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**Business Process Outsourcing of  
Procurement Operations, Challenges  
and Opportunities**

Author: Paul Charles Casimir Dréano

Thesis instructor: Ing, Petr Jirsák, Ph.D.

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**Declaration:**

I hereby declare that I am the sole author of the thesis entitled “**Business Process Outsourcing of Procurement Operations, Challenges and Opportunities** “. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on 28.11.2018

Signature

Paul Dréano

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### List of Abbreviation

AP	Accounts Payable
BPO	Business Process Outsourcing
BE	Business Excellence
BI	Business Intelligence
FTE	Full Time Equivalent
MRO	Maintenance Repair Order
KPI	Key Performance Indicator
OC	Order Confirmation
PO	Purchase Order
PR	Purchase Request
R2PO	Requisition To Purchase order
SLA	Service Level Agreement
SOX	Sarbanes-Oxley

## Introduction

If we are asked to select words associated with globalization, it is very likely to find the concept of Outsourcing within the top five. In a world, that has an increasing amount of open trades area, and development of connected technology, outsourcing had all the components to emerge and grow. Currently being enrolled in Internal Business Master Program in Prague, it came to the author as an evidence to select this research topic. Moreover, in the business landscape of Prague has undergone changes, making it a platform for various outsourcing services such as Human Resources Operations, IT Helpdesk or Procurement Processes.

After retrieving articles and writing articles related to Business Process Outsourcing, it became apparent that BPO was inevitable. Three quotations can highlight the stake of Business Process outsourcing nowadays. The first one was from Lee Kuan Yew, the first prime minister of Singapore, claiming: “If you deprive yourself from outsourcing and your competitors do not, you’re putting yourself out of business”. It became clear that Outsourcing was a critical decision for a company to take, and even to some extent an obligation. However, doubts may remain about certain aspects of it. The second quotation, which affects general judgment over Outsourcing was from Azim Premji, a notorious Indian business man, claiming: “the important thing about outsourcing or global sourcing is that it becomes a very powerful tool to leverage talent, improve productivity and reduce work cycles”. This quotation showcased the opportunities and advantage a company may take out of outsourcing. Azim Premji claims have also strengthened the will of the author to explore deeper the world of Business Process Outsourcing. The former mentioned quotes were coming from south Asian business executives, which could be mirrored in the fact that Asia is a major host location for the BPO industry. Nevertheless, it appears the trend of outsourcing has been touched upon by influential personas worldwide, as the third quote from the former United States Secretary of Housing and Urban Development, Alphonso R. Jackson shows. He supports and also highlights the opportunity of BPO. Alphonso R. Jackson claims

“The other part of Outsourcing is this: it simply says where the work can be done outside better than it can be done inside, we should do it”.

The current trend in procurement and the professional experience of the author in this domain increased and instilled the motivation to focus on this area of outsourcing. Therefore, the research engaged itself in understanding the key questions of why and how to effectively outsource procurement activities. The research paper is a combination of literature research and interviews with experts in the field of Outsourcing Procurement activities.

## **Procurement Outsourcing, as a Relevant Topic**

Business Process Outsourcing, also known as BPO, has recently emerged as one of the main business and economic issues and challenges of our time (Rick L. Click, Thomas N. Duening, 2005; Golden G, 2018). Its emergence was the results of the mix of innovative technologies, free-trade movement and development of business strategies. The current economic climate and increase of competition force companies to implement operational excellent process and cost effectiveness. In the constant race to increase company's flexibility BPO seems to be the adequate answer.

We can observe the significant importance of Business Process Outsourcing nowadays through monitoring the increasing amount of third party service providers. Companies such as Accenture, Genpeck or Capgemini provide various Business Processes Services in several fields such as Human Resources, IT helpdesk, Customer Services or Procurement Support. We may also find companies more specialized such as GEP in the Sourcing and Procurement field, or INFOSYS in the IT related services (Infosys, 2014). All of the above-mentioned firms share the same particularity. They are all recent in the BPO domain, as BPO activities only appeared as an industry in the 90s (Handfield, 2006).



Following 1990, scholars started to refer to the activity of outsourcing business processes as BPO. It became then, the focus of many researches, even though previous studies were still relevant to this topic, despite not mentioning the exact name of the process, as we know it today - Business Process outsourcing. The objective of this research was to understand the BPO trend. Indeed, many agreed that the transfer and standardization of these processes result in performance improvements in terms of cost, time, efficiency, effectiveness, quality and responsiveness (Romero et al. 2015). Therefore, by outsourcing their processes and improving them they can focus on their core activities (Arnold 2000) and take advantage of technological skills of the third party provider (Baden-Fuller et al, 2000). Critical to mention that despite the fact that all the support activities may be outsourced, they need to be taught, transferred, learned, improved and controlled differently.

## **Research Objectives and Research Questions**

Business Process Outsourcing field is wide, and offers many research opportunities. The objective of the research paper is to focus on the business Process Outsourcing of Procurement. The master thesis will be composed of two major parts. Firstly, theoretical part will be the beginning of the research. Business Process Outsourcing along with its official definition will be explained. The scope and the focus of this research will be presented, to be able to delimit the field of research. Considering that the field of Business processes, what are the advantages. The theoretical part will also include introduction to Business Process Management and the process of Business Process standardization (Creation of guides, SOP). The aim of the first chapter will be to present the business processes in a more universal terms rather than taking a specific focus on procurement operations.

The second chapter will be the empirical part. In this chapter, the results and analysis of two interviews will be presented. The two interviews were conducted with two experts in the field of Business Process Outsourcing. The respondents explained and presented the transfer of Key Operational Procurement Processes. The objective of including this part will be to have direct examples of the concepts

presented in the theoretical part. The milestones of a business process-outsourcing project will be showcased, starting from the negotiation of the contract to the knowledge transfer period. Overall, the best and the worst practices in undertaking such a project will be discussed. Once the process will be presented, some substantial distinction between procurement operations and other business processes will be performed.

As Business Process Outsourcing is a wide area it covers many topics, the field of research will be narrowed down to three key questions:

Research Questions I: What are the companies' major incentives to initiate Business Process Outsourcing?

In this question, the objective is to explore what are the main drivers for a company to outsource key Business Processes. In this point of the research, the research will not be limited to Procurement activities, but business Processes in general. Moreover, the purpose will be to understand what initiating a BPO entails as well as what are the risks and the opportunities connected to it.

Research Question II: What are the best and the worst practices while implementing a Business Process outsourcing for Procurement operations?

By answering this question, the research aims to explore the best practices of outsourcing procurement operations. The focus will also be put on including the areas that should be taken into consideration and monitored during the process. Moreover, the worst practices will be explored with a goal to understand what can be the main obstacles impeding effective transformation to business process outsourcing.

Research Question III: How to optimize the Procurement activities with the BPO?

The optimization of processes is one of the main arguments for initiating a Business Process Outsourcing. Therefore, in addition to the understanding what are the best and the worst practices, the research will present a roadmap to process optimization.

## **1 Theoretical Research**

This chapter takes a dual approach to the theoretical research and focuses on two main components. Firstly, the chapter aims to present the main concepts related to Business Process Outsourcing. Review of the history and the development of the key concepts was based on various articles and research paper. The ultimate objective is to bring first answers to the question *what are the companies' incentives to initiate Business Process Outsourcing?* Secondly, the focus will be put on procurement operations as such. As procurement operations is a wide area, this chapter coherently covers specifically the activities from the Spot Order to the Order Confirmation Acknowledgement and PO updated. Not only this part introduces the key activities of procurement, it shows how to transfer/outsource it.

The literature review of procurement aims at answering the question *what are the common practices of outsourcing procurement operations? And how to optimize it?* Finally, the theoretical part concludes with the particularities of outsourcing procurement activities. Therefore, it answers to the question *How to optimize the Procurement activities with the BPO?*

### **1.1 Business Process Outsourcing**

#### **1.1.1 Outsourcing History**

Even though Outsourcing sounds like a universal concept, it only appears, as we know it, in the 19<sup>th</sup> century. It emerged with the growth of Modern Business Enterprise. In the late 1800s, few countries became nations of abundance, as opposed to nations of scarcity. Many types of products appeared and were provided

at affordable prices in vast quantities. In order to provide these resources, long trips across lands and oceans needed to be done. Very fast, commanders of ships would face difficulties with their crewmembers going missing in these trips. Therefore, they decided to operate with outsourced labor. This labor possessed various skills, dedication levels and different affordability. These features opened the eyes of many industrial leaders on the outsourcing potentials. (Kim, M, 2017). Moreover, it was made possible by several technological improvements. However, two major innovations made the path for outsourcing. Firstly, came the railroad. It was a slow evolution, as countries started with turnpikes, to canals and then finally to railroads. Transportation was made possible and available for everything and mostly everyone.

Then, came the telegraph as a major innovation in the field of communications (McCarthy, Ian, Anagnostou, Angela 2004). Therefore, as Joanne Yates said “The Spread of the telegraph and of railroads encouraged firms to service larger regional and national markets, while improvements in manufacturing technology created potential economies of scale” (Yates, Joanne 1989). The telegraph and railroads were not enough to enable Business Process outsourcing, as we know it today until these facilities were once updated to computers and airplanes.

It is in the 20<sup>th</sup> century, that we reached the technology level to achieve the First Global Business Process Outsourcing. In 1980s the major consulting firm Arthur Andersen, invented the concept of remote management services (Brown, Ken; Dugan, Ianthe Jeanne, 2002). It was described by Alexander Factor as a: ‘A Customers’ systems, networks, and applications were monitored and managed remotely from a Network Operations Centers’. This concept refers to delivery centers/Call centers, which are key components of Business Process Outsourcing and are presented in the following sub-chapters. Alexander Factor also referred to SLAs - ‘the customer was assured high service guarantees through the implementation of so-called Service Level Agreements (SLAs). Customers liked these services and bought them mostly to ensure availability for their systems and networks’ (A. Factor, 2001).

As stated earlier, it was thanks to the computerization that companies started to outsource. Yet, it is crucial to mention that automation played a major role in driving this decision as well. Companies started to shift their focus. Old companies wanted to control each process diligently, but new companies were not reluctant to give away control over some of their activities. This, in turn, enabled them to focus on their core activities. This shift in strategy was a major enhancement for Business Process Outsourcing. For example, company, whose primary activity was manufacturing, was also extracting raw materials, appeared to be in charge of the transportation, the shipping and also took care of the distribution. However, with a more focused strategy on its core strategic competences, the company could allow a flow of its resources to specific activities. The ones, they were doing better than competition. In turn, all of the support activities could be outsourced (Farney, 2004).

The first support activity to be outsourced was IT. An interesting factor on the topic of outsourcing that is due to be mentioned, is the omnipresence of India globally. A significant proportion of the outsourced IT workers coming from foreign countries were from India. The primarily reason was the English proficiency. As many regions of India were under the governance of the English Empire, English became the second language of many Indians (Olson. James, 1996). The secondary reason was the education. As per its history, India was influenced by an abundance of well-developed countries such as the United States and Great Britain, that gave great importance to education. Therefore, many technical universities were built, which with time led to an emergence a population who could be educated workers in IT field (D. S. Landes, 1999).

The rise of Outsourcing can be explained by the comparative advantage theory of David Ricardo. Indeed, as per Ricardo Theory, trade occurs when there is a difference in technology. It also needs to be advantageous for both parties. Crucial to note that even a technologically inferior country can benefit from free trade. Nevertheless, the other way around is also possible, as a well-developed country can compete against low foreign wage countries (Ricardo, David 1977). These principles reflect the current trade of Business Process Outsourcing, as many

companies decide to outsource to less developed countries and regions. The current trend goes from Northern America with United States and Canada, but also Western Europe with Germany, France, and United Kingdom; to Eastern countries such as India, Philippines in Asia or Poland, Czech Republic in Eastern Europe. With the emergence of Business Process Outsourcing some countries became more specialized in certain specific sectors.

According to the 2009 Global Services Location Index, Also Known as GSLI, the top three countries of BPO are India, China and Malaysia. However, recently Central and Eastern Europe emerged as one of the primary platform for offshoring for Western Europe Clients. However, compared to eastern Asian countries such as Asia, they became less attractive due to increase in cost (A.T Kearney, 2009, A.T. Kearney 2014)

Today India remains the largest providers of offshore services. The Philippines is the second player, but still far away from the position of India in volume. These two players share fifty percent of the World's Business Process Outsourcing market (A.T Kearney, 2009, A.T. Kearney 2014). The emergence of Eastern European countries as offshore service providers is the result of difference in the BPO strategies of Companies. European Companies are more interested in near-shore locations without the English language being the dominant language. Moreover, the requirements for Business Process Outsourcing for European companies tend to be different than the requirements for northern American companies.

The difference mainly lies on the language skills. Indeed, in order to have well-functioning outsourced operations, the agents may need to handle the language of the company. For example, it is hard to imagine that a large French company would outsource its Pay roll activities to a company without French resources. The communication even within the same language is a challenge; therefore, it is almost impossible to ensure a successful BPO with communication challenges (Rick L. Click, Thomas N. Duening, 2005).

The combination of innovative technologies in the domain of communication and transport made possible the emergence of Business Process Outsourcing. However, it remains a challenging process, and differs from manufacturing outsourcing. In the following chapter, we define BPO with its challenges and opportunities.

### 1.1.2 Business Process Definition

In order to understand the concept of Business Process Outsourcing we need to understand the concept of Business Process. A business Process or a business method is defined as a collection of related structured activities or tasks that, when applied in a specific sequence, produce an outcome. This outcome may be a product or a service for a particular customer or customers (Weske, M, 2012). Even though, the definition provided by Weske remains universal and easy to understand, Harrington refers to the tasks and activities to value-adding activities. Indeed, according to his definition a Process is a value-adding activity or group of value adding activities that takes an input and provides internal and external customer with an output (Harrington 1991). In this definition it is clear that a process starts with an input, then is followed but a process or an operation, which results, in an output. Moreover, according to Zairi, an organization uses its resources in a consistent, reliable and repeatable way in order to achieve a goal (Zairi 1997). It is important to understand the concept of the process in order to describe it and teach it to someone.

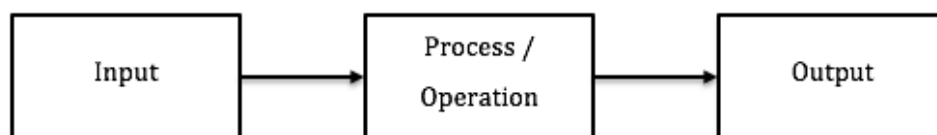


Figure 1. Process representation

The process is generally represented as process chart, as per the figure 1. According to Bulletpoint, a process should have four specific characteristics. Firstly, it should

have definable and predictable inputs. Indeed, in order to obtain a constant output, it is natural to have a consistent input. Secondly, the sequence of flow needs to be linear and logical. Then, the tasks or activities needs to be clear stated and defined. The last characteristic is a predictable and desired outcome or result (Bulletpoint 1996). These features do not only correspond to business processes but to processes in general.

As we understand the concept of process, and business process, we can distinguish various types of business processes. We can make a distinction between three types of business processes:

1. Operational Processes. They create the primary value stream and constitute the core business. We can name for example the process of acknowledging orders from customers, manufacturing products.
2. Management processes refer to the activities and tasks of overseeing operational processes. It includes budget monitoring activities, employee oversight and corporate governance.
3. Supporting activities is the last type of processes according to Rosing et al. It refers to the support of the core operational processes. For instance, we can include in supporting processes call center, IT support, bookkeeping or safety trainings (von Rosing, M.; Kemp, N.; Hove, M.; Ross, J.W. 2014)

We may find a different approach from Kirchmer. According to Kirchmer, Business Processes can be divided into Operational Processes, Management processes and governance processes. They are presented as per following description:

1. Operational processes refer to the agents/personnel “getting things done”. Unlike Von Rosing, here Kirchmer doesn’t qualify the level of importance of the operations. There are no distinctions between the supporting and the core processes. For instance, Operational Processes may be performed by purchasing agent, or a data analyst.



2. Management processes ensure monitor of the operational processes. As per Kirchmer definition, they “ensure efficient and effective work processes”. Management processes are the duty of Team Leader, or Global Lead within a given department.
3. Governance processes are the last type of business processes described by Kirchmer. It includes the processes insuring a full compliance with guidelines, shareholder expectations and legal regulations. Governance processes are usually among other responsibilities of senior managers and executives within the firm. (Kirchmer, M. 2017).

Understanding the Business Operations is a key aspect in the decision making of Business process operations. On the first hand, it will help the company willing to outsource, what are the outsourced opportunities, and how to transfer them in an efficient way. However, in reality the analysis and the distinction of business processes are not as simple as per the models proposed by Von Rosing or Kirchmer.



Figure 2. “The Process Swamp” (Rick L. Click, Thomas N. Duening, 2005)

However, each companies may find common types of business processes. Over several decades, consultants, researchers, experts and scholars tried to define the business processes of organizations. To give some perspectives of the difficulty of this task, on one hand the searchers Michael Hammer and James Champy found 10 principles Business Processes. On the other hand, Peter Keen in the book The Process Edge found more than 100 Processes which he refers to as “the process swamp”.

In the process Swamp one may find business processes of logistics such as inventory management, shipping warehousing, channel management. However, it also includes business processes of Marketing department, Human resources Department or Finance department. Looking at the process swamp developed by Peter Keen provides an indicator of how many opportunities a company may have to outsource its processes. According to a Survey conducted in 2016 by Deloitte, the IT activities remained the most outsourced activities within the participants.

Outsourced Function \	Respondent currently outsourcing	Increase us of outsourcing
1. IT	<b>72%</b>	31%
2. Legal	63%	14%
3. RE and FM*	60%	30%
4. Tax	53%	17%
5. RH	47%	32%
6. Finance	42%	36%
7. Procurement	41%	29%

\*Real Estate and Financial Modeling

Figure 3. Representation of current and future outsourcing strategies across different business functions according to Deloitte Survey (Deloitte, 2016)

We can observe the leading position of IT activities in terms of outsourced services. Even though procurement is one of the least outsourced services in this survey, the incentive to grow is at 29%. It can be interpreted as a growing interest in outsourcing procurement among the respondents.

### 1.1.3 Business Process Outsourcing Definition

As we now understand, the meaning of a process is and especially of a business process is, we may be able to understand what Business Process Outsourcing is. As a primary definition, Business Process Outsourcing, also known as BPO, is a subgroup of outsourcing. It involves the contracting of the operations and responsibilities of a specific business process to a third party provider (Tas, J. & Sunder, S. 2004).

Business Process Outsourcing can be categorized into Back office outsourcing or front office outsourcing. Back office outsourcing refers to internal business functions, which are for instance human resources, bookkeeping, finance or procurement. On the other side, the Front office outsourcing refers to call centers, customer services etc... (Gilley, K.M., Rasheed, A. 2000). This research is focused on back office outsourcing; however, we may observe common practices in the activity transfer.

As per mentioned in the previous chapters, Business Process Outsourcing is a recent and still emerging trend enabled by a boom in new technology. That is the reason that Services providers refer to their activities as “IT-Enables services”. Indeed, according to Carmel & Tija (2005), there is a common denominator between every outsourced business activity, which is the high dependence on IT. However, it is important to not that, even though the processes are dependent on IT, they are not IT activities. By IT-Enables services, we refer to outsource processes made possible by IT. (Carmel & Tija, 2005).

An important indicator and aspect of Business Process Outsourcing is the location. Business Process Outsourcing is usually described as an international relocation of jobs and workplace functions. We can distinguish three types of BPO, which are offshore, onshore and near shore. They are different in their location but also in the function they served. Companies and firms usually use all of the three types, based

on their needs and the BPO initiative that is being implemented. The three types are elaborated on below, with focus put on their specifics, objectives and tactics.

1. Offshore BPO is the most challenging type of BPO type, but it also has the most potentially rewarding outcome. An important distinction is necessary at this point. There is a major difference between outsourcing and offshoring. Outsourcing refers to the action of transferring business activities to another firm regardless of their location. It may be outsourced domestically or overseas (Bahrami, 2009). In our analysis, we go deeper and break down the locations into Offshore, onshore and near shore. Therefore, the difference with offshoring is that offshoring implies that the transfer of the business processes is performed to a distant location abroad. When Outsourcing is mentioned, it is common reaction to think about offshoring overseas. It became popular with the movement of factory jobs overseas, and sometimes has bad reputation. Indeed, it is usually associated with jobs loss, especially for factory jobs. The primary objective by implementing an offshore BPOs is to benefit from the lower wages overseas. Even though the benefits are appealing, it is a long and hazardous process. Some companies, by focusing on the lower wages, neglect the total landed cost. The landed cost refers to the total price of a product or a shipment once it has arrived at a buyer's door. This total landed cost may be applied to a BPO project, as the net wage does not include all the additional costs of having an agent working offshore. In order to conduct it successfully, companies usually operate with companies specializing in business process and work together for one year in a transition phase. The ultimate objective being to transfer fully and not having to assist. From an American company perspective, India, China, Philippines or Russia are usually the preferred location for Offshore BPOs. The functions usually performed are programming, financial analysis and call center (Rick L. Click, Thomas N. Duening, 2005, Kupchan, C. 2012).
2. Business Process Outsourcing may be misleading; companies usually associate it with outsourcing overseas. However, BPO is not always an

international business phenomenon. Many American companies outsource their back-office functions to the United States. Even though the United States of America is a big country, the lower wage argument is not relevant for onshore outsourcing (Rick L. Click, Thomas N. Duening, 2005). The primary advantage is to benefit from the know-how and best practices of the best performers and to gain competitive advantage. Moreover, it is a way to avoid potential threats from offshore BPOs such as language or cultural differences. It may also be a way to benefit from favorable government policies (Outsource workers, 2018). From an American company perspective, onshore BPO usually concerns HR administration or call centers functions.

3. The last type of BPO is near shore outsourcing. It is rather similar to the offshore outsourcing as it is between countries, however the location remains on the same continents. From the point of view of an American company, it implies outsourcing in Canada, Mexico or Central America. The advantage of such BPO is that its implementation is less complex. It offers the opportunity to benefit from a compromise between the advantages of offshoring BPOs and the onshoring BPOs. The company keeps its business functions close to their primary location, but still benefits from cost savings. From a European company perspective, it implies a western European company outsourcing its business functions to eastern countries. The potential risks of communication issues are smaller than the offshore outsourcing but the potential cost savings are also smaller (Rick L. Click, Thomas N. Duening, 2005).

To summarize, it is possible to implement three types of BPOs. If a company selects one type of BPO, it does not necessarily prevent the company from using other types. The primary driver would be the needs of the firm. However, it may result in various advantages and disadvantages following the decision.

#### 1.1.4 BPO Life Cycle

Business Process outsourcing occurs in five phases, which are the Opportunity analysis, the vendor selection, the contract development and negotiation, the transition and the operating phase.



Figure 4. Business Process Life Cycle (Rick L. Click, Thomas N. Duening 2005).

The opportunity analysis refers to the assessment of the potential activities to be outsourced. In this phase, the client needs to classify his business process and to identify the potential activities which can be performed by a third party provider. The approach of opportunity analysis varies from one company to another. This is driven primarily by the fact that it is specific to the need of the company (Rick L. Click, Thomas N. Duening (2005).

Once the client knows what are the business processes their company wishes outsource, the client needs to find the right vendor. This is when vendor selection phase begins. At this stage, the company may contact a third party provider, which could assist in the implementation phase. However, it may also already have a consulting firm helping in the opportunity analysis and vendor selection. Indeed, many third party intermediaries are experts in the request for proposal. A request for proposal is a document that solicits proposal and is usually issued via a bidding process (Blake, Gary & Bly, Robert W. 1993). It is a long and complex process. In theory, the company would benefit from performing a comprehensive benchmarking analysis of the vendors through providing a scope of work document and then awaiting for answers of various vendors. However, it is rare for a company to have the time resource and the budget to engage in a complete vendor selection. It

represents additional cost to hire a third party provider or even to create a team in charge of the vendor selection. Top managers are usually the ones in charge of the vendor selection, and word to mouth is known to be an important indicator in the vendor selection (Rick L. Click, Thomas N. Duening (2005)).

The next phase is the contract development and negotiation. It is a substantial phase in the Business Process Outsourcing life cycle because of the many factors that need to be taken into consideration. The costs coming from the contract are usually based on the FTEs, the infrastructure and the technologies provided by the third party provider. An FTE is a Full Time Equivalent is a unit that indicates the workload of a hired person in a way to have comparable workloads (Eurostat, 2010). It is intended for measurement and assessment of the work involvement in a project and for tracking the cost reduction in an organization. FTE are presented in numbers. For instance, one FTE is 1.0, which is equivalent of a full time worker. It is also common to have 0.5 FTE, which is half of a full time worker (Zimmermann, Polly Gerber, 2002). It is important for the client to understand the above-discussed measurement as it is one of the main cost drivers in the contract negotiation (Gilley, K.M., Rasheed, A. 2000). The infrastructure can be linked with the technologies, as they highly depend on the vendors. Some vendors are specialized on services, and therefore have the right technologies to improve and optimize processes. Therefore, it is important to pay attention to the specialized area of the vendor. Based on the level of expertise the price will change (Rick L. Click, Thomas N. Duening (2005)).

The following stage is the transition phase, also know as the mobilization. It refers to the transfer of knowledge between the client and the third party provider. This stage is a milestone in a Business Process Outsourcing as the third party provider starts to work in cooperation with the client. The objective of this specific phase is to transfer the activities from the client to the third party provider. To make that possible, the first step is the set the workplace. The FTEs will need to have computers installed with the adequate software. It is usually an IT challenge to have similar informatics settings at the client sites and at the third party provider site. Then the processes need to be transferred. There are two ways to pass the



knowledge from the client to the third party provider. On one hand, the client may come to the service provider site and pass on the knowledge. It is a rather common practice, but the shortage of staff from the client perspective may result in a gap in the activity at the client's site. On the other hand, the third party provider may dispatch a team to go to the client site and learn the processes as well as document them (Rick L. Click, Thomas N. Duening (2005).

The transition phase is a key period to build the supporting documentation to teach and lead the new processes. The responsibility of creating these documents is usually on the vendor, as such companies usually have dedicated teams for this matter. The documents to explain the processes are the so-called Standard Operating Procedure, also known as SOPs. It refers to step-by-step instructions aiming at helping workers to perform complex routine operations. SOPs are efficient tools to achieve efficiency, quality output and uniformity of performance (McMurdo 2014). SOPs are usually validated at different level by the SMEs, also known as the subject-matter experts. The SMEs control the accuracy of the SOPs. The transition phase is considered finished when the third party providers' resources are able to successfully perform the processes.

The last stage is the operating phase. It is important to note that the transition phase and operating phase can overlap. Indeed, trainings from the client may still occur during the operating phase, permitting the vendor to become independent from the SMEs step-by-step (Click, R. & Duening, T. 2005).

#### **2.1.5 Potential Positives Impact of BPOs**

The primary focus on this research is offshoring outsourcing. As mentioned in the previous chapter, based on the BPO strategy of the company, it may result in various advantages. These advantages can be classified in five groups. Firstly, come the cost savings, then the benefits of acquiring third party expertise, then focus on core

competencies, then improved flexibility to end with optimization of the processes (Sagoo, Anoop 2012).

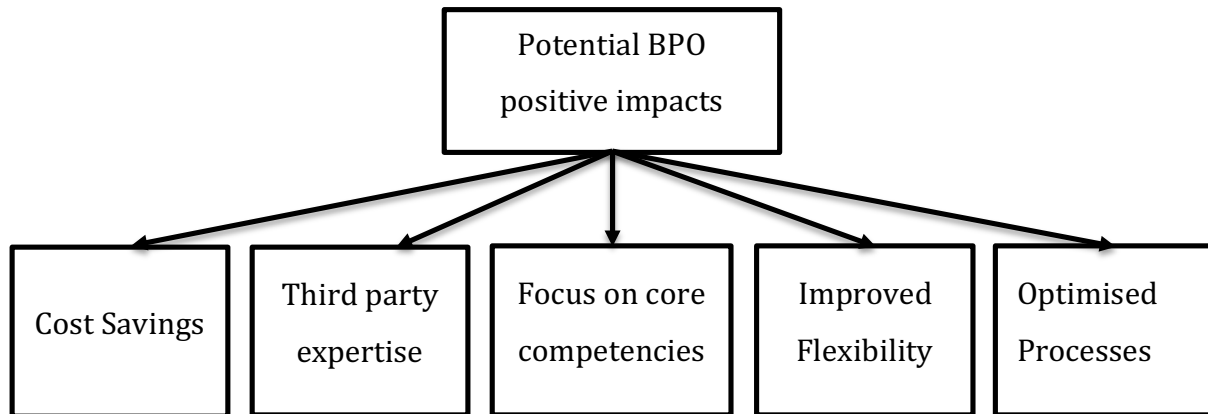


Figure 5. Potential BPO positive impacts.

The cost savings opportunities are usually the main driver for decision maker to implement a BPO initiative. Indeed, the cost savings usually comes from the lower wages of the work force hired or already available abroad. However, it is not ensured as implementing a BPO is a complex and hazardous process.

Benefiting from the third party expertise is a strong driver for companies. We find common business functions in every company; however, the firm may not excel in these functions. It is hard for a company to optimize its resources in all the business functions at the same time. Department such as procurement or HR may have lots of opportunity and area for development, but due to low resources available such as time or budget, companies are not able to improve their performance. The advantage of the BPOs is that the third party provider has the technology and the knowledge in this area. A BPO vendor knows the best practices and the common mistakes. They will provide consulting which is highly beneficial for companies (Forbes Gibb, and Steven Buchanan, 2006).

Implementing a BPO initiative will increase the amount time available. It is known that HR departments or financial departments are usually full of highly occupied people with operational tasks. Thanks to BPO, the managers try to release their

employees from as many operational tasks as possible in order to enable them to do what they do the best. It gives time to its employee to implement projects which was not possible or hard to implement due to the burden of operational tasks (Weerakkody, Vishanth, Currie, L. Wendy and Ekanayake, Yamaya. 2003).

Releasing its employees from their operational tasks increase their flexibility, which is another major driver for decision of implementing BPOs. Indeed, it offers the opportunity to train their employees on various tasks and create human resources that are more agile. Not only will the resource of the company be more flexible but also the company itself. The company can grow peacefully and avoid business bottlenecks. Indeed, the company is not constrained anymore by large capital expenditure. In addition, the contract with the service provider can be adjusted based on the need of the company (Michel, Vaughan, Fitzgerald, Guy. 1997)

The last major potentially positive impact of implementing a BPO is the optimization of the processes. This argument is highly related to the third party provider expertise. As the third party provider usually has better techniques of running these support activities, it will know how to improve them in order to shorten them or making them more effective (Rick L. Click, Thomas N. Duening, 2005).

However, it is important to note that all the above-mentioned potential impacts may vary in their intensity based on the strategy agreed on with the third party provider. Moreover, most of the benefits mentioned usually appears on a long run. In order to fully implement a BPO it may take up to 1 year from the stage of transferring the knowledge to the fully take over for the third party provider. Many costs and threats remain present during the implementation phase.

#### **1.1.6 Potential Risks of BPOs**

As per any project, a Business Process Outsourcing needs to have an effective risk management strategy. Risk management is the identification, classification,

assessment and prioritization of risks (Hubbard, Douglas (2009). Multiples risks appears while implementing a Business Process Outsourcing project. Small failures in the process are common and do not no always correlate to the potential failure of the project as such. However, if the issues persist and implies high costs, it may result in the failure of the project. It can be in such case translated into the withdrawal of the client from the project. It means tremendous loss of money for the client. Based on the level of transfer when the failure occurs, complete reorganization may be necessary on the client side. A BPO failure always affects the third party provider reputation, thus supporting the argument of the importance of an effective risk management strategy to be in place.

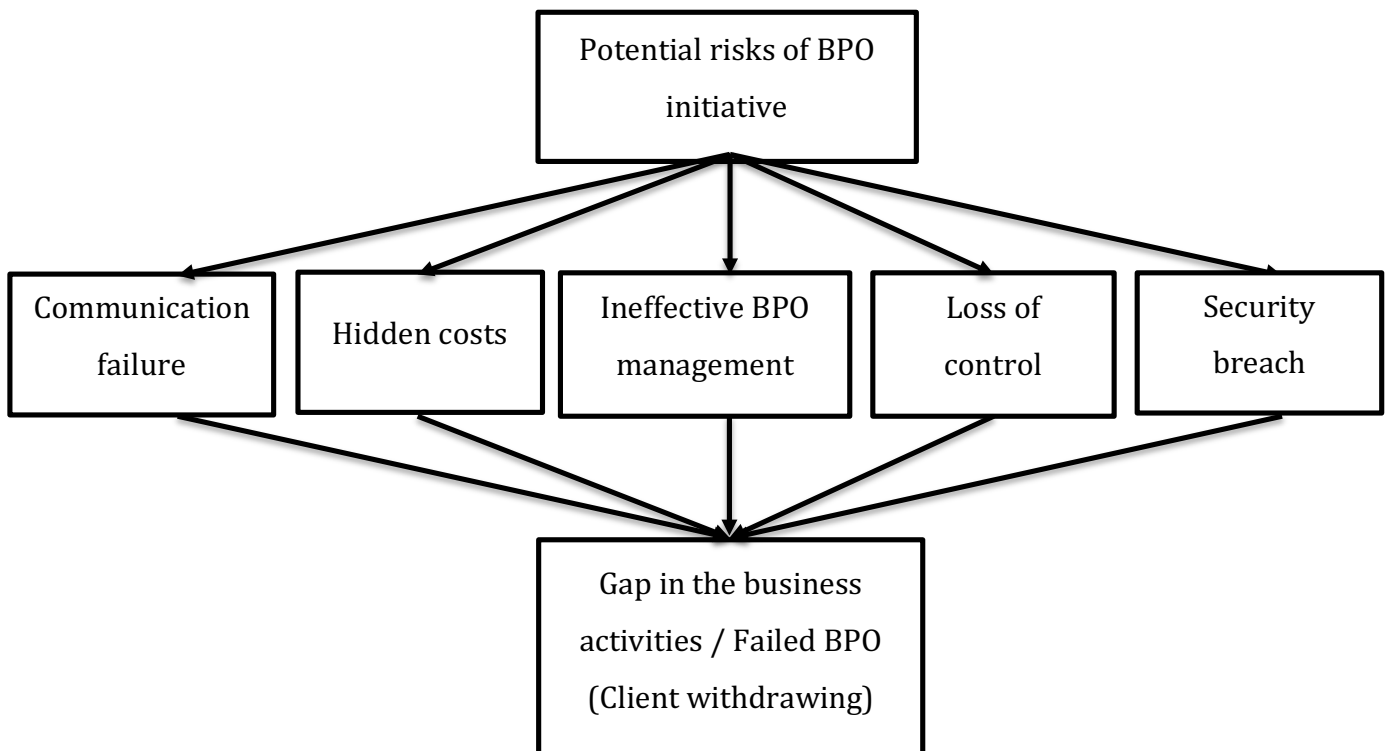


Figure 6. Potential risks of BPO initiative.

It is quite easy to justify the decision of implementing a BPO. However, there are major risks, which may result in the failure of the BPO initiative. In the following paragraph, we are going to explore the area of risks while implementing a BPO.

Moreover, within the scope of this analysis risk in the long run after the implementation phase will be reviewed. Offshore outsourcing faces unique challenges compared to the onshore outsourcing. The reason for that is the international aspect of the procedure, which may at times result in the risk of communication failure.

1. An important factor in the success of a Business Process Outsourcing is to clearly define the scope of work. Before the transition phase, the third party provider needs to understand fully how are the process functioning and what are the exact activities they are going to perform. Therefore, it is the duty of the client to explain and state clearly these activities. It can be concluded, that the communication is a substantial aspect in stage of preparation of the BPOs. The risk becomes higher when the third party providers do not have the client language as their primary language. It may result in misunderstandings (Bunmi Cynthia Adeleye, Fenio Annansingh and Miguel Baptista Nunes, 2004). The outcome of such misunderstandings or misconceptions may only appear in the long run, which can have substantial impact on the organization. A misunderstanding of the scope, may lead to the cessation of some activities if not monitored. The risk is higher when there are cultural differences between the service provider and the client.
2. As mentioned in the potential positives impacts of Business Process Outsourcing, a successful offshore BPO may be rewarding for the client. In the organization phase of the BPO, all the costs are computed and evaluated. Clients usually implement a Total Cost Management Approach. This approach can be defined as a systematic and structured approach to understand the cost of an organization or a project (K S Venkatagiri, 2018). It also refers to the process of identifying and developing a strategy for managing the costs associated with initiating and managing a BPO Project (Nelson D. Schwartz, 2003). Following this approach, the company will focus on the financial costs and the strategic costs. The financial costs include all the hard costs related to activities, which have to be undertaken to

asses, lunch and maintain the Business Process Outsourcing project. The strategic costs are more difficult to quantify, but are necessary to evaluate as they might have a profound impact on the firm's ability to compete. Going forward, it would be a mistake to only consider the cost from the contract with the service provider. It has been proven that every second offshore outsourced project never reaches the expected cost savings, as the company failed to assess the extra costs coming along with the BPO project (Misra, 2004; Dibbern et al. 2008; Carmel & Tjia, 2005; Kharif, 2003; Gewald et al. 2006; Huntley, 2005; Meyer, 2006; Mäkiö et al. 2007). As per McCue claims, the cost might even increase instead of decreasing (McCue, 2008).

We may distinguish four different types of costs in the transition and operating phase of a Business Process Outsourcing project. Firstly, comes the knowledge transfer costs. It can be defined as the cost related to the process of sharing knowledge that is later on used by an adapter (Darr & Kurtzberg, 2000, p.29). The control costs is another extra cost to take into consideration while implementing the Total Cost Management approach. It refers to the costs related to the control of the vendor. Unlike the previous costs mentioned, this cost appears in the operating phase of the business process outsourcing. As the client gradually loses control of the activities, it outsourced the client firm needs to monitor this cost, in order to ensure a constant quality (Dibbern et al. 2008). The last type of cost is the coordination costs. It arises during the transition and the operating phase. In order to create cohesion within the client team the client needs to dispatch a so-called 'middleman' (Mahnke et al. 2008) to enable a smooth transition. In addition, it is common practice to allocate budget for teambuilding.

3. An excellent management is necessary within both the client and the third party provider. Firstly, it will reduce the risk of miscommunication between the stakeholders. Going forward, decent management acts as an enabler for an effective Total Cost Management approach. Therefore, an ineffective BPO management is a major risk. For instance, if the client pressures the

third party provider, through projecting excessive quality expectations or requests an insufficient length of the transition phase, it may result in failure of the project. Therefore, it is important to have a realistic perspective of the project and to implement a feasible strategy, which is possible via a proper management team. A common mistake is to have the management off the ground (Rick L. Click, Thomas N. Duening, 2005). It means that the management team is excessively focused on the opportunities and benefits of a BPO, so they hurry the project and skip critical milestones. It does not only depend on the management from the client side. When selecting the vendor, the client needs to be sure to work with a expert service provider with good reputation and trustworthy (Rick L. Click, Thomas N. Duening , 2005).

4. The communication failure may also be associated with a risk of control loss of the client. Indeed, when the company hands over to the third party supplier the processes, it may loss visibility on these processes on the long run. Indeed, it is rare that a client's employee is present at the service provider site and monitor the activities. Apart from casual quality checks, the client can have visibility on the processes only by the outcomes. The outcomes are usually presented via dashboards. These dashboards include all of the key indicators, also know as the KPIs. The KPI's, Key Performance Indicator, are types of performance measurement. They assess the success of an organization, a department or an activity in particular. For instance, it can be a project, a product, a program or various initiatives (Carol Taylor Fitz-Gibbon, 1990). The most famous are the SLAs. It refers to the service-level agreement, which is a commitment between the client and third party provider. The main aspects of the SLA are the quality, availability and responsibilities which are assessed and agreed on (Kearney, K.T.; Torelli, F. 2011). In another important aspect coming along with the loss of control would be the law compliance failure. Chapter "Regulations of Procurement Operations", is going to present the main legal regulations which a procurement department should ensure compliance with.

Nevertheless, implementation of a BPO initiative always bears a rising risk of fraud.

5. It is critical for companies to adhere to data integrity practices while undertaking a BPO initiative. It is one of the biggest risks during this process, as the client will share openly sensitive data with the third party provider (Kearney, K.T.; Torelli, F. 2011). Therefore, not only the data integrity will depend on client procedures and protection, but also on the vendors' facilities. That is why security measures are necessary, and should be a key criteria in the vendor selection. According to the 2013 trust wave global security report based on 450 global data breach investigation, it has been found that 63% were linked to a third-party component of IT system administration (Ashford, Warwick, 2013).

## **1.2 Operational Procurement Processes**

In this chapter, we present and explain the operational procurement processes. As we saw in the previous chapter, there are many opportunities of outsourcing business processes; nevertheless, this research aims to focus on the specificities of procurement processes. Firstly, the role of procurement in the value chain is going to be introduced. Secondly, key processes within procurement operations that are usually outsourced are going to be selected and analyzed.

### **1.2.1 The Role of Procurement in an Organization**

As the current business, landscape is becoming more and more competitive, top managers are looking for opportunities to stand out and make profits via unexpected channels. Procurement became one of these sources. Top executives saw a substantial nest for competitively in procurement and supply chain management. Unlike other transactional or non-strategic functions, procurement ties directly into the business's profit and loss statement (Chrus Ahn, Rodrigo Sletatt and Ricardo



Ruiz-Huidobro 2012). However, procurement gains higher importance as a strategic department as the company grows. The amount of purchased parts and services will increase along with the company's growth. Therefore, it is necessary for a company to have a solid base of procurement activities. (Baily et al. 2008, p. 10; Iloranta & Pajunen-Muhonen 2008, p. 48-49)

According to Van Weele (2010), procurement is one of the support activities the value chain of a company. The value chain is a set of activities that a company or a firm operating in a specific industry performs in order to deliver a product or a service to the market (Porter, Michael E, 1985). Michael E Porter initially brought the concept of Value chain in 1985. It refers to set of activities, which can be divided into primary activities and support activities. The Primary activities include Inbound logistics, Operations, Outbound logistics, Marketing, Sales and Service. The support activities include infrastructure, technological development, human resources management and procurement (Porter, Michael E, 1985).

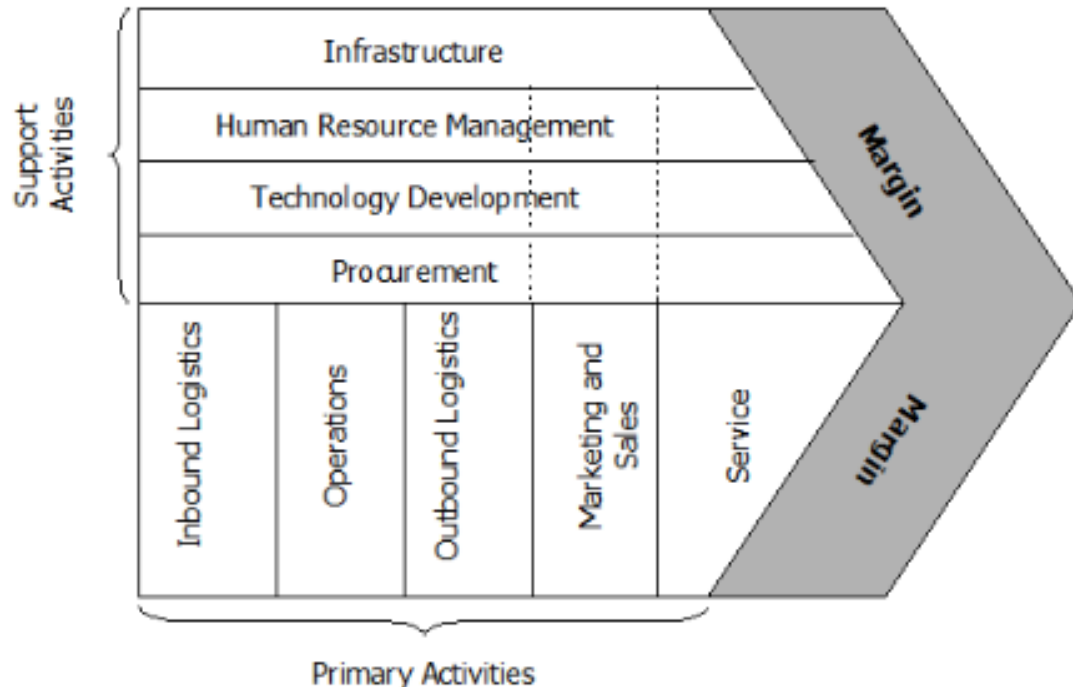


Figure 7. Value Chain Porter 1985.

### 1.2.2 Procurement Definition and Concepts

Procurement was for long neglected and not considered a department as such. Companies could purchase products on the spot by using a credit card or users would disregard the procurement policy. However, with the increase of regulations and global awareness over opportunities for procurements, its scope became clearer and common pattern would become apparent. Procurement is usually wrongly defined as the department that is focused on purchasing things. According to Weele, Arjan J (2010), procurement can be defined as the combination of finding, agreeing terms and acquiring goods, services or works from an external source. The process of acquiring may be done through tendering or competitive bidding processes. The person in charge of this process, the buyer, will ensure to receive goods, services or work on the best terms, in specific quality and quantity (Weele, Arjan, 2010).

Procurement can be referred to as Purchasing or Sourcing. However, in this research paper line is drawn between each of this terms as they have a different meaning. Sourcing refers to the action of searching, selecting, creating contracts and managing the source of supply (Baily et al. 2008, p. 198; van Weele 2010, p. 10). Indeed, as its name implies, sourcing locates the sources of the goods and services a company might need. Unlike procurement, sourcing is comprised of a lower amount of operational processes. Procurement operations, on the other hand, include the acquisitions of materials, sourcing focuses on the best and least-expensive suppliers for the goods. That is for that reason that sourcing is often called strategic sourcing (Kerruish, Chris, 2016). Sourcing is known to be a more tactical process and implies analysis of the market, the environment whereas procurement operations are more operational. Arjan Van Weele in his book *Purchasing & Supply Chain Management* in 2010, defined the concepts of procurement, sourcing other critical concepts.

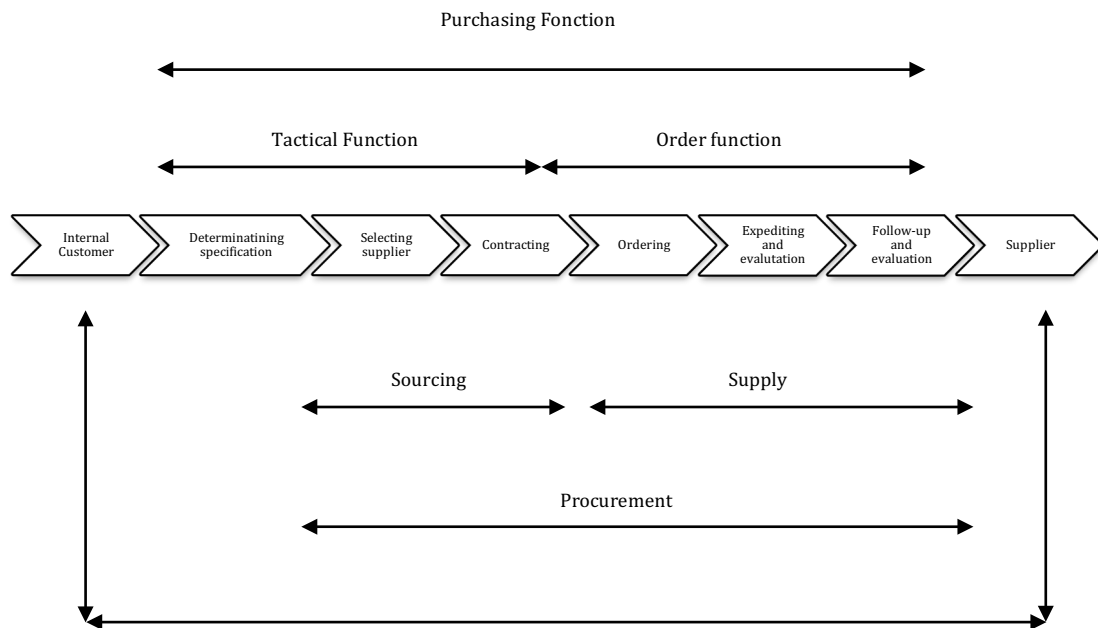


Figure 8. Adaptation of the purchasing model and concepts from Van Weele 2010.

Van Weele defines the purchasing function as the set of activities aiming at determining the purchasing specifications, choosing the best supplier available and developing routines and procedures to make it possible, preparing and conducting negotiations with the supplier in order to create contracts and agreements. Going forward, the purchasing function includes the ordering process, actions of monitoring and control of the order to insure the supply. It also includes the follow up, the assessment and the evaluation of the previous processes and the overall quality (van Weele 2010, p. 9).

The scope of this research paper is focused on the operations within the procurement processes. This includes but is not limited to activities of ordering, expediting, evaluating, order tracking and order follow up.

### 1.2.3 Classification of Purchasing Goods

What does the procurement department procure? It is a simple question; the procurement department can procure everything. The purchasing process takes into consideration large variety of goods and services. It is important to distinguish the various types of goods as the processes may differ depending on the type. Arjan Van Weele made a distinction between eight types of goods and services:

1. Raw Materials refer to materials which have not been transformed or have undergone a minimal transformation. They are the basis for the production process. There is a common distinction between physical raw materials such as iron, coal and natural raw materials such as wood, cacao. The supply of Raw material is called direct procurement (Van Weele, 2010). Raw materials are usually purchased in large quantity and rarely on the spot. The common means of purchasing are contracts and agreements. This is primarily due to the volatility of the prices.
2. Supplementary materials, which are used or consumed in the production process. They are not part of the final product, but enable the production. We can name for example cooling water, lubricating oil, dissolvent or industrial gases.
3. The procurement team can also purchase semi-manufactured products. These are already processed products, which are going to be processed again later in production lines. They are also part of indirect procurement as they are part of the end product. For instances, plastic foils, wooden cork are considered semi-manufactured products.
4. Components are manufactured goods that are not going to undergo additional physical changes, but still will be incorporated in a system including other components.

5. Finished products section encompasses all products purchased with or without other finished products or manufactured products. For example, in the car industry, products such as GPS, Stereo Systems are manufactured products.
6. Investment goods and capital equipment are products not consumed immediately. These products will depreciate during their economic life cycle. Investments goods are usually machines used in the products, computers or cars.
7. Maintenance, repair and operating materials (Also known as MRO items) are items, which are sometimes referred to as indirect materials, or consumable items, represent material that enable the organization or the company to keep running. It can include office supplies, cleaning materials etc.
8. Services are a special kind of orders. Third party supplier or contractors perform services. It may refer to any types of services from temporary contractors for HR operations or an electrician coming to the company to fix something.

Depending on each type of goods, different terms can be negotiated. It may include the payment terms, the price, the lead-time or the incoterms. However, as services are not 'delivered' and cannot be stored, incoterms cannot be applied in this regard.

#### 1.2.4 Procurement Operational Processes.

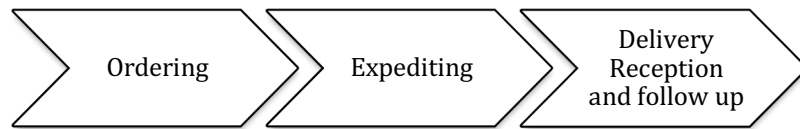


Figure 9. Extract from Purchasing Function (Van Weele, 2010)

This master thesis focuses on the outsourcing of key procurement operational processes. Therefore, it is necessary to present the main procurement processes. As per Arjan Van Weele we can compile them into four groups: ordering, expediting, delivery reception and invoice clearing and payment.

Ordering activity comes after the terms, conditions have been agreed with the supplier, and the order has been approved. The most common way to create an order is the PR to PO process. A PR, meaning a Purchase Requisition, is a document which is created to express the need of a product or a service. It is submitted to a department for validation. According to the organization, the requirements may differ. Moreover, many regulations come into play. This matter is going to be presented in the following chapters. A purchase requisition needs to have the description of the needed products or services. It may also mention a preferred supplier, special delivery date, incoterms or payment terms. The payment terms is a common concept in procurement. It refers to the date when the invoice for this order will be processed and paid. They are generally agreed upon agreement but special payment terms may apply. Common payments are presented as 'N30, N45', meaning 30 days nets or 45 days net after the order was placed etc... (Belverd E. Needles, Marian Powers, Susan V. Crosson, 2010). Incoterms, or also known as International Commercial Terms, are series of pre-set commercial terms relating to international commercial law. It is internationally used in international transactions and procurement processes (Vishny, Paul H, 1981).

Then the Purchase Requisition needs to be converted into a PO. A PO, also known as a Purchase Order is the actual action of buying. This document will be sent to the supplier. We generally speak about conversion of PR into PO, because the PR needs to be approved and review and the information are exported to a PO document. The PO is an important document for the company but also for the vendor as it is the proof of the need. It includes all the information of the company placing the order and the details of the vendor. Based on all the information of the PO the vendor will take actions. Ordering system are nowadays mostly electronic, with PR and PO respectively being electronic documents. The vendor generally provides an Order Confirmation, also known as OC, which confirms the acknowledgement of the PO (van Weele et al. 2010).

The expediting refers to the action of following up with the vendor on the order. It is generally the duty of the purchaser to confirm status of the delivery. The expediting activity is not always necessary. For example, in Europe, the distance between vendor and purchaser is usually short; therefore, the purchaser would need to follow up with the vendor on the delivery only if the delivery date is not met. However, on a global scale, it is common practice for the purchaser to request follow up from the product order (Wood, Donald F.; Barone, Anthony; Murphy, Paul; Wardlow, Daniel Ln 2002).

The next procurement activity is delivery reception. It is to ensure that the suppliers delivered the purchased goods or service as agreed and confirmed this by the order confirmation (van Weele et al. 2010). This activity can be performed either by the purchaser or by the requester, who is the person who created the PR. It varies upon the organizations, but as the requester is usually on site at the production, it is easier for them based on their location and knowledge to perform the delivery reception. At the end of the delivery reception, the person in charge will deliver the good receipt or service receipt, which confirms the product of the service matches the expectation in terms of quality, quantity and conditions.

The last category of procurement activities is the invoice clearing and payment. Unlike the other procurement processes, the invoice clearing and payment is not always the duty of the procurement team. This activity may be assigned to Accounts Payable, also known as AP. In order to pay an invoice, several approvals must be provided. This system is called the three or two ways match. A three-way match is when the PO, the Good receipt and the invoice all match. It results in the payment of the invoice. The two ways match only requires a match between the PO and the Invoice. If the invoice does not match with the PO created, the procurement team will need to adjust the PO accordingly (van Weele et al. 2010).

### **1.2.5 Regulations in Procurement Operations**

Procurement Operations involves the assets of the company and a hundred if not thousands of transactions per day. Therefore, it is an environment conducive to fraud. In the US, in order to avoid frauds and accounting scandals, the Sarbanes-Oxles Act was established in 2002. The bill was enacted following major corporate and accounting scandals such as Enron and WorldCom. However, we might wonder what is the connection between the Sarbannes-Oxles act and procurement operations (Kimmel, PhD, CPA, Paul D.; Weygandt, PhD, CPA, Jerry J.; Kieso, PhD, CPA, Donald E, 2011). The answer is rather simple, four sections in the Sarbanes-Oxley, also known as SOX, act as focus areas for procurement:

- Section 302, relates to corporate responsibility for financial reports and internal control certification require full transparency for the company's financial information, operational transactions and events (Piotroski, Joseph D. and Srinivasan, Suraj, January 2008).
- Section 401 Relating to Aggregate Contractual Arrangement Purchase Obligation reporting.
- Section 404, related to Management Assessment of internal Controls-Process Management and Audibility. This section highlights the importance of internal controls for the purchasing function. It also obliged the executive management to document internal controls, assess the effectiveness of



internal controls and prepare a report for internal controls. This section insures that the purchasing organization implements a control over all the transaction and processes in the purchasing organization (Piotroski, Joseph D. and Srinivasan, Suraj, January 2008).

- Section 409 related to material changes disclosed in a rapid and current basis.

The objective of the SOX act is to limit fraud. Companies need to be SOX compliant in order to operate (Chakraborty, 2009). It is a major risk while outsourcing. As the Purchasing organization will be shaped differently we need to make the organization remains SOX complaint and internal controls keep on being performed (Rick L. Click, Thomas N. Duening, 2005).

It is important to note that the regulations may differ depending the countries. SOX compliance is required only for American companies. However, it does not mean that American companies operating abroad do not have to perform the SOX controls. Indeed, if an American company is operating in Europe, it will still have to perform checks relating to SOX.

## **2 Research Methodology**

The objective of the chapter Research Methodology is to present the selected type of data collection. Topic explored is the role of an in-depth semi-structured interview and its advantages for answering the given research questions. Upon explaining of choice of research approach, the respondents to the interview are to be presented along with rationale and explanations on the reasons they were chosen for this research.

### **2.1 Research Approach Decision**

#### **2.1.1 Qualitative Data and Quantitative Data**

In order to understand the meanings, describe and understand experience, it is generally preferred to use a qualitative research. The qualitative research is a method of observation, which gathers non-numerical data (Babbie, Ear, 2014). It is usually opposed to quantitative research. Quantitative research represents a collection and an analysis of quantitative measurable categories (Petr Kral; Hana Machkova, Marketa Lhotakova, Gina Cook, 2016). It is used to quantify a problem generating numerical data or simple data to be turned into comprehensive and meaningful usable statistics. The quantitative approach is usually deployed in order to assess attitudes, opinions, behaviors and other defined variables. By using the quantitative approach, a large audience can be reached and sufficient amount of data can be obtained for extracting relevant results. Moreover, it is a good way to target special groups. The first step is commonly the design of the questionnaire. Then, group in focus is to be selected. Once done, the questionnaire can be sent and the data will be collected. Upon the data collection step, data analysis is to be conducted (Petr Kral; Hana Machkova, Marketa Lhotakova, Gina Cook, 2016). Examples of quantitative approach are telephone interviews, computer assisted telephone interviews, online research, store tests or face-to-face interview.

However, in order to answer the research questions in this study, it came to an evidence that a qualitative research would be more appropriate. Indeed, the qualitative approach goes more into detail while analyzing a problem. Unlike the above presented approach, it does not only describe the situation but also analyzes the background of the problem instead (Petr Kral; Hana Machkova, Marketa Lhotakova, Gina Cook, 2016). The advantage of this approach is that it looks for explanation for the situation or behavior and for causalities. It also provides insights into the problem and helps to understand and develop ideas (Given, L. M., ed., 2008). When the quantitative research is answering to who, what, how much the qualitative research answers to why. Therefore, as the questions are different the methods of research are also different. It is generally more difficult to implement a qualitative research method as it is more time-consuming and costlier. However, the size of the sample in the qualitative approach is smaller than the one selected for the quantitative approach (Given, L. M., ed., 2008).

We may use questionnaire in the qualitative research, but the questions are different in their formulation. The objective of the questionnaire is not to limit the respondent but to enable him or her to answer extensively. The goal is to offer the respondent the possibility to express themselves. Therefore, the researchers use mainly open-ended questions. Just like the quantitative approach, the researcher needs to first design its questionnaire and select the sample. However, once the data is collected the analysis is more difficult. The results are usually obtained in a form of unstructured data, which cannot be analyzed by the application of simple statistical methods. Therefore, it also takes more time to analyze. Consequently, the results are usually presented in form of reports. These reports present the most common and most inspiring answers and do not use charts or tables. Multiple methods of qualitative approach can be used such as the in-depth semi-structured interview, focus groups, projective techniques or Delphi study.

It was clear that the qualitative approach would be the best research method to answer the research questions in the given research paper. After selection and

comparison of the different methods within the qualitative approach, the in-depth semi-structured interview was selected.

### **2.1.2 In-Depth Semi-Structured Interview**

In-depth semi-structured interviews is a common method of qualitative research. They usually last longer than a quantitative personal interview. Usually, the interviewers or researcher will use an outline of interview instead of a questionnaire. That way, he or she will be able to change the order of the questions based on the response of the respondent. Unlike the interviewer in quantitative interview, the interviewer in the qualitative research plays a substantial role for the success of this interview (Petr Kral; Hana Machkova, Marketa Lhotakova, Gina Cook, 2016). Indeed, the interviewers needs to be experienced and have understanding in the topic and the purpose of the research. As the interviews are usually long, they are then recorded in order to make a comprehensive and extensive analysis of the interview afterwards.

It was decided to conduct two interviews by the author. In order to collect extensive and comprehensive qualitative data, it important for the interviews to be conducted by a professional, or someone having experience in the field. The respondents' profiles are presented in the next sub-chapter. As they are working in the same organization as the author, it was easier contact them, and it would help the facilitation of the communication. Moreover, they would remain available in case more information would be necessary.

Both interviews were conducted the same week in order to make it easier to focus on the same research areas. Moreover, the findings from the first interview would help to conduct the second interview. This is due to the fact, it would insure the full coverage of the research questions, as the author is able to adjust the questions for the second interview in accordance to what information he had obtained in the first one.

## **2.2 Respondent Profiles**

In order to collect as many valuable answers as possible to answer the research questions, it was decided to interview two experts in the field of Business Processes Outsourcing of procurement activities. The respondents were selected based on a list of criteria. The respondents need to have at least 5 years of working experience in Procurement operations or Sourcing, and at least 3 years in the Business Process Outsourcing industry. The respondent need to have filled a senior role. Moreover, it would be preferable to have respondents with academics awards, such as Bachelor or Master degree in the field of Business, Finance or Supply Chain Management. Both of the respondents in the following chapter will be presented.

### **2.2.1 Respondent A**

The first interview was conducted with Respondent A. Respondent A is currently a Senior Analyst in compliance policies. She has been working with Accenture for 7 years and worked in procurement for the last 3 years. Her first experience was in the acquisition of new deals in Operations Outsourcing. She started to work for a special department within Accenture which is called Industry Specific. Industry Specific refers to all the activities which cannot be included in any clear portfolio. Within Accenture we may find 3 major portfolios in the Business Process Outsourcing which are Finance and Accounting, also known as FNA, Procurement and also Human Resources. Respondent A worked for a deal with a public organization, but it was still an outsourcing project. However, it was related to administration for a project funded by the European Union and not procurement. She then became a team lead. Then she moved to her new and current role, which is related to supporting compliance.

Respondent A was contacted for the interview as she has a strong experience in operational procurement. The author worked together with her on a newly acquired project and assisted our team in the knowledge transfer period. Respondent A would bring previous insights and advice on Business Process Outsourcing.

Despite her current focus is mainly on policy compliance, per her experience she worked as a team leader for operational procurement projects, and assisted in three knowledge transfer periods and transition phase.

### **2.2.2 Respondent B**

The second respondent will be referred as Respondent B. who is currently filling the role of Procurement Lead for Prague Delivery Center. His entire career was in procurement. He graduated in London with a major related to procurement and global supply chain. His first work experience was for providing indirect procurement services for companies. It was mainly focus on internal clients and internal stakeholders. His role was mainly serving manufacturing and other business units. Procurement outsourcing came to him as an interesting area to evolve into. One of the reason for this was that unlike service providers that work for many clients, working for internal stakeholders was limited in the possibilities. Stating him that “Outsourcing services essentially gives you a broader spectrum of opportunities”. According to Respondent B, working for outsourcing services gives you the opportunity to explore different industries, different types of procurement policies. The disadvantage of working for internal stakeholders, meaning in one company, is that the procurement goals are standardized and it limits your ability to grow in that area. Then, respondent B moved to an outsourcing provider, with a focus on direct procurement. The role was category manager with a special expertise on MRO, Maintenance Repair Order. During this experience of two and a half years, his role was focus on upstream procurement, which is the front office.

In the outcome and analysis chapter, the different approach of procurement that Respondent B brought will be presented. He defines upstream procurement all the activities including category management, client stakeholder’s management, client relationship management, category planning strategy and strategic sourcing. Moving on, through evolution and opportunities, he moved to the rest of the offering of the company, which is the downstream part of procurement, meaning procurement operations. This opportunity came to him as his predecessor left the companies and

his management encourages him to take over the position. This is the position he is currently having.

Respondent B was selected for the interview as his experience in both upstream and downstream procurement and outsourcing services was making him the best candidate. Respondent B made himself available and brought precious insights in the research.

### **3 Outcome and Analysis**

The research paper was focusing on answering three major questions. Firstly, the aim of the search was to know *What are the companies' incentives to outsourcing?* then *what are the common practices of outsourcing procurement operations?* And *how to optimize it?* In order to answer these questions comprehensively, these questions were broken down into a multitude questions. The questionnaire used to lead the interview is available in the appendix for future reference. The purpose of the questionnaire was not to limit the discussion but to make sure to broach all the topics. That is for that reason that the questions in the interview and the one on the questionnaire might differ. In addition, the respondents might have brought up different topics than the one required for the research. However, it remained relevant to the global topic of the research.

It was decided to present the outcome and analysis together. This is due to the fact that, it is easier to understand the context if the answers of the respondents are presented and analyzed at the same time. In addition, in order to keep a coherent frame, the outcome and analysis chapter were divided into sub chapters that present the various topics discussed during the interviews.

## **3.1 Different Approaches of BPO and Procurement**

### **3.1.1 Distinction between BPO and BPS**

In the interview with Respondent B, the first thing discussed was the definition of Business Procurement Outsourcing. As we saw in the theoretical chapter, Business Procurement Outsourcing was defined as the contracting of the operations and responsibilities of a specific business process to a third party provider (Tas, J. & Sunder, S. 2004). However, today the BPO became BPS, Business Process Services. According to Respondent B, the name BPO, Business Process Outsourcing, was not so representative of their activities. Respond B claims “we call them BPS in short Business Process Services. The more traditional acronym is BPO, Business Process Outsourcing, this actually have been changed about a year ago, and I think it gives more significance to what we do, because it’s not only outsourcing but it’s also providing a service”. There was too much attention on the aspect of outsourcing, which is not the only components of these area. Business Process Services better describes these activities because it provides actual services. The same dynamic could be found in the interview with Respondent A. Respondent A barely used the word BPO.

### **3.1.2 Different Definition and Frame of Procurement Activities**

Another difference, which stood out while conducting the interview, was the perception and approach of procurement activities. According to Weele, Arjan J (2010) is the combination of finding, agreeing terms and acquiring goods, services or works from an external source. This definition was brought in the theoretical part to define procurement. While conducting the interviews, it was found that both respondents could relate to this definition. However, the perception of division of tasks in procurement differed from the one presented by Weele, Arjan J. Respondent B was referring to Upstream Procurement and Downstream procurement. According to Respondent B, upstream procurement refers to all activities such as category manager role, client stakeholders’ management, client relationship management,



category planning and strategic sourcing. He gathered these activities in Front end or front office. In the opposition, the downstream part included procurement operations. In the same manner, It was found that the same representation with Respondent A interview. The perception of procurement as a set of activities was close to a circle, whereas the representation of Weele was a straight line.

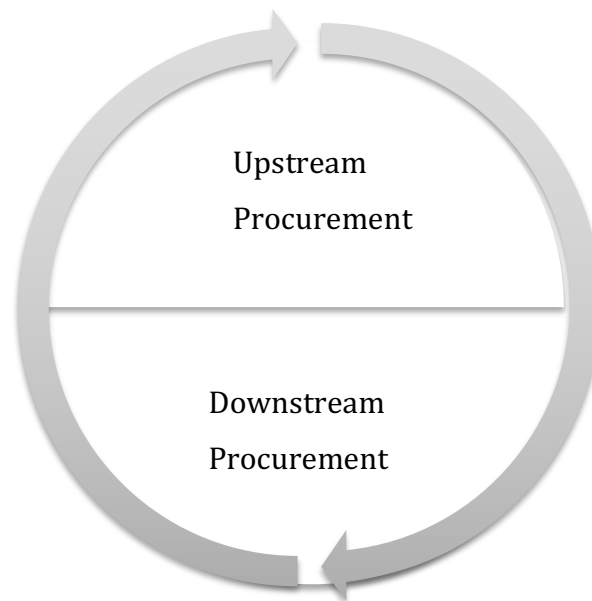


Figure 10. Representation of Procurement as per Respondent B and Respondent A Description

Upstream procurement refers to analytics, sourcing, contract and analyzing the expenditures. Whereas the downstream processes include the purchasing (Requisition processing, contract compliance, order management or catalog management) and also payment activities (Jones, D 2015). The upstream Downstream approach of procurement not only differs in the perception of the activities, but also in the activities themselves. Weele does not include the activities of invoice processing, invoice payment etc.... These activities are bundled under the name of Accounts Payables, also known as AP (Schaeffer, Mary S. 2007). Both Respondent A and Respondent B included these activities in procurement operations. They are parts of the offering to clients when visiting a third party provider.

## 3.2 Major Incentives of Companies to Outsource Procurement Operations

Respondent A	Respondent B
<ul style="list-style-type: none"><li>- Savings due to usage of less FTEs</li><li>- Change management</li><li>- Standardization of processes</li><li>- Improvement / streamlining processes</li><li>- Expertise</li><li>- Centralization of procurement</li></ul>	<ul style="list-style-type: none"><li>- Savings due to using lower amount of processes</li><li>- Expertise (Sourcing, internal control, procurement)</li><li>- Better visibility on expenditures</li><li>- Automation and Business intelligence</li><li>- Improved Data protection</li><li>- Creating/Developing the procurement policy</li></ul>

Figure 11. Key findings of companies' major incentives

### 3.2.1 Savings via Less Resources

Respondent A mentioned that the primarily reason for companies to outsource is primarily for the savings. Indeed, Respondent A stated, “first and foremost, it would be the savings. Yes, definitely savings are number one, because if you are going for outsourcing you are going from a local ownership to a more centralized one”. According to Respondent A, the clients goes from a local ownership to a more centralized. This refer to the fact that a client will not anymore have his procurement operations spread per regions or even per plants or legal entities but centralized into unit. This unit might be split into sub units to divide the workload in a coherent way, but the FTEs can be shared, which results in less cost. Respondent B. also mentioned this idea. According to Respondent B, the client looks for a provider that

can move a project from 10 people to 5 people, but not only. Many other advantages can come out of an outsourcing contract.

Respondent A also highlighted the fact that an outsourcing project is not always cheaper. It is important to calculate the longer terms benefits.

### **3.2.2 Standardization and Improvement of Processing**

On the procurement operations perspectives, a major benefit was the standardization and the improvement of the processes. Respondent B mentioned that the third party provider will first take over the processes and make sure the knowledge transfer occurred without any knowledge gap. Only when the processes and the operations are stable, the processes improvements can occur. The improvement goes by streamlining and standardizing the processes. The streamline of the processes refers to the act of making sure the processes are following clear defined steps in a chronological way.

Respondent A emphasized the above-mentioned aspect of improvement. According to her, there are two ways to reach it. You can on one hand standardize and on the other hand improve. The key to improvement is in understanding and measuring. Regarding standardization, it is usually easier. The first step is to move from many procedures to as few procedures possible. For example, Respondent A mentioned that sometimes, for similar processes, there can be 20 procedures, and therefore it is an opportunity to bring them into one. This option becomes evident because the third party provider has a high level of review. This view or perspective is not always possible from the client side. Therefore, this is one of the ways the third party provider can improve the process. Just like Respondent B, Respondent A said that this stage of improving the processes usually occurs after the stabilization phase, this is only then, that the third party provider can start with digitalization, automation, shorter process, business intelligence etc....

### 3.2.3 Automation and Business Intelligence

The scale is a major difference between the clients and the third party provider. Respondent B highlighted that fact because a third party provider has the capacity of investing in assets and technology, it can benefit its core competences. Procurement operations is a core competency of the third party provider. Meaning, the third party provider invested in tools such as automation or business intelligence. Business Intelligence refers to the technologies and strategies used by companies' data analysis of business information (Dedić N. & Stanier C. 2016). Automation refers to a technology by which a process or procedure is performed with minimum human assistance if none (Groover, Mikell, 2014). Clients usually do not have it, while it would save them substantial efforts in terms of time and financial investment. According to Respondent B, these automations tools are brought for compliance check on requisitions, automations in PO creations etc.... Another aspect is that the third party provider needs to improve the processes in order to create an environment of automated transactions, so only exceptions are then to be managed by spot buys creations.

### 3.2.3 Expertise

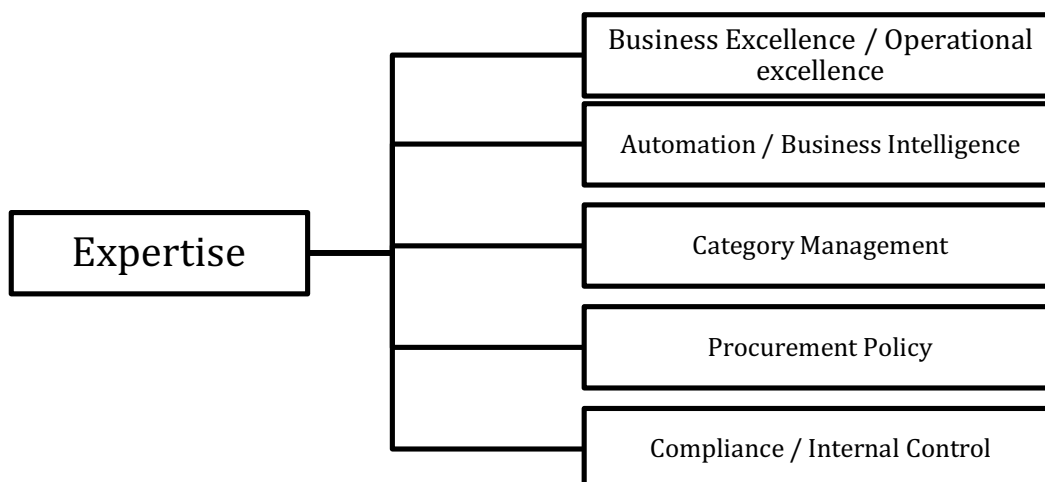


Figure 12. Main area of expertise related to Procurement

An aspect of Business Process Outsourcing brought by both Respondent B and Respondent A is the expertise delivered by the service provider. This expertise is not always accessible only by the clients themselves. This is an aspect which is also substantially reflected in the theoretical chapter. During the interview we talked about the maturity of a company. The maturity of a company or an organization is defined by Vicente Aceituno, by the measurement of its ability for continuous improvement in a particular discipline. In our case, it is procurement maturity. Respondent A mentioned that knowledge that can be brought to a company might differ from its maturity. Not all companies have a high maturity on how to run compliance for example. When the client looks for a service provider having competencies in this field, and worked with many companies, this client will be get access to the experts. Based on the maturity of the companies, not all of them can have such experts. By reaching out to a third party provider, the company can have a higher maturity. This idea was reinforced by Respondent B, as he defined that the key value proposition is in the expertise. Nevertheless, Respondent B made the distinction between the upstream procurement and the downstream procurement. The expertise can usually bring more benefits to the upstream procurement. The third party provider by having more experience and bigger scale will have more connections and more exposure to the market and business intelligence. Client is rarely in the possession of such scale and relevant experiences in the field.

#### **3.2.4 Compliance and Procurement Policies**

In the previous chapter, we saw that compliance is an important aspect of procurement operations. It is crucial for a company to develop a solid procurement policy in order to be compliant with SOX regulations for example. Compliance can be improved by better process or automations. In general, Respondent B mentioned that procurement is not part of the client core strategy, therefore is it usually left unmanaged, especially in terms of compliance from a processes perspective. He also added that companies tend to take lower risk by outsourcing their activities to

experts and providers, as they bring all the technologies, scale, skills and people so the clients do not have to invest and do it themselves.

It has been presented that many leaks of data can occur in relation to an outsourcing contracts. This is for this reasons services providers became more diligent and took extra care in security field. Respondent A highlighted that the compliance is a substantial aspect of an outsourcing project. Third party provider is aware that highly confidential information or data are shared. Therefore, they ensure that the compliance is run in the most optimized and legal way. The main risks to avoid are money laundering in procurement operations. Moreover, it is important that the client feels safe. Therefore, a key aspect of compliance is the division of roles. The division roles, also known as the segregation of duties, refers to the concept of having more than one person to complete a task. That way there is an internal control, which mitigates fraud and errors (R. A. Botha and J. H. P. Eloff).

### **3.2.5 Better Visibility on Spends**

Another aspect of Business Process Outsourcing is that a by running compliance check and overall being more focused on the procurement operations, the third party provider will be able to give more visibility in the spends. During the transition and operating phase of the project, the third party provider needs to report their activities to the client. It is executed via KPIs, Key Performance Indicators. These key performance indicators will provide previous insights of the procurement activities of the companies, which includes the spends, savings etc.... Respondent A highlighted that savings is not the only indicators in the BPO project. Bringing value is not necessarily bringing savings.

### **3.2.6 Change Management**

While the first major reason for a company to initiate a BPO project was the savings, according to Respondent A, the second one would be the change management. According to her, when a company wants to bring something new

within its organization or simple changes within its processes, it results usually with a struggle within the employees of the company. By implementing a BPO project, the company is assisted in its changes. The reasons of the difficulties of change within an organization can, at times, be driven by job losses at the client sites, as job tasks are determined obsolete. Simply, it can be due to mental conception of people that the change and the unknown can be frightening. Respondent B refers to this aspect of the BPO as pockets resistance. Indeed, when a service provider tries to change the processes of a complex organization, with multiple countries, stakeholders and users involved, the pockets of resistance are imminent. Respondent B also agreed on that point and added that most of the projects have change management agents which provide support on the ground. Their objective is to change people perception of outsourcing during transition phase.

The change management aspect was briefly mentioned in the theoretical parts in the chapters explaining how BPO can improve the flexibility of a company. Many of these benefits and reasons for companies to initiate a BPO may or not appear. As Respondent A said, “there’s no full ensuring of savings” by implementing a BPO. In addition, some benefits can appear only on the long run and in different way than savings. According to his experience, a contract needs to last at least 5 years in order for the client to start seeing the concrete improvements and benefits from the positives outcome of a BPO.

### **3.3 Decisions Process of Outsourcing Procurement Services**

#### **3.3.1 Make or Buy Decision**

In the theoretical chapter, we divided the Business Process Outsourcing into 5 main stages as per Rick L. Click and Thomas N. Duening work. The first stage was identifying the need, followed supplier selection and contract negotiation. The last stages were transition phase and the operating phase. Such topics as need identification of a client for Outsourcing, the vendor selection and contract negotiation were touched upon in the interviews. While discussing these stages,

Respondent B interrupted in order to emphasize that the first stages might occur at the same time. According to Respondent B, it is important to consider the make or buy decision. It often occurs that potential clients come to the third party provider wondering if it is relevant or not to outsource. This is crucial for the third party to invest efforts at this stage to convince them that the BPO project is necessary. Respondent B added that it is common for a client to come with the “mind-set of waiting to be convinced”.

### **3.3.2 Roadmap to Outsourcing Procurement**

According to Respondent B, typically if procurement is involved, it is because the client aims to outsource procurement, finance and accounting. This refers to the decision of the client to outsource specific services. Respondent B explained that in the company he worked for, he had clients with whom he worked for years of FNA outsourcing projects, when they suddenly decide to outsource procurement. In addition, it can be done via years of discussion and analysis of the company and the third party providers convince the client to outsource their procurement operations. Respondent B gave the example of sometimes decision of outsourcing procurement operations can occur over a coffee. The client may share that he is currently facing some issue with his or her procurement departments and the third party provider would present their set of services related to procurement that could target these specific issues.

As mentioned by Respondent B “There is no science behind it”, when it comes to the decision of outsourcing procurement activities. It is purely based on what the clients want. In the attempt to find a pattern in the decision-making process of the client to outsource first certain types of procurement operations over years, Respondent B highlighted that there appears to be no clear path. Sometimes the clients may be looking for expertise in category management, which is the upstream part of procurement, or sometimes they can come with the idea of clearly outsourcing their procurement operations.



### **3.3.3 Distinction of Outsourcing Direct and Indirect Procurement**

Respondent B mentioned that there is an important distinction to make between direct procurement and indirect procurement. Indeed, according to him, it is important to know that companies outsource primarily indirect procurement as opposed to direct procurement. Direct procurement is usually part of the clients or companies core competences and is also their main know-how. It is close to their strategic activities and their strategic objectives. Therefore, they are usually reluctant to outsource it. He added that the expertise in category management are related to indirect spends. Respondent B noticed that in his previous job with other companies, that direct spend and direct procurement was usually very generalistic and were performed by a group of people that were good at buying but from the theoretical perspective. Meaning, they were good at aggregating spends, reducing the supply base and going after long terms contract and building relationship with the supplier.

After questioning if there would be a trend of direct procurement outsourcing, he answered that in his nine years of experience, he has not seen any. He never saw a company outsourcing its most strategic components. However, he noticed a different trend in the client demands.

### 3.3.4 New Trends in Clients' Demand

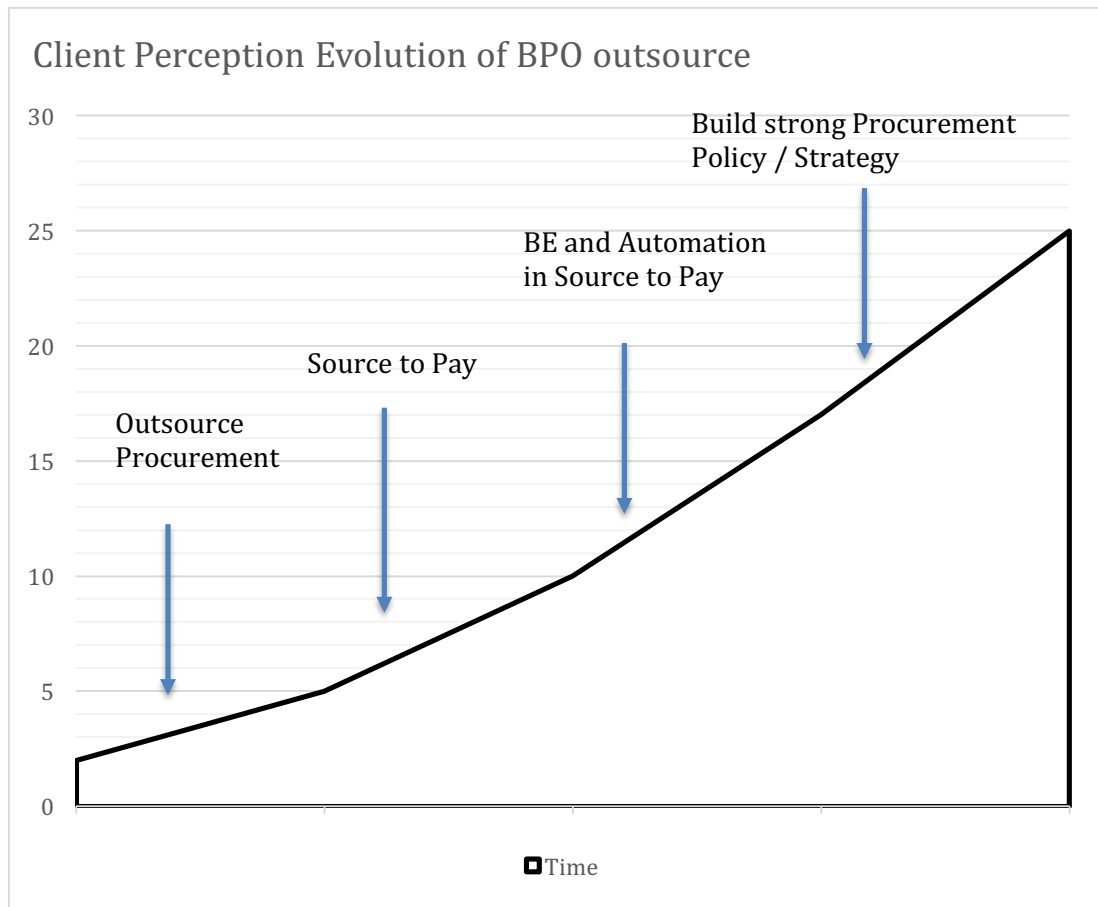


Figure 12. Representation of Shifting client's mindset overtime towards BPO potential

While asking about the trends in procurement outsourcing demands, two major trends were standing out from the others. According to Respondent B, the first one is that instead of looking for part of the offer, clients tend to outsource the entire procure to pay / source to pay process. Outsourcing the entire procure to pay means that the third party provider takes over all the processes from the contract management to the invoices payment. It refers to the acquisition of some upstream activities, and the complete downstream cycle.

The second trend mentioned by Respondent B, is the shift in the client's mind set on the quality of the offering. Respondent B highlighted that it is a change not only for

the current company he is working for but for the whole market. Generally, Respondent B noticed that for procurement, the clients are now more looking for higher standard of compliances and understanding on how their money is spent and also analytics. He added, that it usually comes from a reward in their efforts. So the difference is that when the clients used to only look for better yields, they now also seek for automation, analytics and better compliance. It can be interpreted as a global increase in procurement awareness. Companies become more aware of the opportunity of procurement and its strategic value.

### **3.3.5 Third Party Provider Strategy in Negotiation**

We discussed the topic on how to convince the client to go for a Business Process Outsourcing project. According to Respondent B you need to ‘take their pain out of their pain points’. The pain points refer to the activities where the client is struggling. Then, as per Respondent’s B statement ‘bombard them with all the tools, process and expertise which could be addressed to their pain points’. This strategy is based on showing all the technologies such as automations, or resources which the third party provider has and that the client cannot or does not want to afford. Then, you need to demonstrate that only with these resources the client would be able to reach their goals. In other words, by showcasing their assets, the third party provider demonstrates to the client that it would be senseless for them to want to do it themselves.

Respondent A draw a parallel to the above observations and emphasized the importance of the client visit. The client visit is the part when the potential client is coming to meet the third party provider with a goal to understand how does the third party provider works. The client visit was highly recommended in the theoretical parts, with multiple sources of literature proposing it. These findings were further validated through the interviews conducted. As Respondent A stated, the client can have a overview of how the service provider works, and what is its company culture. Respondent A emphasized on the importance of understanding and “feeling” the company culture. Indeed, as the third party provider becomes part of the company

and they will collaborate with the client, it is important to share similar values. This stage is highly important for both sides, the client and the service provider. Because, if there is a contract, both parties will need to collaborate. If the client does not like the third party provider culture and does not feel they could work together, then it is not likely it will result in a contract.

Going forward, Respondent A also added that it is not only the client visit that matters in the negotiation. It is important for the client to define and for the service provider to understand the scope, and how it is relevant in terms of financial side of the question. It might differ from one service provider to another, however it is not very likely that a small company would consider outsourcing. In the same manner, it is not usually beneficial a third party provider to initiate a BPO project for a small cope or small company. In order to understand the scale, a small scope would an outsourcing of only 4 to 5 FTEs. Respondent A distinguished two major components of the scope of the project. It can be the geographical scope and also the activities scope. This negotiation is usually performed by consultants or a consultancy team. They will assess if the project is viable for the third party provider. However, as we saw in the theoretical parts, the consultants can be external of both the third party provider and the clients. They could be working for the client as an intermediary.

Respondent B highlighted that the client may or may not be confident in outsourcing when the client visit occurs. However, even though they may want to outsource, their scope might not be defined yet. This is also due to the fact that they don't know what is offered. The clients may not be aware of the offerings on the market. It is important to bear in mind that the client may also not be aware of all the new technologies etc.... Then when the client visit occurs, they do not necessarily want more. They may, instead, realize that they need less than what's offered. Based on the adjustments of the needs, the third party provider will design a "package". Respondent B refers to this step as the "solutioning stage". The third party provider prepare a package designed specifically for the client needs.

### 3.4 Transition Phase

#### 3.4.1 Transition Phase Structure



Figure 13. Transition Phase milestones

The theoretical chapter has showcased that the transition phase was composed of the knowledge transfer, gradual taking over of processes etc.... However, Respondent A added some distinction and some more details to the model proposed in the theoretical part. It is important to note that the model described by Respondent A is specific to the organization where she is working. Nevertheless, it gives a general overview of the actions to follow and complete during the transition phase.

First off, Respondent A distinguished two teams in the transition phase which are the mobilization team and the delivery team. It is a first difference with the model proposed by Rick L. Click and Thomas N. Duening. In the theoretical model, only one team is recommended to lead the transition phase. According to Respondent A, the mobilization team should set up the whole program of the transition phase. The delivery team should then build what has been designed by the mobilization team. In other words, the delivery team creates based on the mobilization team's framework. The framework has many aspects. It includes what will be the processes, what will be the scope, what will be the technology used, what will be the people, where are the people going to sit etc.... The special aspect of the mobilization is that the third party provider manages the takeover for a specific period of time and leaves. Respondent A also added that the mobilization can be broken down into many teams, focusing on various aspects. These aspects can be the technological part. This refers to the technological team. There are also the global/design process owners, who are in charge of capturing the knowledge. There is a recruitment/HR team etc.... The delivery team will come once they can start to work. When the delivery team starts working, the stage is marked to be the kick off. The mobilization team

bears the responsibility to decide whether or not the project is ready for the kick off. The kick off consequently entails the beginning of the knowledge transfer, then the next milestones is the go live. The go live is the beginning of the operating phase.

Another aspect brought by Respondent B is the decision of how to perform the knowledge transfer. It was described in the theoretical chapter that the knowledge transfer can be done on site or remotely. According to Respondent B, this decision is based on the complexity of the process and the cost. If there's decision of an on site knowledge transfer, it will be then budgeted and added to contract. If the processes are not complex, the client may decide it is not worth it doing it on site and simply doing it remotely.

### **3.4.2 Collaboration**

After discussing the first stages, the interviews were shifted to focus on the transition phase. The objective was to understand what are the main drivers for success and the indicators to pay attention to during this phase. The first driver which became evident following both of the interviews was high collaboration. As stated Respondent B "The first thing you need to pay attention to is the collaboration between the client and you". He emphasized on the importance of having an open channel of communication and ensuring there is sufficient transparency. Moreover, it is substantial to have both sides willing to make things work despite the difficulties on the way. If at any point degree of collaboration starts to decrease, it will bring the transition phase into a negative direction. One important aspect of a BPO, is that the people initiating the BPO idea and buying in are at the management level. They might be convinced, but it might not be the case for the rest of employees in the organization. This component is tricky to manage and might impact the collaboration in some cases.

### 3.4.3 Client Site SME

Another major component for success is to make sure to involve the relevant parts on both sides. Respondent A explained that it is the key that not only the team on the service provider part, but especially a solid team on the client side are involved. The reason for that is to ensure a clear understanding of the processes. It is not possible to take the processes without understanding. Making sure there is a clear understanding of the processes is a very demanding part from the client side. The risk would be if the client does not select the people with the proper knowledge and the proper time. If the SMEs selected are not available, the service provider team might not have answers for each of their questions and might create an understanding of the processes different from the one of the client. This would lead to process gap and learning backlog. Therefore, it is important to have defined stakeholders. Moreover, Respondent A, emphasized on the importance of an escalation matrix. The escalation matrix is built with the clients and lists the specific contact points when a problem occurs. It can be effectively used by both parties.

### 3.5 Best Practices for Success

Respondent A	Respondent B
<ul style="list-style-type: none"><li>- Solid Team on the Client Side</li><li>- Ready technology features</li><li>- ERP system stability and uniformity</li><li>- Constant Collaboration</li><li>- SOPs and Escalation Matrix</li><li>- Effective Project Management</li></ul>	<ul style="list-style-type: none"><li>- Collaboration</li><li>- Change management team</li><li>- Milestones and exit criteria</li><li>- Transition Phase is the key phase In a BPO project</li></ul>

Figure 13. Key findings for best practices for BPO project success

#### 3.5.1 Ready technology

While discussing the best practices in the transition phase. Another key point was the technology. According to Respondent A, it is crucial to understand the technology that is being used, and how people are in the team in order to set up the team on the service provider site. It can become a major risk if the technology aspect is not taken into consideration. Respondent A specified that sometimes clients start to use new technologies, such as Copa or Ariba, but it needs to be synchronized with the outsourcing project. It can be a waste of time and resources if the client does the knowledge transfer with Oracle and then decides to move to SAP a month later. These points were also emphasized by Respondent B. The ERP system is a Key aspect of the procurement Outsourcing. ERP, also known as Enterprise Resource Planning, is an integrated management of core business processes. It is often in real-time and is composed of soft wares and technologies (Imajali, Dmaithan, 2016). Procurement operations are built around the ERP and are very dependent of it. If the



clients do not have the right ERP system or simply do not have any, it will make the transition phase more complex and longer lasting.

### **3.5.2 Importance of SOPs**

During the transition phase and especially during the Knowledge transfer, there is a clear distinction between the processes that fall under the responsibilities umbrella of the service provider, and the ones, which are the duties of the client. This distinction becomes especially apparent when drawing the process maps. According to Respondent A, some processes can be more complex than expected and there might not be enough time to train the team. Therefore, the scope can be adjusted, some activities will not be taken over at the same time as others, and some region will not go live at the same time as others. However, the SOP, standard Operating Procedure, will help the service provider to understand and define the processes. It is also an agreement with the client as these SOPs are signed off with the client. They ensure that both parts understand the process in the same way and that the division of roles is clear. Respondent B pointed out the risk that the service provider might find himself halfway through the transition and already in need to solve complex problems because the processes have evolved with time.

### **3.5.3 Effective Project Management**

Just like any project, a BPO project needs to be led and conducted with strong project management skills. This is an aspect emphasized by Respondent A. Indeed, During the transition phase, there are milestones. Regular calls with the clients are set in order to observe the progress of the project. During these, usually weekly calls, the client and the service provider share insight of their work. The progress of their work needs to follow the milestones and deadlines set by the project managers. It can be acceptable for example to have few weeks of delays on some steps, but sometimes it is not. For example, setting up the technologies is crucial and needs to be set on time. This specific stage cannot be delayed.

The mobilization team manages the project management aspect. They have the final decision of 'no' or 'not go'. This refers to the decision of the project to go live or not. The decision of go live is based on decisions points or checklists. The checklists include all the tasks needed to be completed in order to go live. Respondent A also added the concept of exit criteria, which indicated if the project is ready or not. A key exit criterion is the service rehearsal testing. It can also be referred to as Knowledge transfer. The service rehearsal testing is usually a period of at least two weeks, where the service provider tries to perform the work. It is done under the supervision of the client. During this phase, the quality is consistently monitored. The whole volume is not taken over yet, just a sample. If there are positives results, it results in the go live.

By trying to understand in more depth the dynamics of the project setting, both respondents were asked if there was an ideal timeframe for the transition phase. Both Respondent B and Respondent A had the common opinion that it is hard if not impossible to prescribe perfect timeframe. Indeed, Respondent A highlighted that the timeframe will depend on the scope, both in terms of processes and countries. She added, that the way the processes are taken or are transformed, would have a huge impact on the timeframe. In addition, most delays are due of technological issues. Respondent B agreed on the fact that there is no ideal timeframe. He experienced knowledge transfer that lasted two weeks and some that lasted six weeks. The decision of remote or on site knowledge transfer will also impact the timeframe of the transition phase. More generally, the complexity of the project depends on what the third party provider and the client aim to achieve. It is not only the scope in terms of processes or in terms of countries, which are going to be impacted within the timeframe of the project. It also depends if the client wants automations, business intelligence. These requirements are usually set in the operating phase.

### 3.6 Risks and Drivers to Failure

Respondent A	Respondent B
<ul style="list-style-type: none"><li>- Wrong set up</li><li>- Lack of information</li><li>- Missing key milestones or overlooking exit criteria</li><li>- Missing key technology components</li><li>- Wrong selection of resources from Service Provider</li></ul>	<ul style="list-style-type: none"><li>- Misunderstanding Client expectations</li><li>- Disregarding soft skills</li><li>- Contract requirements</li><li>- Lack of responsiveness</li><li>- Overlooking transition phase</li><li>- Applied penalties</li><li>- Lack of integration</li></ul>

Figure 15. Key findings for main drivers to failure of BPO project success

In this chapter we go through potentials aspects which may lead to a less successful or failed project. In order to avoid repetition in the content, we mainly focus on the aspects not mentioned in the drivers to success.

#### 3.6.1 Misunderstanding of Client Expectations

The first driver to failure according to Respondent B, is the service provider not having understood the client needs, expectations and requirements clearly. It could be because the service provider did not understand them or that the client did not express them clearly. It would result in a specific solution implemented, which does not match the reality. The expectations can be expressed by what is stated in the contract. It is also reflected in KPIs and SLAs. Respondent B added that sometimes there are soft sides of the question which are left for granted and not clearly

communicated, as the expectations are not explicitly presented in the contract. It can be related to the employee's behavior toward the client, or not having the right language capabilities. For example, the client may require a French speaker but the service provider will hire a non-native speaker. Even though it matches the requirements, the reality is different. This agent may speak French but does not understand the culture and despite possessing appropriate language proficiency, may not perform communication with various stakeholders in accordance to the standards of the client.

### **3.6.2 Wrong Set Up**

Both respondents agreed that the failure of a project occurs due to misconception or mistakes from the beginning of the project. If the client did not express himself clearly or was not fully transparent on his volumes, it will result in a mismatch of the solution proposed by the service provider and the client volumes. This would create a backlog. A backlog in a process is an accumulation of work requests waiting to be processed. Backlogs in procurement can have substantial impact on the organization as a whole. For example, if in a process of R2PO a backlog is created, then many orders are not sent to vendors. If some of these orders are urgent it may block the whole production line. Therefore, the estimation of the volumes is critical.

A wrong set up of the team may also serve as a driver to failure. For example, if the mobilization team or the delivery team do not have the right people with the right knowledge, it would make the knowledge transfer more complicated and the client might notice it.

### **3.6.3 Access to Information**

Rick L. Click and Thomas N. Duening pointed out that a major risk when initiating a BPO project was the loss of control. Respondent A. also mentioned this aspect. In addition to the loss of control, Respondent A added, that this loss of control usually

starts with a loss of visibility. This is a fear from the client that does not have access to information such as real SLAs etc.... The client may be afraid of not having any command and the processes and withdraw. This is clearly a result of the lack of transparency at earlier stages.

#### **3.6.4 Contract Requirements**

According to Respondent B, each contracts is totally up to commercial discussions. There are is pre-defined contract, which suits every client. Each contracts need to be adapted to the client needs. However, Respondent B pointed out some recurrent aspects of the outsourcing contract. For example, the client can agree on putting points systems with extra care given on specific aspects. This system is based on criterions. Every time a mistake is done, a certain amount of points is counted. The assigned number of points depends on the gravity of the error. Once the service provider reached the amount of point, which has been given as the maximum by the client, they can decide to close the contract without any penalties. Another point, explained by Respondent A, is that some contracts are built on a limited period. The client may have a contract for one year, in order to assess the performance and the benefits of the project. Then if the results are positive, the client will prolong the contract. The extension is usually of 5 or 6 years.

#### **3.6.5 End of BPO Project**

In order to understand the implication of a failure in BPO, the respondents were asked about the procedure of a project closing. Respondent A claimed that such project as is commonly referred to as 'closed project'. Even though she did not experience it herself, she could bring interesting insights. As explained earlier, there can be many drivers to 'closed projects' such as project not set correctly from the beginning. However, after some years the project may be running well but still be a subject to closure. According to Respondent A, the reason for that would be due to a strategic decision from the client because of the peculiar economic situation.

Respondent A added an example of a project, which closed after 5 or 6 years because the client needed to focus savings and wanted to reevaluate his satiation. The client found that it would be cheaper for them to retake the processes on their end so they proceeded to close the deal.

Then, the process of closing the contract may differ and vary based on how long the contract was in place. Respondent B gave the example, that if the closing of a contract occurs after 4 or 5 years, then, there is a dependency on the service provided by the third party provider. It means that the client will not be able to take back the processes right away. A reverse transition phase will need to happen. Respondent A referred to it as a knowledge transfer back, but both respondents gave the same meaning to this concept. It means that the service provider will go back to the client and teach how the processes are performed. Then, once the processes are reversed, the contract can be closed. If the failure happens in the stabilization phase, which is rare, as pointed out Respondent B, the processes can be taken back quickly. Just like the first transition, it is important to exit the collaboration in a positive way and leave the possibility of future partnership open.

Respondent B also added that a failure in the post transition phase could be also simply due to the third party provider not executing its job properly. It can be due to no applying the right quality standards, not reaching the SLAs and having bad KPIs. The client will notice these indicators and call upon them. Through pointing out that the contract is not respected, the client may seek for termination of the contract. It is important to note that failure do not commonly happen “from one day to the next”. It is a gradual process. As per the indicators discussed in more detail above, it is done via escalations. Respondent B emphasized that the third party provider needs to understand the risks that are coming up and act quickly, before the client would get frustrated. This can only be done if the communication with the client is constant and maintained consistently through every step of the BPO project.

## **Conclusion**

### **Critical Evaluation of the Research**

When evaluating the research, it came to be as an evidence that the topic of Business Process Outsourcing is complex and broad and therefore is comprised of a multitude of concepts. After the first phase of research, which entailed reviewing various articles and literature, it has been decided to narrow down the topic to Business Process Outsourcing of Procurement Activities. First, it became evident that focusing on procurement activities would be sufficient and would allow to comprehensively cover the chosen topic. While there has been some hesitance present when it comes to sufficient amount of content, the qualitative research part and the interviews conducted – an increasing amount of insights has been derived. It has been concluded, that even a narrowed down topic of Business Process Outsourcing, remained a wide area of research. The reason for that was the due to the understanding and the perception of procurement concepts. While creating the theoretical chapters, the concept of procurement seemed overall clearly defined. However, while interviewing Respondent A and Respondent B, more aspects needed to be taken into consideration. It mainly concerned the scope of procurement. For example, as Respondent A had more background in procurement operations, which directly matched with the research area. However, Respondent B had both experiences in Upstream and Downstream Procurement. Therefore, it was substantially mirrored in his interview. For future research, it is important to distinguish the various aspects of procurement. The distinction between upstream Procurement and Downstream procurement is sufficient, but is not always reflected in the procurement literature available. Nevertheless, the insights brought by both respondents were highly relevant for the topic and provided a base for a comprehensive analysis of the topic. The experience of Respondent B in upstream procurement was interesting and coherent with the research.

The second limitation in the research is related to the nature respondents. While both of respondents contributed significantly this research, it is important to point out that

both of them are from the same organization. Even though they had different experiences, there might have been a certain degree of bias present. It would have been interesting to have a third respondent from a different organization. However, it is hard to contact experts in this field without specific contacts, due to several rejections obtained during of contacting experts from different companies; author has decided to proceed with the chosen respondents. Another interesting perspective would have been to contact a company which initiative a BPO project of their own procurement activities. However due to confidentiality reasons, contact with many companies was impossible.

Even though these limitations were noticeable, they do not present a substantial impediment to the research and the research questions have been successfully addressed.

## **Key Findings and Practical Implications**

The results of the empirical research brought a different perspective on the ideas presented in the theoretical chapter. An important aspect brought by the research has been the difference in the concepts persecution and vocabulary from the experts in the procurement outsourcing field and the author reviewed in the theoretical chapter. This idea was highlighted in the limitation chapter, as it could be misleading to some part of the research. It appeared that some of the authors had a more traditional view on procurement operations and business process outsourcing. Moreover, the answers that were presented by literature in regards to the research questions this paper aimed to address lacked of practical applications.

The first research objective was to understand the incentives of companies to outsource. Through the theoretical research, the traditional benefits of a business process outsourcing project were identified. The main benefits of outsourcing project studied in the theoretical chapter were the cost savings, expertise of the third party provider, focus on core competencies, increased flexibility and optimization of processes. However, thanks to the interviews more nuances on these aspects could



be observed. First, a Business Process outsourcing Project of Procurement activities does not insure cost savings. It is important to look at a BPO project from various perspectives rather than focusing exclusively on the cost perspective. The savings rarely occur within the first year of the project. They might even never occur, but the company may benefit from this project in various ways, which induct higher benefits. The cost perspective is a common mistake of clients when initiating the BPO project, and is actually misleading as an indicator of BPO success. Especially, when considering features such as lower wage of the outsourcing agents, the client need to consider the landed cost, which include all the cost components. The respondents highlighted the expertise of the third party provider on several occasions. The client can benefit from an expertise, which would take him years to develop. However, the service provider will not be able to bring significant insights in direct procurement. There is a substantial distinction to bear in mind when a client consider outsourcing. Direct procurement is directly related to the core competencies of the client; therefore, they have a better knowledge of this area. It is rather uncommon to find companies outsourcing their direct procurement and if they do it is usually only partly. This distinction is also important, in the aspect of expertise, which can be brought by the service provider. Nevertheless, based on the maturity of the company, the service provider may bring crucial insights and recommendations in terms of compliance, procurement policies, spends and indirect procurement operations. Therefore, the expertise is not limited to the optimization of processes. On the other hand, certain benefits such as increase of flexibility and focus on core competencies are linked directly to the client. Therefore, the third party provider has less visibility on this aspect. Then, certain types procurement outsourcing benefits were either briefly or not mentioned at all by the authors. These benefits are externalities of a BPO project. One of the explored example is the change management. A BPO project is an efficient tool to implement changes within an organization. If any companies is attempting to bring change to their processes, technologies or management, they will face the so-called pockets of resistance. By implementing a BPO project, these companies can be assisted in their transition with specialist that make the transition easier.

Going forward, the question “What are the best and the worst practices while implementing a Business Process outsourcing for Procurement operations?” was addressed. After analysis of the empirical research, two major findings and drivers stood out from the others. The first one is the collaboration. Indeed, the collaboration is a key driver to a success of a project. First, via effective communications the service provider will be able to better understand the needs and expectations of the clients and deliver a product accordingly. Then through the transition phase, it will help to better understand the processes and find the right solution to existing problems. It is also a major indicator of the situation of the project. The sooner the service provider is aware of the issue, the sooner it will take actions. Therefore, communications need to be set regularly and with the relevant stakeholders. The second major element is the technology. As we saw that BPO project are highly IT enabled, which implies they highly depend on the technology. This includes the impact of the technology on the life of the project. It can delay the go live, or limit the capabilities of the third provider. Therefore, the client needs to be technologically ready to initiative the project. Overall, the client needs to be ready and a lot is expecting from it in the beginning of the project. It can be concluded that the client’s collaboration level will determine the project all along. If the collaboration weakens at any point, it can steer the project in a negative direction. It is important for the client to be available and select the right people for the knowledge transfer and during the operating phase. From the third party provider, there are similar expectations. An effective project management needs to be implemented in order to monitor the progress of the project and make sure the everything is taking into consideration. A solid documentation is to be created and signed off by the client. All of these components are designed during the transition phase. Therefore, it is evident that the transition phase is a critical phase in a BPO project and will determine its success for the following years in the operating phase. It is consequently important for the client to dedicate time and resources to ensure its success.

Based on the empirical research and the increasing amount of articles and literature related to procurement and procurement outsourcing, it is obvious that companies

are becoming highly aware of the benefits of procurement. While procurement used to be regarded as a simple supporting activity previously, companies are now increasing their procurement focus. Firms are becoming more demanding when outsourcing their procurement activities in order to optimize their procurement policy and the given research has comprehensively analyzed the processes in question, along with their benefits, risks and best practices.

# **Appendix**

## **Questionnaire**

Questionnaire for Expert in the Field of Outsourcing of Procurement Operations

I°) Career related questions

1. Could you please introduce yourself, what is your current positions?
2. What brought you to Procurement Operations?
3. What brought you to Outsourcing Services?

II°) Companies incentives for BPO

1. What are the company incentives to outsource their Procurement Operations?
2. What are their expectations? How often do you think they are realistically met?
3. How are companies approached for a BPO contract?

III°) Practices and behavior during the BPO phases

1. What are the dynamics of cooperation between the client and the third party provider,  
during the project?
2. What is the level of cooperation expected from the client site during the transition phase?
3. What are the key aspects of transition phase?
4. How are the procurement processes usually transformed?
5. What is the usual time frame for a project (Negotiation of the project/Transition/Operating)?
6. What is the role of the client in the transition phase and in the operating phase?

IV°) Risks and worse practices

1. What is an example of failed BPO, what are the main drivers for failure?
2. What are the practices to avoid while transferring procurement processes?
3. what are the major risks for the client or Contractor during a BPO?

V°) Good practices

1. What are the behaviors to encourage during such a process?
2. What are the key areas to focus on during the project?
3. What are the Indicators (numerical or non-numerical) that show whether the project is reaching the targets?
4. Are there usually any back plans for the client in case of the failure?

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