BUSINESS PROCESS OUTSOURCING SERVICE PROVIDERS' PERCEPTION OF PERFORMANCE AND PERFORMANCE MEASUREMENT

Charles Ikerionwu*, Richard Foley, Edwin Gray, David Edgar

School of Engineering and Built Environment, Glasgow Caledonian University,
Glasgow, G4 0BA, Scotland **(UK)**
*Corresponding author: charles.ikerionwu@gcu.ac.uk

ABSTRACT

A client in a business process outsourcing relationship stands the chance of not achieving their business objectives if the service provider's performance fails below the service level agreement. Through a mixed method approach, this study aims to reveal what performance and performance measurement means to a service provider. The study identified performance within a business process outsourcing service provider organisation as the fulfilment of all criteria as defined in the service level agreement in addition to value added services. These services include achieving client's business objectives, expanding scope of engagement and exceeding more than service level agreement. Performance measurement is identified metrics by a service provider which are quantifiable and when examined in relation to performance must be a positive value.

Key words: business process outsourcing, service provider, service level agreement, performance, clients' objectives

1. INTRODUCTION

Competition between business service providers is taking place both within and outside their geographical locations. Service providers, therefore, define their competitiveness through their performance record which is measured within acceptable standards in their organisation. According to Thomas (2006), performance is a social reality and a set of measures carefully selected to express the scope of engagement. Within the context of BPO, Ikerionwu et al (2013) defined performance as an execution or accomplishment of a contract within a defined standard. BPO is the delegation of an entire business process to a third party organisation for the sole purpose of processing, delivery of processed services and accomplishing client's business objectives (Ikerionwu et al., 2013). One of the objectives of a service provider is what Abidin et al (2009) described as adding value to the efficiency of the firms physical and intellectual resources. Client organisations have established these added values as performance measurement metrics. According to Jiang et al (2002), service quality as a conformance to client's requirement is a key factor in measuring performance. Other researchers like Szymanski and Henard (2001), Ranaweera and Prabhu (2003), and Fornell (1992) identified customer's satisfaction, customer retention, and market share as some of the performance metrics. However, performance could only be achieved when some of the factors considered critical, which are few in number are completely present and applied within the BPO framework. Among the critical factors is service level agreement (SLA) which has been described by Yallof and Morgan (2003) as the engine to building a good partnership.

India's dominant role as expressed in the 2013 outsourcing destination ranking (Tholons, 2013) is not far-fetched from service providers' performances that have translated to successful client – provider relationship over the years. Despite the steady growth of global BPO market value - $4billion to $326 billion (Gartner, 2011), researchers have consistently focused on clients performances with

less mention of providers contribution to these success stories. This is in contrast with complete dependence of outsourcing clients that leaves the critical job of determining their survival inputs in the hands of a third party organisation (Khanna & Knew, 2005). In the absence of service provider's positive performances, BPO as a phenomenon could not have been a reality. This study therefore focuses on performance and its measurement as seen from the service provider's point of view. In this study, client is identified as an outsourcing organisation and service provider as a BPO organisation in India. With little or no research conducted in this area, the scope of study is limited to service provider's performances through the investigation of medium to large BPO organisations in India.

2. BPO PERFORMANCE AND ITS MEASUREMENT

Although the outsourcing highway is littered with casualties (Willcocks, 2010), BPO global market value has maintained a steady growth - from $4 billion dollars in 1989(Lacity et al., 1996) to $326 billion in 2011(Gartner, 2011). Some of these success stories as explained by different researchers (William, 2006; Lacity, M. et al 1996; James and Donald,2007; Dibbern, J. et al.,2004) include top Fortune 500 companies that outsourced business services to India in order to focus on their core competences and reduce operational cost.

Organisations that wish to outsource their business services must set performance measurement standard in the form of quantitative information that quantifies input, output, and performance dimensions. Service quality provided by the service provider forms the bases of a client achieving its business objectives. Jiang et al, (2002) has described service quality as the conformance to customers (client) requirement in the delivery of service. Although the onus of performance lays on service providers and clients, Chakrabarty et al, (2007) opined that the provider has always been inadvertently blamed for failures in the relationship. Another established metric is customer satisfaction which Zeithmal and Bitner (2000) defined as the customer's evaluation of a product or service in terms of whether the product or service has met their needs and expectations. Relationship between a client and a service provider is a daily evaluation based on services provided by the provider in relation to client's objectives for outsourcing. Clients that derive satisfaction from a service provider entails that they can retain their primary customers and service provider at the same time. Most clients had set up businesses for the sole purpose of creating customers, rendering services and most importantly retaining these customers. According to research findings on customer retention by Dawkins and Reichheld (1990), a 5% increase in customer retention generated an increase in customer net present value of between 25% and 95% across a wide range of business environments. Thus, in the absence of an acceptable level of performance, achieving this feat could not have been possible.

3. RESEARCH METHODOLOGY

For an in-depth understanding of performance and its measurement as seen by a service provider, a mixed method approach was adopted in this study. This approach is in line with the principle laid down by Johnson and Turner (2003) which suggest "that researchers should collect multiple data using different strategies, approaches, and methods in such a way that the resulting mixture or combination is likely to result in complementary strengths and non-overlapping weaknesses". The study involves the investigation of 7 medium to large BPO service provider organisations in India through a face- face interview and a larger number of 156 BPO organisations conducted through a questionnaire based survey. The outcome of the qualitative study informed the basis for the quantitative investigation phase. Malterud (2001) suggests that "the use of results from a qualitative study to inform a survey will enhance the sensitivity and accuracy of survey questions". Thereafter, the findings of these two phases were integrated through triangulation to provide the results and conclusion.

3.1. Case study
The selection of BPO organisation was based on purposeful sampling that stipulates for BPO service providers that have been operation for a minimum of 5 years and must be listed by National Association of Software and Services Companies (NASSCOM) as among the best performing BPO organisations. After a series of contacts and exchange of letters, a written agreement to participate in the study was obtained from the potential participants. The process of data collection was done through a face-to-face semi-structured interview at their respective offices in different BPO hubs across India. The focus was on high level individuals and senior management and information technology (IT) team members. Significant number of these organisations are third party companies (privately owned) and provide services like analytics, financial, backend, insurance, accounting, and

media research to onshore and offshore clients. Only one of these companies is a captive BPO – owned by a multinational IT company based in Silicon Valley USA. As part of the research study, interviewees were asked; what do you understand by performance and how does your organisation measure performance? The recorded interviews were transcribed to text and later reduced to themes and sub themes using QSR International's NVIVO version 10 software for qualitative analysis.

3.2. Quantitative study

In order to reach a wider audience of BPO organisations in India and gain more understanding performance within the service providers, a questionnaire of 27 based Likert scale was collectively derived from the themes emanating from the qualitative study. Through contacts within various BPO associations in India and notably NASSCOM, potential participants in the study were reached. The targeted audience within BPO organisations were VPs, IT managers, CEOs, MDs, and Process Leaders. Of the 358 participating organisations that were sent the questionnaire, a total of 156 valid responses were received. In order to understand service provider's perception of performance, the participants were asked to choose from multiple answers (achieving your organisations business goals, achieving client's business objectives, expanding scope of engagement and achieving more than SLA). The results derived from statistical analysis of these data was combined with that from qualitative study for the final outcome.

4. ANALYSIS AND RESULTS

Through the qualitative study, themes derived from the 7 medium and large BPO organisations in India, when subjected to thematic analysis revealed that each service provider's understanding of performance revolves around SLA. The service provider's perception of performance produced the themes presented in Table 1 column 1 below. It includes such characteristics like keeping network link with the client uptime, working towards clients satisfaction, adding value to processed services, non-complex system integration and working towards meeting direct and latent demand of clients. In column 2, the service providers measure their performance on the following metrics: percentage of SLA achieved; quality of services delivered; meeting and exceeding SLA; expanding scope of engagement; meeting client's requirements; internal and external customer satisfaction score; productivity measured in volume of output.

Table 1. Performance and performance measurement themes

BPO	Performance	Performance measurement
B1	Keeping our network and client's uptime is platform for success.	Reduced turnaround time. Percentage of SLA achieved. Mostly we achieve 101% SLA
B2	Meeting client's requirements. Expanding scope of engagement. Adding value to processed services.	Quality of service, productivity measured in volume of output
B3	Meeting direct and latent demand (added value) of clients	Meeting client's requirements. Applying 3:1 to monitor individual performance
B4	System integration that leads to network uptime	Meeting clients requirements/ objectives within a short time
B5	Working towards clients satisfaction	Meeting SLA and exceeding it
B6	SLA	Using internal and external customer satisfaction score. Monthly net promoter score (NPS)
B7	Meeting up clients requirement	SLA and expanding scope of engagement

The first step in the quantitative data analysis is to find out the reliability and consistency of scales developed for both performance and performance measurement. Within the codebook prepared for this analysis, performance scale is coded as PF1-PF4 while performance measurement is PFMT1-PFMT7. Therefore, the reliability test of these scales are carried out as follows:

Reliability of performance scale: Based on the responses from the questionnaire, there are four scales for performance which are coded as PF1, PF2, PF3, and PF4 and seven scales for performance measurement coded as PFMT1, PFMT2, PFMT3, PFMT4, PFMT5, PFMT6, and PFMT7. To determine the internal consistency and reliability of these scales, they were subjected to reliability test. According to Palllant (2010), one of the most commonly used indicators for internal consistency is Cronbach's alpha coefficient.

DeVellis (2003) suggests that an ideal value for Cronbach alpha coefficient is 0.7. The first scale of performance comprising of four items (PF1, PF2, PF3, and PF4) when subjected to reliability test returned a value of 0.815 (see table 2 below). In table 3, the second subscale (PFMT1, PFMT2,

PFMT3, PFMT4, PFMT5, PFMT6 and PFMT7) returned a value of 0.748 when subjected to Cronbach alpha coefficients. These two values (0.7, 0.815) indicates that the scales of performance and performance measurement are reliable and any result emanating from the statistical analysis would also be reliable.

Table 2. Cronbach's Alpha test for reliability for performance scale

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.815	.813	4

Table 3. Cronbach's Alpha test for reliability of performance measurement scale

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.748	.755	7

Figure 1 below represents the four scales when plotted in the column chart. All the service providers stated that achieving client's business objectives is the core purpose of BPO engagement. Respondents indicated by selecting this perception 140 times. Other levels of performance perception in the order of selection include achieving your organisations business goals (84), expanding scope of engagement (69), and fulfilment of SLA and more (48).
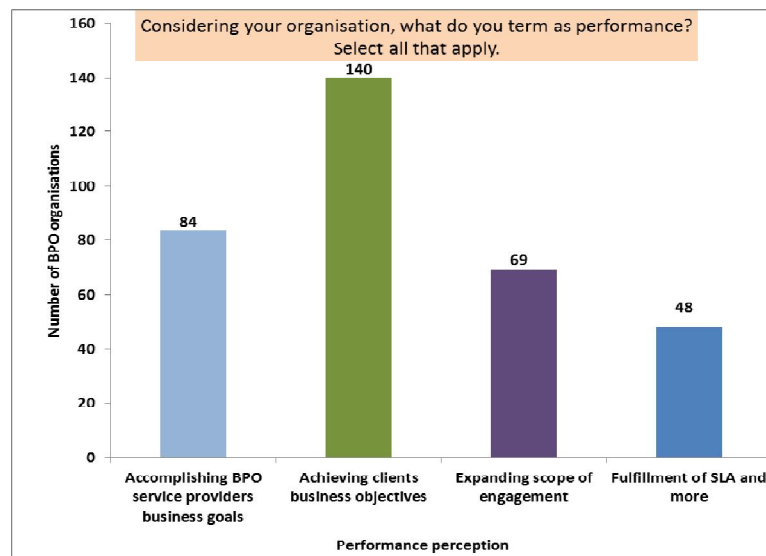
*Fig. 1.* *Performance perception*

Performance scale:
PF1: Accomplishing BPO service providers business goals
PF2: Achieving clients business objectives
PF3: Expanding scope of engagement
PF4: Fulfilment of SLA and more

In figure 2 below, the 7 scales in performance measurement indicates that the preferred measure of performance by BPO organisations is clients satisfaction (130) followed by the quality of delivered services (116); exceeding SLA (55), and fulfilment of SLA (31). However, smaller numbers indicated that having numerous customers (22) is a performance indicator; positive net promoter score (12) and huge profit after tax (9).
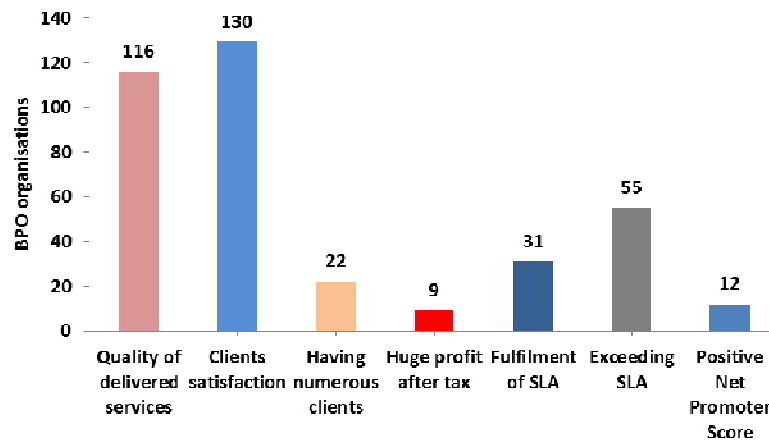
Fig. 2. *Performance measurement*

Performance measurement scale
PFMT1: Quality of delivered services
PFMT2: Client's satisfaction
PFMT3: Having numerous clients
PFMT4: Huge profit after tax
PFMT5: Fulfilment of SLA
PFMT6: Exceeding SLA
PFMT7: Positive Net Promoter Score

5. DISCUSSION AND CONCLUSIONS

This study aimed to understand BPO service provider's perception of performance and performance measurement. Through multi-case studies of Indian BPO service providers using an open ended semi-structured interview, themes based on responses on performance and its measurement were determined. Each BPO service provider opined that performance is about delivery of service within SLA. In both methods (qualitative and quantitative) of study performance has been identified as fulfilment of SLA characterised with meeting up with client's requirements, working towards clients satisfaction, adding value to delivered services, expanding the scope of engagement, and keeping clients and provider's network link uptime. In contrast to earlier research where client's perception of performance has been studied in detail, this study has presented BPO service provider's perception of performance.

In a BPO relationship, service providers must establish key measurement metrics that would quickly identify the direction of the relationship on daily basis. To do this, each of the BPO service providers in this study has a distinct measurement metric which also revolves around the SLA. These measurement metrics include the use of net promoter score- this calculated by allowing clients to award either a negative or positive score based on services received from the provider. Others include apply 3:1 formula, where a team is comprised of four members and an individual among these monitor and records daily performances. In addition, quality of services are also evaluated, overall daily volume of output, percentage of SLA achieved and the provision of hidden or latent client's demand. One of the interviewees drew a conclusion by stating; "*every customer has two demands which are in the hand of the service provider to understand. The first is direct demand which is stipulated in SLA. The second is latent or indirect demand which is an additional value to the direct demand. It expands the scope of engagement and comes at no extra cost*".

In conclusion, this study has revealed that irrespective of service providers' business objectives, clients' goals are paramount. Therefore, performance in the context of a service provider is the fulfilment of all criteria as contained in the SLA. Performance measurement is identified metrics by a BPO service provider which are quantifiable and when examined in relation to performance, must be a positive value. A negative value entails that clients business objectives could not be achieved.

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