

## Chapter 1.8

# Business Process Outsourcing to Emerging Markets: A Knowledge Management Approach to Models and Strategies

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### ABSTRACT

*A major phenomenon of globalization, outsourcing is a complex and controversial issue. It occurs when companies contract out activities previously performed in-house or in-country to foreign (usually offshore) companies globally. Couched in the terms of a SWOT analysis and using a modified Harvard-style case study that was subjected to the SWOT analysis, the chapter analyzes business process outsourcing (BPO) to emerging markets, frequently called outsourcing or offshoring in short. The overarching advantage of outsourcing is that it allows a business to focus on core activities as called for by core competence, strategic alliance, and competitive advantage theories of international business. Such a global restructuring of production has been sometimes called the true WMD (weapon of mass destruction) of jobs in the developed world. However, a more balanced approach could*

*borrow the term “creative destruction” from the prominent Austrian economist Josef Schumpeter and emphasize the all-important transformational aspect of outsourcing. A transformational aspect of outsourcing is evidently very important for emerging markets but also for many companies in the developed world; therefore, BPO is sometimes called BTO (business transformational outsourcing). The global digital/knowledge economy offers unprecedented opportunities to produce and sell on a mass scale, reduce costs, and customize to the needs of consumers, all at the same time. Whether you live in a large country such as the U.S. or China, mid-sized country such as Canada or a smaller country such as Lithuania, your potential market is of the same global size. And you can source (netsource) inexpensively wherever you wish. Added to that are immensely increased opportunities to access new knowledge and technologies, driving productivity and living standards further up. BPO to emerging markets is*

*or should be driven by those fundamental reasons having to do with rapid organizational change, reshaping business models to make them viable in the long term, and launching new strategies. This is the essence of transformational outsourcing. In this chapter, BPO is used in the broader, integrated, and comprehensive understanding of changes in the company's business models and strategies but first of all the company's changing core competencies and competitive advantages: partnering with another company to achieve a rapid, substantial, and sustainable improvement in company-level performance. A knowledge management approach is advocated in this research that is to be continued in the future. The chapter concludes that outsourcing is a wave of the future. Postcommunist and other emerging markets countries are well advised to jump to these new opportunities as they represent the best chance yet to realize the "latecomer's advantage" by leapfrogging to technologies and models of doing business which are new for Western countries as well. The chapter analyzes and outlines some of the ways in which contemporary and future business models are deeply transformed by the global digital/knowledge economy. Global outsourcing provides a compelling platform to research the issues of upgrading competitive advantage in developed countries and contract out non-core competencies to emerging markets. Therefore, suggestions for further research are included in the chapter as well.*

## **INTRODUCTION: WHAT DO WE KNOW ABOUT THE NATURE OF BUSINESS PROCESS OUTSOURCING?**

Business process outsourcing (BPO) is generally defined as the transfer of the control of the business process to external suppliers. BPO deals with differentiated activities, such as finance and

accounting, procurement and supply, customer relations' management, human resources, security and so forth.

BPO implies a more comprehensive—or business process oriented—approach to outsourcing information technology (IT) services, which is the original and narrower term. BPO contracts are seen as being more inclusive, covering a great deal of process redesign work, redeployment and retraining of the people doing the work, and almost always include the information and communication technology (ICT) or information and telecommunication technology (ITT) that enables and supports the business process. The goal is to provide an even greater opportunity for generating innovation, efficiency and speed in reaching markets and, ultimately, shareholder value through this more comprehensive, integrated approach. In this research, BPO is used in this broader, integrated, and strategic sense of changes in the enterprise's management models and strategies but first of all the enterprise's changing core competencies and competitive advantages.

Under the dual pressures of global competition and shareholder expectations, Western companies are driven to reduce operating costs and focus on core competencies. To accomplish this in the global economy, companies are turning to business process outsourcing (BPO), outsourcing or offshoring in short. BPO can be defined as the practice of turning over the operation of an internal business process, like customer care or transaction processing, to a third party service provider. Service providers use their process expertise, human resources, and available technologies to provide the required services. The client company ("client") manages and compensates the service provider by defining measurable performance metrics and then evaluating the service provider's performance using those agreed metrics. Service providers can be located onshore, nearshore or offshore. Companies assessing a service provider usually compare different service provider loca-

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