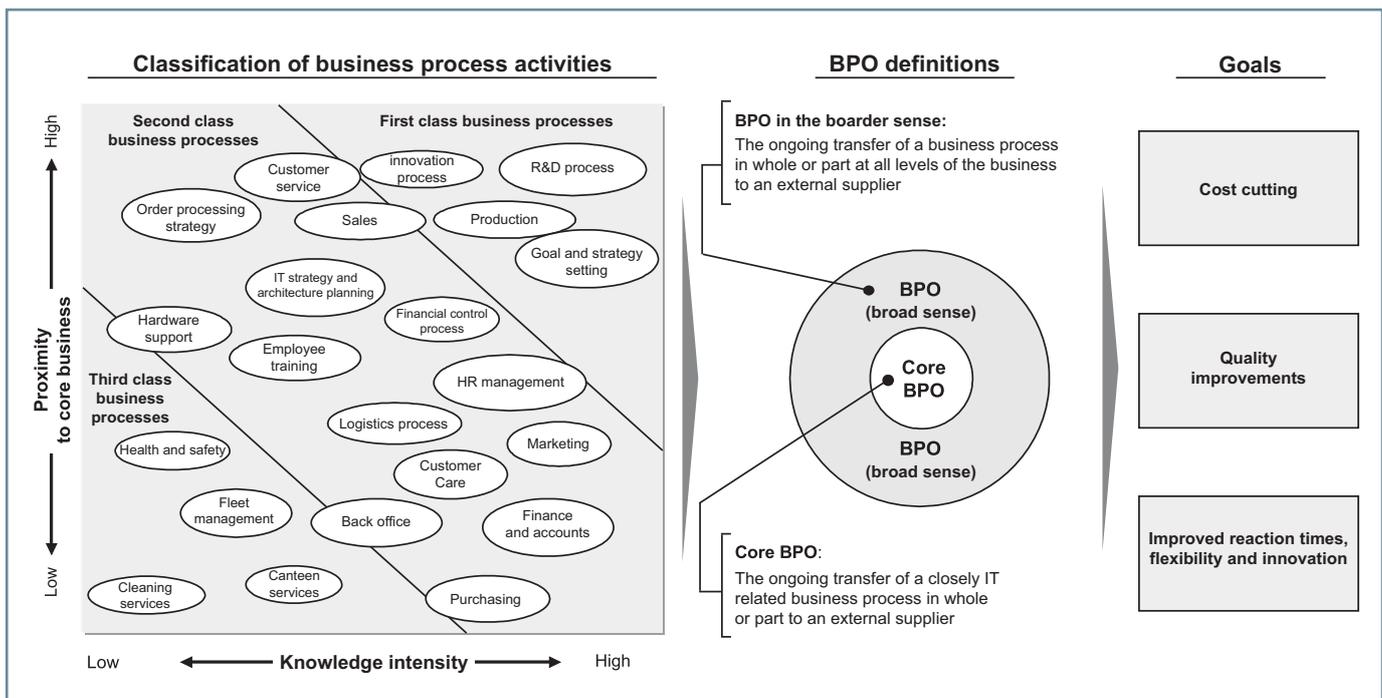


A research project at Steinbeis University Berlin

## The influence of Business Process Outsourcing on success

Faced with an increasing number of changes in environmental factors, for years business theory and practice has told companies that the best course of action is to focus on core competencies. Business Process Outsourcing (BPO) is becoming more and more important as an instrument for optimizing the company value chain. Despite the potential operative and strategic risks, BPO promises to cut costs across the board while simultaneously improving quality and providing time-saving benefits – such as a cutting product development cycles. Jan Bartenschlager, a PhD student at Steinbeis University Berlin, evaluated the potential success of BPO as part of a research project carried out at the Institute for Business Administration in Entrepreneurial Management (Prof. Dr. Pleitner and Prof. Dr. Sander). The partner company: Navisco AG.



### BPO fundamentals

At the beginning of an outsourcing project, most of the emphasis is on a shift in technical infrastructure outside the company. Further into the project attention turns to applications and associated work processes. Moving complete businesses out of the company is a new approach to outsourcing that has become established in recent years: the process is called BPO. According to the much of the literature, it is a useful

way to focus on core competencies. BPO refers to the transfer and creation of business processes previously carried out by the company itself, to a third-party company which is independent both as a business and in financial terms. The other company holds commercial responsibility for the process in the long term. Business processes that do not count as core competencies (any more) are handed on to the external BPO

provider. It provides the output of the process – carried out outside the company – back to the outsourcing company in return for payment.

Irrespective of the wide use and popularity of BPO – which, according to research companies such as the Gartner Group and Pierre Audoin Consultants, is set to expand even further – very little is known about the

interrelated effects between BPO, strategic success factors and commercial success, reflected in monetary and non-monetary terms. It was against this background that the Steinbeis University Berlin research project not only shed light on the effects BPO has on success, particularly with regard to the strategic success factors of "time", "cost" and "quality", but also related monetary and non-monetary indicators of commercial success. To test the hypothesized effects on success, a structural equation model was used. This consists of hypotheses derived from theoretical assumptions of the influence BPO has on corporate success and is based on market and resource-based competitive theories.

To conduct an empirical evaluation of the structural model it was sufficient for statistical reasons to draw upon a universe of companies which already had experience of BPO. Companies were surveyed using a standardized questionnaire sent out to the biggest 1000 companies in Germany with more than 250 employees. Of the 1000 companies approached, around 120 returned the questionnaire.

The sample was big enough to provide a mass of data needed to identify statistically significant causal relationships. Checking estimates against recommended quality levels for structural and measurement models confirmed that the results were statistically highly significant.

The results make it possible to come to plausible conclusions about the hypotheses posed in the basic model, both statistically and with respect to the content, based on the highly confident explanations for variations. The validity of results was confirmed in further research by modifying the model making it possible to examine – on a differentiated basis – the influence of BPO measures on the success factors and indicators of corporate success.

The research project resulted in a battery of statements about the influence of BPO on success which can be summarized in the following:

- A key influence on the success of BPO is time, but also the success factor of "cost". Together, they go a long way towards explaining the medium and long-term indicators of corporate success.
- By contrast, the influence BPO has on quality and the resulting effect this has on corporate success is less important.
- BPO is primarily about removing the burden on business placed by processes that do not belong to core competencies. It has much less to do with expansion strategy for extending business into non-core areas.
- Nevertheless, it is possible to interpret the positive influence of the success factor "cost", and its effect on success indicators, as a "hygiene factor".
- For companies using BPO primarily to shift processes outside the company to gain short-term efficiencies – placing less emphasis on long-term positive aspirations such as improved adaptability to changes in the business environment – BPO is only partly suitable as a management approach.
- If it is all about core competencies, the results indicate that BPO only makes sense when all processes not considered core activities are shifted out of the business.
- Changes in the make-up of core competencies are associated with risk, as high investment is needed to bring processes that have been moved back into the business.
- One finding that should not be underestimated relates to the success indicator "employee satisfaction": the more processes

you shift out of the business, the more (pronounced) negative influence it can have on employee satisfaction.

The results of the study will be published in detail in 2008.

The author, **Jan Bartenschlager** is a PhD student at the Institute for Business Administration in Entrepreneurial Management at the Steinbeis University Berlin. He previously studied business at Hamburg University. In parallel to his studies Jan Bartenschlager has been working as a consultant at Navisco AG on a research project titled "The effect of Business Process Outsourcing on corporate success". Bartenschlager is a member of the certification committee at Steinbeis Certified Consultant ([www.steinbeis-cc.de](http://www.steinbeis-cc.de)).

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