

Business Process Re-engineering and Business Process Outsourcing



Continuous Improvement, Total Quality Management, Lean and BPR have been around for some time. Their principles and objectives remain valid, and their use as improvement techniques is perhaps more prevalent than ever.



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1. Introduction

1.1 Purpose

This paper provides an overview of Business Process Reengineering (BPR) and Business Process Outsourcing (BPO). It is aimed at Procurement and Supply Management (P&SM) professionals with a general interest in business issues, and at those who might be involved in, or be affected by, BPR/BPO initiatives. It also explains how and why the two fields are linked, and gives an overview of how such exercises can be viewed as a journey from continuous improvement through to full blown outsourcing (the subject of another paper in the CIPS Knowledge Works series), and back to continuous improvement again.

More specifically, the learning outcomes for this paper aim to provide an understanding of:

- why it is important for P&SM professionals to understand BPR and BPO
- what is meant by the terms BPR and BPO and some of the basic techniques involved
- why P&SM professionals should view BPR and BPO as an opportunity to raise their profile
- how the procurement function can be involved in and/or lead these activities
- how the procurement function can be affected by these activities
- how BPR and BPO might affect the supply chain at a macro level
- where to go to find out more about BPR and BPO.

1.2 Why is this topic important?

The terms Continuous Improvement, Total Quality Management (TQM), Lean and BPR have been around for some time. Their principles and objectives remain valid, and their use as improvement techniques is perhaps even more prevalent than ever. BPR provides an opportunity for the procurement professional to take part in a business-wide initiative to make radical improvements to the efficiency and effectiveness of the key processes in the organisation, including procurement related processes. Having an understanding of BPR, and recognising that it can raise some significant challenges for the organisation, will also help P&SM professionals to take a leading role in procuring the right skills when there is a requirement for a partner to help facilitate the BPR initiative.

BPO provides an opportunity for the procurement professional to get involved in strategic make/buy decisions that will shape the organisation that they work for. They may take a leading role in procuring the outsourced service provider who will become a critical supplier or partner for the organisation going forward and, once again, they may be involved in procuring external assistance to help the organisation to select and then transition services to the outsourced service provider.

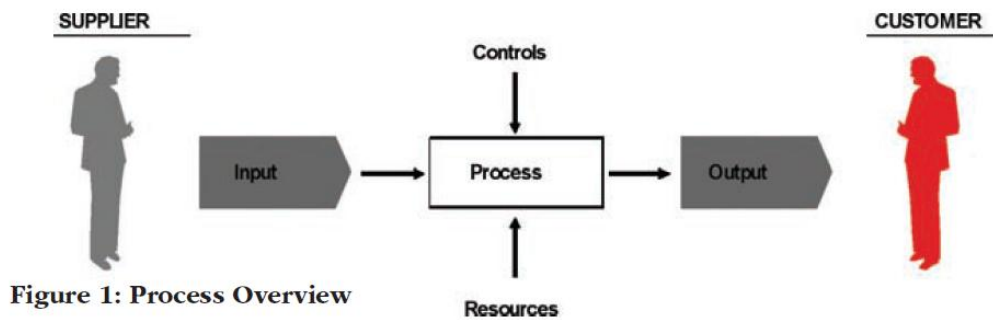
2. What is BPR and BPO?

2.1 What is a process?

Before thinking about definitions for BPR and BPO it is important to understand what is meant by a business process.

A business process is a controllable set of activities which are carried out by people (or resources) to transform an input (provided by an internal or external supplier) into an output that is of value to the customer (who may also be internal or external).

Figure 1 illustrates this in diagrammatic form:



2.2 BPR definition

Whilst there are various definitions of BPR each describe the same concept.

Hammer and Champy (1993) state that: "Business process reengineering is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed."

In addition, Johansson et al. (1993) state that:

"Business process reengineering, although a close relative [of Just In Time (JIT) Principles & Total Quality Management (TQM)], seeks radical rather than merely continuous improvement. It escalates the efforts of JIT and TQM to make process orientation a strategic tool and a core competence of the organization. BPR concentrates on core business processes, and uses the specific techniques within JIT and TQM 'toolboxes' as enablers, while broadcasting the process vision."

BPR, therefore, is a technique that focuses on the processes that span an organisation, as opposed to being functionally or organisationally focused. When implemented successfully, BPR can provide an organisation with a step change in the efficiency and effectiveness of its business processes, such as the purchase to pay process, which involves people from a number of different functions.

2.3 BPR's relationship to other business management techniques

To put BPR in context it is worth noting Johansson et al's (1993) reference to continuous improvement. Recognition of the need to continually evolve is not new: "It is not the strongest of the species that survive, nor the most intelligent, but the most responsive to change." (Darwin).

Therefore, continuous improvement should always be at the forefront of an organisation's thinking. However, BPR offers the opportunity to 'fast forward' change, by looking at business process with a clean sheet of paper – revolution rather than evolution. Figure 2 highlights the different features of common continuous improvement techniques, including BPR:

Features of Approach			
	Example Tools & Techniques	Strengths	Weaknesses
Business Process Re-engineering	<ul style="list-style-type: none"> • Visioning – 'as is' & 'to be' • Process mapping • Process simulation • Operating Model dev't 	<ul style="list-style-type: none"> • Clear methodology • Proven track record • Rapid improvement • Promotes innovation 	<ul style="list-style-type: none"> • Resource intensive • Not incremental • Micro-level focus
Business Process Outsourcing	<ul style="list-style-type: none"> • Make vs. buy analysis • Process mapping • Strategic sourcing • Request for Quotation 	<ul style="list-style-type: none"> • Taps into providers expertise • Access to new technology • Exploits economies of scale 	<ul style="list-style-type: none"> • Benefits have to be shared • May not be tailored solution • Contractually complex • Extends supply chain
Total Quality Management	<ul style="list-style-type: none"> • Cause and effect analysis • Failure mode effect analysis • Quality circles • Quality function deployment 	<ul style="list-style-type: none"> • Large toolset • BP material available • Worker involvement • Variety of approaches 	<ul style="list-style-type: none"> • Often lacks objective • Resource intensive • Quality for the sake of it • Lack of change mgt
Lean	<ul style="list-style-type: none"> • 5 S (5 Wastes) • Total Productive Maintenance • Stock Management • Kanban analysis 	<ul style="list-style-type: none"> • Cycle time & WIP focus • Strategic Project Review • Bias towards action 	<ul style="list-style-type: none"> • Most suited to transactional processes • Migration is difficult • Limited qualitative data
Six Sigma	<ul style="list-style-type: none"> • Statistical Process Control • Design for Six Sigma • DMAIC • Experiments 	<ul style="list-style-type: none"> • Statistically advanced • Clear process benefit • Aids process design • Major error reduction 	<ul style="list-style-type: none"> • Mathematically challenging • Limited qualitative data • Quality cost vs. benefit
Activity Based Costing	<ul style="list-style-type: none"> • Activity analysis • Predictive planning • Performance management • Process simulation 	<ul style="list-style-type: none"> • Accurate MII • Clear cost picture • Identification of root causes 	<ul style="list-style-type: none"> • Slow to implement • High data collection • Cost driver complexity

Figure 2: The relationship of BPR to common continuous improvement techniques

2.4 Why do organisations decide to do BPR?

Processes in most organisations tend to have evolved over time and usually they have not been designed with the specific requirements of their internal/external customers or the prevailing circumstances of the organisation in mind. This often leads to significant duplication and steps that are no longer necessary, in which useful or 'value added' activities are offset by others which add no value.



Figure 3: Each function typically focuses on its own part of the process, and the specific needs of the customer can get overlooked

Technology has, until recently, tended to concentrate on automating and speeding up existing activities, rather than being used as an opportunity to review the effectiveness of an organisation's processes. Furthermore, any process improvement initiatives that do happen tend to focus on individual functions, so can only have limited effect. BPR seeks to address such issues by providing an opportunity for an organisation to completely redesign specific or end-to-end processes, which are typically cross-functional, to improve their performance in the eyes of their customers.

BPR is often undertaken when there is a requirement to initiate a step change in the performance of an organisation or its processes. This may be driven by one or more factors, such as the threat of a strong competitor, a requirement for a cash injection, the arrival of a new CEO, etc. BPR, however, is just one element of making a step change. When an organisation has chosen the appropriate process and considered the use of IT to deliver that process, it will also need to think about other aspects, such as structure, systems, people, culture, and of course whether it is obtaining optimum value for money from its external suppliers.

2.5 BPO definition

As with BPR, there are various definitions of BPO. The CIPS Knowledge Works paper on outsourcing defines outsourcing as 'the process of contracting with the most suitable expert third party provider'. It goes on to note that 'it can take a multiplicity of forms, including designing, constructing, managing, financing, administering and providing the service in question'.

BPO is commonly used to describe a business arrangement between an organisation and a third party provider, where that supplier has been engaged to take on the responsibility for the running of a specific transaction process, such as Accounts Payable. Often an organisation will outsource transaction processing for an entire function or service, for example Accounts Payable, Accounts Receivable, General Ledger, Fixed Assets, and Payroll, which are all part of the finance function. The scope of outsourcing may be limited to processing, but can often extend to the transfer of staff, and the use of the BPO supplier's IT platform and systems. The underlying infrastructure and service management can also be outsourced, and this is often referred to as Information Technology Outsourcing (ITO).

Whilst BPR is recognised as a technique for reviewing and improving processes, BPO may be viewed as a solution adopted by an organisation that believes one or more of its business processes would be done better by a third party provider. The two are therefore often linked. Typical scenarios include the following:

- An organisation conducts a BPR exercise, with no follow-on requirement to undertake BPO. In the finance function for example, accounts payable and procurement may work together to fundamentally review and redesign the organisation's purchase to pay processes. This might require the purchase of some new software, but may not involve any of the new processes being undertaken by an external provider.
- An internal BPR exercise recommends a solution that, after an appropriate make/buy review, forms a detailed specification for a BPO exercise. For example a procurement function may want to reduce processing costs for low-value orders, and gain benefits from greater leverage that a BPO supplier might have, by passing the responsibility for ordering low-value goods on to a specialist BPO supplier.
- An organisation recognises the need for a BPR exercise, but instead of making the changes themselves, decides to opt for BPO, in which case the external provider will implement the necessary process improvements (e.g. when an organisation consolidates its stationery

suppliers and brings in a new single source provider to reduce inventory levels and provide stationery on JIT principles). This is generally thought to be less efficient, as BPR benefits are realised by the BPO firm, not the organisation that is doing the outsourcing.

2.6 Why do organisations decide to do BPO?

Usually, an organisation will outsource those transaction processes that are not considered crucial to maintaining its position in the market. There are typically two categories:

- Back office outsourcing, which includes internal business functions such as finance, HR, procurement and billing
- Front office outsourcing, which includes customer-related services such as marketing and technical support.

BPO is an activity that an organisation will consider when they want to:

- Reduce costs – in particular labour costs
- Improve service levels – in particular by leveraging a BPO provider's expertise to bring development and innovation to any outsourced processes
- Free up management time to focus on core business areas
- Reduce capital expenditure and release capital asset value
- Increase the organisation's flexibility to size itself to meet businesses' and customers' changing requirements
- Maintain or improve its position in the marketplace.

2.7 The journey from BPR to BPO

BPR and BPO are part of a spectrum of options available to organisations that wish to improve their processes. Figure 4 illustrates the process through which organisations will typically go in order to optimise their business process activities:

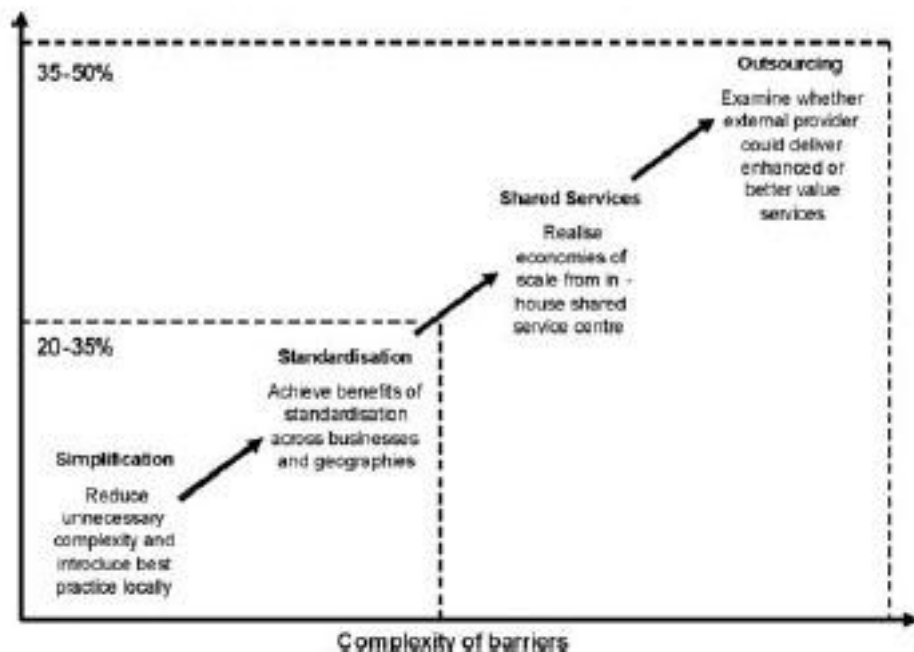


Figure 4: Spectrum of process improvement options

Simplification and standardisation of processes are the first steps in this spectrum, and they can realise improved efficiency, increased effectiveness and – ultimately – reduced costs (typically up to 35%). These initial steps can be addressed through 'in-house' continuous

improvement techniques, but under the circumstances described in section 2.4, a BPR initiative may be invoked if more significant levels of change are required.

Further along the spectrum, a large organisation may gain additional benefits from implementing a shared services arrangement. This involves redesigned processes being brought together into dedicated service centres to further improve the effectiveness and, in particular, the operational efficiency of some of its processes. Shared services can be implemented internally within an organisation, for example by bringing together all the back office transactional HR processes from across a number of disparate sites, but this could also involve BPO for particular processes. Payroll processes, for example, are often delivered by an external shared services provider.

Shared services may also be used as an important interim stage for an organisation that recognises it can make some improvements itself, and that wants to fully understand its processes before it finally opts to outsource them. Any easy benefits, or “quick wins”, would have to be shared with the outsource provider.

The final steps in the spectrum involve the outsourcing of processes to a third party provider. This might be undertaken through a partnering style agreement, with a provider who may initially operate the processes at a customer’s premises, before providing the same service from a remote service centre within the same country, which would typically service a number of customers. Local government claims and benefits payments, or a financial service organisation’s life and pensions policies processing, are examples of operational processes that are provided by BPO suppliers.

At the far end of the spectrum, offshoring may be considered. The term off-shoring is used to describe the relocation of business processes from one country to another, where, often, the staff operating the processes are located in another country with lower wage costs, such as Eastern Europe, India or China. This is usually only appropriate for back-office processes that do not directly affect an organisation’s external customers, and sometimes it cannot be undertaken for political reasons, for example where a decision to off-shore by a government department would result in significant UK job losses.

Research shows that a move to shared services and/or BPO can achieve cost reductions of between 35 and 50%. Whilst such cost reductions can bring significant benefit to an organisation, it is important to maintain the focus on customer service.

It should be noted that continuous improvement and BPR techniques can be implemented at any point across the spectrum, and that after a BPR exercise an organisation should expect to return to a culture of continuous improvement.

2.8 Procurement’s role in BPR and BPO

BPR/BPO initiatives can provide procurement practitioners with an opportunity to significantly raise the profile of the procurement function among key people in other parts of their organisation, by taking an active role in promoting and realising the potential benefits of such an exercise. Procurement practitioners can also use it as an opportunity to re-enforce current good practice.

The procurement function may identify a need to work closely with a strategically important supplier, to help review and redesign particular processes whose inefficiencies and ineffectiveness are impacting on the quality, delivery and/or costs of the goods or services they are providing. BPR can therefore be an important part of supplier development initiatives.

BPR can also be applied across organisations, through initiatives such as the implementation of e-market places and purchase to pay systems.

The procurement function will have a role to play in helping an organisation with the make/buy decision when considering BPO. Issues that need to be considered to inform such a decision include:

- The criticality of the process to the business
- The size and maturity of the market and its ability to meet the requirement
- Whole life costs, including service transition, contract management and supplier management/development overheads
- The availability of appropriate in-house expertise
- The susceptibility of being 'locked-in' to a supplier once the contract has been signed, through a lack of flexibility in the contract terms.

Procurement will also have a significant, on-going involvement once a buy decision has been made, in sourcing, tendering, negotiating, letting and managing the contract.

Key things to get right include:

- Clear mapping and joint recognition of the inter-dependencies between the client and supplier organisations, and translation of these into contract terms and service level agreements.
- The on-going management of the outsourced arrangement, including supplier performance management, contract management, and supplier relationship management.
- The exit strategy, including the return of company data, the format of that data, and the timescales of transition from the old supplier to the new (or to a return in-house).
- Flexibility in the contract/specification to modify the arrangements to suit changed circumstances in the future. Appropriate mechanisms to get fair prices for changed requirements.
- Security and confidentiality, especially if the process is being undertaken outside the UK, where legislation will be different.

There are both generalist and specialist BPO suppliers in the market. For example, some focus on public sector services, covering central and/or local government, whereas others focus on specific services such as finance, procurement, human resources, etc. In choosing the appropriate suppliers, consideration should be given to the wider supply chain implications of the decision.

- BPO is not unlike the decision that automotive manufacturers make in outsourcing sub-assembly manufacture – the OEM is still ultimately responsible for the integration of the systems into a vehicle that satisfies the customers' needs, but they recognise and value the expertise that system specialists can bring, and invest time in partnership-style relationships.
- Selecting a supplier with overseas facilities for service provision will almost certainly mean UK jobs may be lost overseas in the long-run, even if not straight away, unless there are legal or practical constraints that prevent it.

3. Risks

3.1 Risks to the success of a BPR or BPO initiative

This paper has mentioned the opportunities that BPR and BPO provide for an organisation and for procurement professionals involved in such initiatives. However, for any BPR or BPO initiative to be successful, it requires the involvement of people with a high level of change management expertise, and a thorough understanding of the risks involved. In Appendix A,

Hammer and Champy list typical reasons for a BPR exercise not delivering its full potential, many of which apply equally to BPO. Other issues that need to be considered for BPO include:

- The risk of simply outsourcing a problem rather than solving it, although in some cases (for example when the supplier is due to undertake the BPR), this may be appropriate
- The importance of understanding the end customer's needs, so that you can avoid outsourcing critical assets and finding yourself beholden to a supplier for producing something that is a core part of what your customers value
- Developing a robust exit strategy, so that in the event of a problem with the chosen out-source supplier, the legal requirements are clear, your intellectual property is safe, and your organisation can continue to operate
- Investigating the maturity of the supply market, and whether it is really ready to provide the services required in the way that you want them to be delivered
- Avoiding thinking that BPO is a universal panacea – it is only appropriate in certain circumstances, and when in-house solutions have already been considered and rejected
- Addressing the change-management issues that can be particularly challenging with BPO, so considerable thought must be given to how any proposed changes are communicated to internal and external stakeholders
- Where procurement professionals are involved in the process of outsourcing elements of their own function, and defining the retained procurement organisation that will manage the relationship, there may be a requirement for additional governance (typically the CFO).

3.2 Risks to a procurement professional from BPR & BPO

Critics of BPR argue that it may be perceived as a threat to the procurement professional because:

- BPR is a cross-functional exercise that may challenge the boundaries of the existing procurement function, and may ultimately lead to headcount reductions
- There is a risk that the procurement function may be misunderstood
- Re-engineered processes may fail to reach the future needs of the business.

BPO may also be perceived to be a threat to the procurement professional because the procurement function may be one of the target areas for outsourcing, so procurement professionals might find themselves working for a new organisation in the future (although this might prove to be an opportunity in the longer term!). However, if the procurement professional does nothing, then the risk is that they may find BPR/BPO being done to them, rather than choosing to be a part of the change process and influencing the outcome. This means that at the very least they risk being seen as ignorant of these modern business techniques, and at worst they risk finding themselves having to look for a new job, because they didn't believe they could ever be affected by these sorts of initiatives – “we'll still have to buy things whatever happens!”

4. Summary

In an increasingly competitive world, the constant drive for efficiency means that more and more organisations will consider undertaking change initiatives such as BPR and BPO, in a bid to maintain and improve their current performance. Both of these initiatives should be seen as opportunities for the procurement function to raise its profile.

However, neither BPR nor BPO are easy. At the very least, they require:

- Flexibility, an open attitude, and a willingness to approach unfamiliar terrain

- Different, more complex and varied skill-sets, such as process reengineering, complex contract management, supplier relationship management, and senior level stakeholder management.

When undertaking a transformation journey, from continuous improvement to BPR to BPO and back through to resuming continuous improvement, thought must be given to whether each step is right for the organisation and its prevailing circumstances. Maintaining an understanding of what the organisation is trying to get out of the initiative is an important success factor, and procurement professionals who are able to provide an intelligent input into this understanding are well placed to provide a key role in improving their organisation's performance.

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Appendix 1

Hammer & Champy's reasons for BPR failure Summary from Hammer & Champy (1993, Chapter 14):

1. Trying to fix a process instead of changing it.
2. Not focusing on business processes.
3. Ignoring everything except process redesign.
4. Neglecting people's values and beliefs.
5. Being willing to settle for minor results.
6. Quitting too early.
7. Placing prior constraints on the definition of the problem and the scope for the re-engineering effort.
8. Allowing existing corporate cultures and management attitudes to prevent reengineering from getting started.
9. Trying to make reengineering happen from the bottom up.
10. Assigning someone who doesn't understand reengineering to lead the effort.
11. Skimping on the resources to reengineer.
12. Burying reengineering in the middle of the corporate agenda.
13. Dissipating energy across a great many reengineering projects.
14. Attempting to reengineer when the CEO is two years from retirement.
15. Failing to distinguish reengineering from other business improvement programs.
16. Concentrating exclusively on design.
17. Trying to make reengineering happen without making anyone unhappy.
18. Pulling back when people resist making reengineering changes.
19. Dragging the effort out.

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