car since we know there is a quicker, cheaper way of doing it. BPO is similar and if offshoring is done correctly, you business will never look back.

He continues saying that since the inception of the internet, there has never been an easier way to connect globally, coupling this with a constant demand for low skilled jobs, we can communicate online at any hour to someone always willing to do a job, whereby they might not want to do it in the western world.

Overall I believe that a business that has a department or area that is purely a cost centre, i.e. no teams are income generating but have high head count could be ideal for a BPO review. Many banks have this where there are extremely large call centres managing basic customer service enquiries that frequent in nature and sometimes easy to resolve. I also think that regardless of industry or companies that are small, medium, large, public, private, government based or privately owned all could benefit from BPO in someway, even if it is taking away tasks that aren’t bottlenecks yet, but purely removing them to allocate staffs time to other activities such as income generating ones.

I suppose in the short-term, I see BPO being easier to access and utilise by all companies, but I also see artificial intelligence and technology eliminating many BPO jobs in the short- and long-term future. These themes are common among industry insights so this begs the question, how can BPO company’s future proof themselves and stay ahead of the technology curve? The answer to that will determine the future state of a developing industry.

8. Conclusion

After reviewing all the research I have conducted, it is fair to say that outsourcing via a BPO strategy requires significant contemplation from all angles. Commentators on the topic have debated about the topic and how any decision to outsource a process, personnel or entire departments of a company must be evaluated through many lenses of consideration.

The critical success factors that stem from motivating decisions, or reasons for your BPO decision, must be identified from the point of view of the company, regardless of the financial benefits that appear to be as a result of adopting any BPO strategy.

A company that has already efficient and effective business processes may still gain significant value through using an outsourcing service. However it is important to note that outsourcing isn’t always the answer to problems, particularly as there are significant risks that need to be mitigated in the decision making process.

A balanced approach in considering risks, benefits and market factors, must underpin a company’s evaluation to utilise a BPO strategy.

This leads me to the final conclusion that the appropriate decision may differ among companies and over time, but you cannot ignore the potential benefits it can bring if the potential risks and costs are justified.

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