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Business Process Outsourcing through Business Process Management and Knowledge Management Evidence from Bangladesh

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ABSTRACT

Organizations need diversified business process management and multi-dimensional knowledge management, critical components of organizational outcomes, to succeed in the Business Process Outsourcing (BPO) industry. The current study examines how to improve BPO to determine what drives organizations to develop the BPO industry. Data has been collected using a structured questionnaire considering the 7-point Likert scale. The Structural Equation Model (SEM) has been employed to simultaneously show the relationships among constructs. The findings reveal that business process and knowledge management positively promote business process outsourcing. Nonetheless, the growing trend of the BPO industry is a source of concern for the Bangladeshi industry in the current environment. Testing business processes and knowledge management inside BPM also provides researchers and policymakers significant insights and diverse ramifications. Bangladesh is the 13th best-emerging economy in the world; thus, the findings generated from Bangladesh could be generalized to the other emerging economies in the world for increasing the BPO industry.

Keywords: Emerging economy, Organization performance, Business process management, and Outsourcing.

INTRODUCTION:

Business Process Outsourcing (BPO) has captured much interest in the contemporary age to the business managers and the researchers. An organization deprives itself from outsourcing when its competitors are doing the reverse, the organization is putting itself out of business (Budhwar *et al.*, 2006). By this line, the authors tried to understand why contemporary business experts are concerned with business process outsourcing. Business process outsourcing is delegating the critical business process to a third party, including its auxiliary services. BPO experts have agreed that we live in an age of outsourcing, which means business process outsourcing is a widely accepted business model to boost business operations by focusing on core business operations (Sen & Shiel, 2006). Although Experts have

commented that BPO has multiple dimensions, organizations rely on offshore or sourcing (Ramachandran & Voleti, 2004). BPO proponents argue that organizations are outsourcing entire services, including human resource services. Scholars view that BPO has multiple impacts on organizations. Because BPO helps reduce client costs, at the same time, it provides the expert service linked to goal conference (Lahiri and Kedia, 2009).

Scholars recommend that the organization adopt BPO for cost-saving purposes, but many scholars comment that BPO adopts by the organization for a strategic purpose (Lahiri & Kedia, 2009). With the increasing pressure and potential opportunity to grab the foreign market, organizations try to capitalize on this opportunity by employing internal and external resources.

Linking to these potential opportunities, the organization looks for tactical or strategic outsourcing. Scholars are viewed that strategic outsourcing as the process of improving business and gaining competitive advantage rather than a cost-cutting strategy. In contrast, practical outsourcing refers to the short-term focus oriented (Neeli). Researchers have commented that some specific driving factors are responsible for BPO revaluation. Many experts agreed that information technology, infrastructure and the digitalization process shape the BPO industry. Few prominent scholars also noted that software is the key resource source in the BPO industry (Mahmoodzadeh *et al.*, 2009). This package combines expert, decision support, and artificial intelligence at the most promising software tools to perform analytical tasks. Besides online analytical processing, these opportunities have created a new horizon in the BPO industry. So, the growth of BPO industries is increasing daily due to technological development. However, in the BPO industry, the current status of Bangladesh is not satisfactory. That means Bangladesh is far from capitalizing on these opportunities compared to the other countries. Like China has substantial growth and is considered a hotspot worldwide in the manufacturing and technology sectors (Bhat *et al.*, 2010).

In the same way, India has the highest position in the engineering and technology sector of BPO. Mexico is also a hotspot in manufacturing, and in the setting of analysis and creativity, the United States is the hot spot for BPO. The Philippines is considered a BPO hot spot worldwide in the administrative sector. A recent report on the global business process outsourcing service market is expected to reach USD 35.2 billion by the end of 2024 (Uddin, 2022). Statistics indicate that BPO is the most promising industry in the upcoming year. Surprisingly BPO industry in Bangladesh is still an unexplored area. So, the research draws attention to developing the BPO with the help of promoting business process and knowledge management. Bangladesh is the 13th best-emerging economy in the world. Economic and financial status trends have been slowly but surely increasing in the last couple of years. Linking with the holistic development of a country's business process management provides many opportunities to boost economic growth.

Proponents of business experts address that countries like India Philippines, and Sri Lanka have already made their markets in the BPO industry (Askari *et al.*, 2015; Uddin, 2022; Wategama, 2009). A small country like Sri Lanka exceeds 3 billion dollars of earnings through BPO. Interestingly, Bangladesh has so many comparative advantages of lower cost of showing destination in the global outsourcing landscape. So, Bangladesh has the potential opportunities to expand the BPO industry. The contemporary business experts agreed that the BPO industry would be the second biggest industry in earning foreign currency after the RMG. Bangladesh has two key strengths in expanding the BPO industry large-scale stock of talented young people and which leads to the capability of low-cost provider. Scholars suggest accounting and financial services are the most significant drivers of the BPO industry where business graduates can BA part of industry expansion (Ratan *et al.*, 2020; Islam, 2022).

The study aims to develop BPO by promoting business processes and knowledge management. Even though the role of the regulatory environment as a factor in BPO industry expansion has been pointed out many times, BPO expansion does not result only from the regulatory environment (Kumar *et al.*,). It also stems from the cost of doing business, customer expectations and improving business agility. Even though this particular BPO can be one of the most pertinent answers to industrial expansion, few research studies have examined the causes and results of the BPO industry (Probir *et al.*, 2006). Furthermore, the number of research conducted using an integrative method to investigate the BPO industry's expansion is very few (Tang *et al.*, 2013). In our research, we look at how to improve BPO to determine what drives organizations to develop the BPO industry. We also examine how developing BPO affects the business process and knowledge management. In this paper, the following are the most important questions and issues: Does the growth of the BPO industry have to do with business process management and knowledge management? Our main goal is to look at how to improve BPO and figure out what makes organizations want to grow the BPO industry so we can tell policy-makers and businesses what to do. With the findings of this study, we hope to learn more about the BPO industry.

In answering the research mentioned above, we provide four principal contributions to the current literature in the field of the BPO industry. First, one of the most important contributions of this study is the promotion of a business process and knowledge management integrative approach to the BPO industry's development. Second, Testing business processes and knowledge management inside BPM also provides researchers and policymakers with significant insights and diverse ramifications. Third, Bangladesh is the 13th best-emerging economy in the world; thus, the findings generated from Bangladesh could be generalized to the other emerging economies in the world for increasing the BPO industry. Finally, regarding the methodological issue, this study will use structural equation modelling (SEM), a high-powered estimation technique, to run the specified conceptual model, which will be the new dimension in the research domain. The subsequent portion of this researcher Section 2 contains an extensive literature review and hypothesis development to develop the link among BPO, BPM and KM. Section 3 presents the data and methodology. Section 4 presents the main results of our study and leads to the discussion, while section 5 concludes the paper, notes the limitations of the study and offers suggestions for future research.

Literature Review and Hypothesis Development

Business Process Management and Business Process Outsourcing

The Business Process Management (BPM) System coordinates the sequential execution of a business process. The objective of the Business Process Management (BPM) System is to manage the sequential execution of a business process (Tang *et al.*, 2013). Business process management and lean six sigma share an abundance of similarities. Business process management (BPM) reveals how BPO and SOA interact to enhance the quality of business processes (Ghodeswar & Vaidyanathan, 2008). In addition, BPM has been recognized as a robust foundation for boosting modularity and clarity in business process outsourcing service development (BPO). Joachim, N. (2012) noted that the delegation of one or more information technology-enabled business processes to an external service provider is known as business process outsourcing (Rouse and Corbitt, 2006; Wulen-

weber *et al.*, 2008). Business operations involve manipulating physical or digital objects (Davenport and Short, 1990). Therefore, information technology is integral to managing and executing business process outsourcing (BPO). Progressively, firms are concentrating on a small number of adequate business activities while outsourcing those for which they lack core competencies. Thus, customer service, logistics, human resources, and accounting procedures are increasingly outsourced. Therefore, the management of business processes should not only extend beyond the organizations' borders but also to the suppliers' regions (Del Prado, 2015). Business process management and business process outsourcing are critical components that address the specifically; "Outsourcing helps the organization achieve higher levels of value creation for the final customer. A wide range of core and non-core critical business processes are increasingly being outsourced, covering many sectors and operations, enabling host organizations to access world-class capabilities" (Del Prado, 2015),

Outsourcing has been hailed as a boon for businesses but also brings new managerial and organizational difficulties. Coordination and administration of outsourced business operations with internal business processes and integrating information are two of the most challenging. Therefore, we require a method for standardizing definitions and exchanging protocols in data and process domains to coordinate business processes across the organization's value chain. By utilizing a service-oriented business process management system, it is possible to engage internal requestor processes and service provider processes and be able to check the status of the entire virtual process involving different firms at any moment (Khoshafian, 2007). Also, Elhadad *et al.* (2008) have explained how the BPM methodology improves BPO services. Consequently, according to the research mentioned earlier, information sharing and process integration via the BPM methodology are essential elements for the success of BPO (Bronzo *et al.*, 2013).

Furthermore, it is discussed that BPM is one of the mechanisms for developing the BPO services. So, an organization should focus on developing the business process management to expand the outsourcing process. Enormous studies have been carried out on the

issue of BPO and economic development, even if the application of proxies variables (Antounian *et al.*, 2021; Brown & Caylor, 2004; Husnain *et al.*, 2021; Khatib & Nour, 2021; Leopizzi *et al.*, 2021; Ngatno *et al.*, 2021; Sani & Owoade, 2021), except few ones which address the key issues in developing BPO industry (Ababneh & Aga, 2019). Few empirical research has attempted to link BPO with the challenges and factors carried out across Europe, Africa, the Middle East, and Asia (Kang & Kim, 2011). No single study has been found in the south Asian country region which linked BPO and BPM (Ababneh & Aga, 2019). Additionally, previous studies were conducted from an oriental culture perspective (Ababneh & Aga, 2019). Considering these issues, the authors set out a framework to test whether BPM positively influences the expansion of BPO and the specific economic sectors in which it is applied. Bangladesh ranks 13th among emerging economies that are making substantial advances. So, the study draws significant attention to developing economies like Bangladesh. As a result, the authors formulate the following hypothesis

H₁: *Increasing business process management capabilities help to improve BPO*

Knowledge Management and Business process outsourcing

Numerous challenges must be overcome for the industry as a whole to deal with these issues and formulate BPO, such as the outsourcing of one or more IT-related business methods to an external service provider, who is responsible for maintaining processes to reach the Service Recipient's, which is a defined and ascertainable circle of production goals (Ghosh & Scott, 2005) BPO is attractive to businesses because it offers more economic benefits while posing less risk than in-house process optimization (Jadraque, 2020). Businesses prefer BPO because of the higher economic benefit and lower risk it offers compared to in-house process improvement (Santos & Frederico, 2018). Like most businesses, including the BPO sector, have come to know, Knowledge Management (KM) is of significant importance. Most of them have difficulty compiling and integrating all of their experiences and knowledge. There is a lot of work to get individuals to contribute to and use the stored knowledge assets (Wattegama, 2009). These individuals do not know

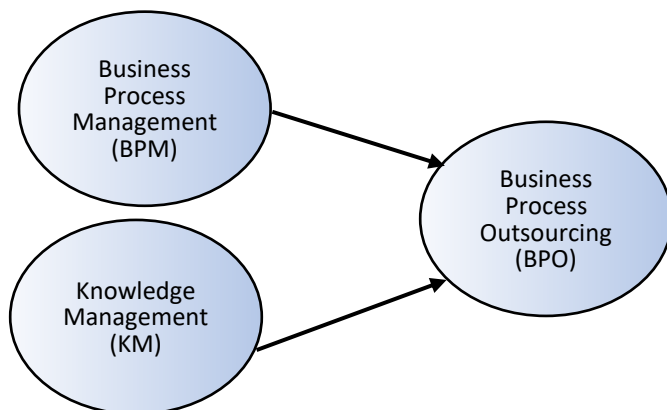
that "people empower people" through an effective Knowledge Management system (KM). As out-sourcing becomes more popular, organizations need to work closely with their outsourcing partners. Their performance depends on the successful interaction of numerous teams and stakeholders located in different places (Wattegama, 2009). To establish a successful partnership, information and expertise must be transferred and shared without direct interaction between the parties involved (Seshasai *et al.*, 2004). Information will inevitably be shared with a larger group of people outside of one's organization. When it comes to retaining, utilizing, and developing knowledge, several issues arise from expanding the breadth of outsourcing in companies versus the resistance of organizations to keep core competencies and their expertise (Zhao *et al.*, 2004). Outsourcing presents a strategic problem because strategic information can be lost and the threat of opportunistic partners (Gronau *et al.*, 2012). According to the firm's resource-based theory, a resource must give economic value and be currently rare, difficult to copy, non-substitutable, and not readily available in factor markets to establish a durable competitive advantage. An organization's intangible resources, such as knowledge, could be strategic. That's why managing the firm's knowledge as a strategic resource requires an effective KM system rather than losing vital information (Gottschalk, 2005). According to Bandyopadhyay and Pathak, outsourcing projects are more likely to succeed when knowledge challenges are addressed. Management must be involved in negotiating the outsourcing contract as well as in the techniques of operation and interactions between the two enterprises when a business out-sources to take advantage of a complementary set of capabilities (Manivannan & Ilangovan, 2010). Knowledge management (KM) is a crucial success factor in BPO. Human capital, structural capital, economies of scale, and, increasingly, access to strategic and business counsel are all part of the outsourcing promise made by the supplier when the customer can return their focus to strategic, core competence and knowledge areas (Gottschalk, 2006). As a result, KM may assist firms in managing and reducing the previously described risk of knowledge publishing due to outsourcing as a strategic risk. Knowledge application is the most critical of KM's four capabilities. Among the

four aspects of KM competence, knowledge protection is the second most important for low KM capability organizations but the least important for medium and high KM capability firms. Each KM capability dimension positively influences BPO performance. Size, industry, and age of outsourcing all affect the dimensions of KM capabilities in different ways. Modeling the firm's characteristics, knowledge management capabilities, and business process outsourcing (BPO) capabilities. Idea: Firms with a high KM capability significantly differ from those with low and medium KM capabilities; different companies have various levels of KM capability; developing knowledge application capability should be the priority in managing BPO, and improving KM capability is an effective means to improve BPO performance. S. Liu and colleagues, (2015).

However, the previous study has shown that KM factors have minor effects on BPO industry; however, the phenomena of BPM and BPO are still on the track to generating renewed research interest. Even though prior research has indicated that KM have only a minimal impact on BPO (Lahiri & Kedia, 2009), the phenomena of KM and BPO are still on the track to producing new research interests. Based on the above ground, we postulate the following hypothesis,

H₂: *Increasing Knowledge Management (KM) capabilities help to improve BPO.*

A conceptual model has been created based on a thorough literature review that shows the connections between the driving forces and BPO in Bangladesh.



All the constructs used to create this conceptual model were obtained from reading earlier studies (Wugan, Guangpei, 2018; Angela *et al.*, 2013).

METHODOLOGY:

Research Type

The current study is empirical and primarily relies on primary data. To calculate the relationships between endogenous and exogenous construct structural equation modeling (SEM) has been employed since it is prevalent to the researcher and is a widely used multivariate regression analysis technique that includes factor analysis, correlation analysis, causal modelling, or path analysis, etc (Habidin *et al.*, 2018). However, SEM is more suitable for the current study model, which is determined to be extremely complicated, has many constructions, deals with relatively small sample size, and the research goal is to anticipate the important construct (Hair *et al.*, 2011).

Sample Characteristics

A total of 50 businesses were contacted for data collection, and 48 responded. Consequently, the sample size is 48 (Table 1). This comprises 22 companies from the Chottogram (Cumilla, Feni, and Chottogram district) division in Bangladesh and 26 from Dhaka (Narayan-gonj, Gazipur, and Dhaka districts) division. Because probability sampling or randomization is impracticable for a big population, non-probability convenience sampling techniques have been considered when selecting a sample from the population. Owners of manufacturing SMEs and managers at the managerial level made up the target respondents. Most of the sample's businesses are privately owned (45 firms).

Development of Measurement

The construction of the model, the choice of items, and the constructs of this study are all based on a literature review and the advice of experts. Three latent variables Business Process Management (BPM) (Tang *et al.*, 2013), Knowledge Management (KM) (Santos & Frederico, 2018), and Business Process Outsourcing (Liu & Deng, 2015) - were developed. Studies show that both seven and five - point scales work well for surveys (Song & Parry, 1996). However, a 1-7 ranking is more preferable than a 1-5 scale to ensure the reliability, validity, and discriminating power of collected data (Preston & Colman, 2000). And thus, a 7- point Likert scale has been used to measure the opinion of survey participants (from 01 "Strongly Disagree" to 07 "Strongly Agree") in the questionnaire.

Table 1: Sample Characteristics.

Characteristics	Type/Measure	No. of Firms	% of Firms	
Firm Type	Collective ownership	11	20.83%	
	Private ownership	35	72.92%	
	Others	02	06.25%	
Industry Type	Manufacturing	46	97.92%	
	Not Specified	02	02.08%	
Length of Operation	01-05 years	25	50.00%	
	05-10 Years	14	31.25%	
	Above 10 Years	09	18.75%	
Location of Establishment	Dhaka Division	Dhaka	13	54.17%
		Narayangonj	09	
		Gazipur	06	
	Chottogram Division	Chottogram	10	45.83%
		Feni	03	
		Cumilla	09	

Data Collection

The analysis and findings of this study are primarily based on primary data. In contrast, secondary data were considered when coming up with the idea, creating the questionnaire, choosing the items and constructs, etc. The responders were physically met to gather data for the study. The respondents responded to a standardized questionnaire by providing their thoughts on several topics. A pilot survey with 05 informants was used to pre-test the questionnaire in order to assess its validity and accuracy and to look for any errors. It is important to pre-test the draft questionnaire with five to ten participants before the major survey (Burns & Bush, 2003). The questionnaire draft was distributed to certain subject-matter experts before it was finalized to get their well-considered feedback on the suitability of the items chosen under each construct. The final survey is launched when the questionnaire has been revised in accordance with suggestions from experts and comments from the pilot survey. There were several questions on the profiles of the firms, such as their year of operation, type of ownership, etc., in addition to the respondent's opinions on the various things in the questionnaire. Journals, and periodicals issued by national and international commercial associations like the SME Foundation, the World SME Forum, newspapers, etc. were used to obtain secondary data.

Common Method Variance Test

Since every respondent was a high authority, there could have been common method variance in the data,

leading to measurement inaccuracy. To rectify the common method variance Herman's single factor test was employed, which is the widely used tool given by Podsakoff *et al.* (2003). For every question on all 48 questionnaires, an exploratory factor analysis (EFA) was done. The unrotated principal components analysis results indicated that the first factor accounted for 31.56 percent of the variation and that no factor accounted for a majority of the variance, indicating that the data were free of common method variance.

Reliability and Validity Test

In order to assess the validity and reliability of the data, factor loadings for each item have been calculated (Table 2). Items with a factor loading of greater than 0.5 were kept for analysis, while the rest were removed. Additionally, AVE (Average Variance Extracted) and Cronbach's Alpha have been used. Since all latent constructs with Cronbach's Alpha measurements greater than 0.7 indicate stronger dependability (Wortzel, 1979). The Square Root of Average Variance Extracted (AVE) for each of the latent constructs is found to be greater than 0.50 (Table 3). Since all of the factor loadings for the items measured larger than 0.6, high convergent validity was found.

The questionnaire's content, however, appears to be reliable because it is backed up by research and was created using the professional judgment from a thorough interview with managers. A Confirmatory Factor Analysis (CFA) was performed to evaluate the construct validity using IBM AMOS v21. Following are the model fit indices that are calculated (Table 3).

Table 2: Measurement Model of Latent Variables.

Constructs/Items	Code	Mean	SD	FL
Business Process Management α: 0.731; AVE: 0.953; CR: 0.752	BPM			
BPM allows businesses to optimize their processes.	BPM1	6.38	1.352	.758
Service oriented infrastructure of BPM can improve BPO.	BPM2	6.42	1.795	.824
Companies should combine Oriented Architecture (SOA) activities successfully to gain a competitive advantage.	BPM3	6.35	1.625	.886
The major risk associated with BPO is that personal information of customers can be leaked.	BPM4	5.98	1.785	.752
The Service Oriented Infrastructure (SOI) framework is useful for establishing structure, life cycle, and governance in SOI practice.	BPM5	5.55	1.415	.650
Knowledge Management α: 0.715; AVE: 0.912; CR: 0.856	KM			
KM is Standardized processes of globalization.	KM1	6.72	1.444	.828
KM helps to formalize the Service intensity & Improve quality.	KM2	6.81	1.326	.812
KM helps to perform improved responsiveness, employee retention & minimized costs.	KM3	5.92	1.499	.882
Increasing knowledge management capabilities helps to improve business Process Outsourcing.	KM4	6.21	1.207	.811
KM is a necessary element for the industry to resolve contemporary difficulties and formulate the change and BPO.	ER5	5.15	1.383	.756
Knowledge Management (KM) is upheld by the significant fact that most organizations, including the Business Process Outsourcing (BPO) sector.	ER6	6.89	1.554	.623
Business Process Outsourcing α: 0.815; AVE: 0.933; CR: 0.859	BPO			
Outsourcing lowers the costs that arise from executing a business process.	BPO1	6.35	1.372	.667
Through outsourcing the company gains access to business experts whose knowledge is not available within the company.	BPO2	5.72	1.582	.821
Outsourcing the management is in a better position when concentrating on developing the core business.	BPO3	6.13	1.465	.952
Outsourcing the process ensures that the performance of the process can be monitored well and constantly improved.	BPO4	6.31	1.470	.992
Outsourcing of business processes is a useful instrument for corporate management.	BPO5	6.78	1.385	.911
Outsourcing the management is in a better position when concentrating on developing the core business.	BPO6	5.89	1.496	.625
SD: Standard Deviation; FL: Factor Loadings; All the items were measured on a 7-point Likert scale, 1(Strongly Disagree) to 7(Strongly Agree)				

Table 3: Model Fit Indices.

Indices	Value	Indices	Value	Indices	Value
χ^2	962.325	TLI	0.867	RMSR	0.052
χ^2/df	001.572	CFI	0.825	RMSEA	0.061

Thus, according to the model fit indices, the measurement model is suitable.

RESULTS:

Structural Equation Modeling (SEM) has been utilized to examine the data gathered using the survey instrument. SEM is the best technique for this study's analysis since it allows researchers to simultaneously investigate correlations between various components (Habidin *et al.*, 2018). SEM is also useful for determining the mediating influence and evaluating the quality of fit of a theory.

As a result, SEM was used in this study to examine all the hypothesized correlations between the constructs. The statistical outcome of the analysis showed what follows.

However, the the goodness of fit indices accounted for $\chi^2 = 962.325$, $\chi^2/df = 001.572$, TLI=0.867, RMSR= 0.052, CFI= 0.825, RMSR= 0.052 and RMSEA= 0.061 indicates that the model has a good fit with the data. The statistical findings supported the two hypotheses in their entirety. As the p-value accounts for less than 0.01 in this study.

Table 4: Estimated Relationships.

Path	Path Coefficient	Standard Path Coefficient	C.R	P
BPO ← BPM	.452	.125	1.865	.003
BPO ← KM	.358	.187	2.572	.005

It is found that Business Process Management (BPM) and Knowledge Management (KM) considerably influence the firm's Business Process Outsourcing (BPO).

DISCUSSION:

Linking BPM to BPO creates potential opportunities; the organization looks for tactical or strategic outsourcing. Outsourcing as the process of improving business and gaining competitive advantage rather than a cost-cutting strategy. The increasing business process management capability positively influences developing business process outsourcing. The authors found a strong association between BPM and BPO industry expansion. The current findings align with the previous results (Mahmoodzadeh *et al.*, 2009; Tang *et al.*, 2013). So, organizations need to focus on increasing the capacity of BPM to capitalize on the BPO opportunities. Next, in assessing the association between knowledge management and business process outsourcing, the authors found a significant relationship between them. The results of current study are supported by previous studies (Bhat *et al.*, 2010; Wategama 2009) It is assumed that knowledge management (KM) is a crucial success factor in BPO. Human capital, structural capital, economies of scale, and, increasingly, access to strategic and business counsel are all part of the outsourcing promise made by the supplier when the customer can return their focus to strategic, core competence and knowledge areas.

CONCLUSION:

In our research, the authors examine how to improve BPO to determine what drives organizations to develop the BPO industry. We also discuss how developing BPO affects the business process and knowledge management. The authors found a positive direction in linking the relationship between knowledge management, business process management, and business process outsourcing. Surprisingly BPO Industry in Bangladesh is still an unexplored area. So, the research draws attention to developing the BPO with the help of UniversePG | www.universepg.com

promoting business process and knowledge management. Bangladesh is the 13th best-emerging economy in the world. Economic and financial status trends have slowly but surely increased in the last couple of years. Linking with the holistic development of a country's business process management provides many opportunities to boost economic growth. To explore a deep understanding of BPO and its comprehensive services, future researchers should incorporate drivers of BPO and large size of data. In addition, a cross-cultural study may be conducted in future.

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CONFLICTS OF INTEREST:

This research declares no competing interests.

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