Understanding commitment in business process outsourcing relationships

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A B S T R A C T

Based on cost savings and efficiency gains in past business process outsourcing (BPO) projects, firms increasingly consider outsourcing knowledge-intensive and strategically oriented business processes. However, the success of these strategic BPO projects entails strong commitment from both the client and the service provider to leverage interfirm resources and engage in close collaboration to improve the client's business processes. Despite the growing acceptance of BPO practices, how commitment is formed with respect to BPO remains unclear. To address this knowledge gap, weemploy the relational view as our theoretical lens in explaining that the client's commitment is influenced by the relational value from outsourcing relationships. Relational values are characterized as knowledge-based capabilities, process-based capabilities, and governance. The proposed model and hypotheses are largely supported by the empirical data from 167 firms: the results show that commitment is positively affected by the service provider's task–knowledge coordination, process alignment, process flexibility, and the client's behavior control over the service provider. Finally, we discuss theoretical and practical implications.

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1. Introduction

Business process outsourcing (BPO) refers to the delegation of one or more IT-enabled business processes to an external supplier who becomes responsible for managing the processes to achieve its client firm's defined and measurable set of performance goals [9,33,65]. For example, banks may outsource their credit card application processing to third-party vendors to simultaneously minimize processing costs and improve customer experience. Global spending on BPO has significantly increased during the past decade [54,55,63]. The benefits of BPO include access to specialized resources, cost advantages, innovations, and higher quality services from providers [7,46]. Despite the growth trend described above and the purported benefits of BPO, the reported failure rates of BPO remain high [9,28,22]. Studies conclude that one particular reason behind these failure rates is that challenges remain that are associated with managing out sourced relationships [22,21].

Although the prior IT outsourcing (ITO) literature has examined outsourcing relationship management in general, there are crucial distinctions between BPO and ITO that indicate that additional research efforts must be made to better understand how to manage BPO relationships [54,55,46,36,37]. ITO is using external third parties to source information technology services, such as help desks, IS planning and management activities, data centers, telecommunications and network management [27]. First, although IT outsourcing emphasizes IS department performance [2] and the client's technical and methodological capability [34], BPO objectives, in contrast, are more diverse and can extend beyond the technical focus of ITO projects. For example, BPO objectives tend to emphasize a range of business performance improvements that span from cost reductions, rapid delivery, and convenience to flexible enablement, business transformation, and innovation [37]. Second, the knowledge required to be integrated between the client and the service provider is different between BPO and ITO. Knowledge integration in ITO is typically "goal-oriented" and focuses on the provider's knowledge and expertise in reaching the client's goal, such as performance of IT infrastructure and operations and/or IT applications development. In contrast, BPO emphasizes "process-oriented" knowledge sharing that requires

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not only the client's context-specific knowledge that is essential to perform the particular business process but also the service provider's knowledge about how to manage and execute the business process [65,54]. Third, BPO relationships typically do not have well-defined beginning and ending points. Long-standing relationships and effective governance mechanisms (e. g., behavior control) are required to ensure partners' contribution and to fully realize BPO goals and the associated benefits [46,28,58]. Finally, ITO outcomes depend, in part, on the technical and methodological capabilities and knowledge sharing between the client and the service provider. In contrast, BPO success largely depends on knowledge sharing and inter firm learning regarding how to improve business processes and support the achievement of strategic goals.

In their comprehensive review of the ITO and BPO body of research, Lacity et al. [36,37] identify promising BPO research opportunities based on gaps that exist in the ITO and BPO literatures. They suggest that new studies should reflect the shift in BPO relationships and outcomes from a short-term to a long-term orientation. In particular, BPO clients increasingly expect service providers to not only offer short-term benefits (e. g., lower costs, valuable service on back office processes) but also to support their long-term goals (e.g., technological innovations and process maturity). Lacity et al. [37] also note that recent BPO projects (e.g., business analytics) require more knowledge-intensive activities compared with BPO activities (e.g., human resources, marketing, and supply chain functions) that have been examined in previous studies. These knowledge-process outsourcing projects support the client's long-term and strategic goals that are related to innovation and competitive actions [54,46]. For example, BPO typically entails strategic processes (e.g., customer analytics) to facilitate innovation and business transformation, which processes require ongoing knowledge contribution from both the client (e.g., BPO requirements) and the services provider (e.g., business domain, knowledge of process improvement) [54]. Achieving this type of knowledge-process outsourcing typically requires the client and the provider to commit to a long-term relationship.

From a theoretical perspective, Lacity et al. [36] suggest that transaction cost economics logic that seems to highlight a short-term orientation of outsourcing offers diminishing marginal insights to outsourcing problems. This conclusion is derived from evidence that the "findings have been repeatedly examined and found to have no significant effects on … BPO outcomes … because there are simply no patterns to find." ([37], p. 241). Current BPO practices among businesses and a critical review of outsourcing research seems to suggest that researchers must draw on a long-term orientation to theorize BPO outsourcing relationships and partnerships as a basis from which to understand outsourcing outcomes.

Both ITO and BPO research has highlighted the importance of satisfaction and commitment in outsourcing success [54,28,21]. Whereas satisfaction tends to be transitory [10,14,18], commitment tends to be stable and reflects a more comprehensive assessment of the client's willingness to undertake efforts to develop and maintain lasting relationships with its provider [21,41]. The unique characteristics of BPO relationships suggest that outsourcing outcomes (e.g., satisfaction, project performance) and their antecedents in prior ITO research may not fully capture the spirit of BPO performance [55,36]. Because ITO focuses on the short-term benefits that may accrue from IT services, ITO studies mainly draw on theoretical arguments from transaction cost economics and the resource-based view to examine antecedents of commitment from a cost reduction and IT-related resource capability perspectives, respectively. In contrast, BPO emphasizes the importance of strategic management and relationship-specific resources to commitment [28,22,37]. Commitment is particularly important for successful BPO because these projects typically require a combination of the client and its provider's capabilities to implement the outsourced process in a collaborative fashion. Conversely, the lack of commitment tends to increase the client's costs (e.g., switching costs and redeployment costs) and tends to reduce a provider's business opportunities [8,23]. In addition, previous research suggests that a provider's understanding about the client's business domain and the integration of a provider's services into a chain of other functions in the client firm are also critically important to BPO success [9,65]. Thus, BPO requires a knowledge supply chain to be established between the client and the service provider (e.g., knowledge sharing and knowledge integration between them and the client's domain knowledge). These knowledge-related capabilities help to improve BPO performance and increase commitment [65,46,37]. Overall, this logic and the related empirical evidence highlight the importance of commitment and relationship-specific resources in BPO performance [36,37].

Research has also suggested that a set of individual, organizational, economic, social, and strategic factors is associated with BPO commitment [7,22,21,8]. Accordingly, outsourcing research has examined the influence of a number of antecedents on such commitment, including strategic management variables (e.g., absorptive capacity, capability), economic variables (e.g., relationship-specific investments or resources), and relational governance variables (e.g., behavior control, interaction and alignment of actions between the client and the service provider) [28,22,36,23,67]. Although prior research has investigated these factors separately, we take an integrated view and empirically evaluate these variables together. In particular, this study focuses on how relational value generated from the client and service provider relationship influences commitment. The novelty of our theoretical approach is that we comprehensively assess the antecedents of commitment to offer a nuanced understanding of how relationship-specific capabilities influence the commitment that underlies the success of BPO outcomes.

Building on the outsourcing literature [36,37] and the relational view [17], this study develops a theoretical model of factors that influence BPO commitment and then tests it empirically. The relational view provides a useful lens through which to study how business processes can be improved by leveraging relationship-specific resources (or capabilities). We argue that the client's commitment depends on whether the outsourced task is performed effectively. We draw from the key dimensions of the relational view—*knowledge-sharing routines*, *relation-specific assets*, *complementary capabilities*, and *effective governance*—to identify the meaningful antecedents of commitment in BPO relationships. These antecedents include the client's absorptive capacity, the client's behavior control, the service provider's task–knowledge coordination, the service provider's process alignment, and the service provider's process flexibility.

We surveyed 167 firms and analyzed the data using hierarchical regression analyses. The results largely support the proposed hypotheses. Our study contributes to the outsourcing literature in general and to the BPO literature in particular by providing a theoretical framework and empirical evidence that deepens our understanding about how outsourcing relationships can be improved by leveraging relationship-specific resources. We also advance the relational view argument by extending the conceptualization of relationship-specific capabilities and evaluating these capabilities in the context of BPO relationships.

2. Theory building and hypotheses development

2.1. Outsourcing literature

Outsourcing research has primarily focused on outsourcing decisions and on outsourcing outcomes [36]. Outsourcing