



Effects of risks on the performance of business process outsourcing projects: The moderating roles of knowledge management capabilities

Yajun Zhang ^a, Shan Liu ^{b,*}, Jing Tan ^b, Guoyin Jiang ^c, Qing Zhu ^d

^a School of Management, Huazhong University of Science and Technology, Wuhan 430074, China

^b School of Management, Xi'an Jiaotong University, Xi'an 710049, China

^c School of Public Administration, University of Electronic Science and Technology of China, Chengdu 611731, China

^d Institute of Cross-Process Perception and Control, Shaanxi Normal University, Xi'an 710061, China

Received 6 November 2017; received in revised form 29 January 2018; accepted 4 February 2018

Available online xxxx

Abstract

Although business process outsourcing (BPO) can reduce cost and enhance the competitiveness of firms, the implementation of BPO projects is unsatisfactory. By integrating knowledge management capability theory and risk-based view, we develop a model of how different types of BPO risks affect project satisfaction and how knowledge management capability changes the influences of BPO risks. A survey of 121 BPO projects was conducted among BPO client department manager and project manager through a pairwise design. Empirical evidence reveals that social system, technical system, and project management risks negatively affect BPO project satisfaction. However, cultural, technological, and structural levels of knowledge management capabilities weaken the negative risk effects of social system, technical system, and project management, respectively. Different types of risks and knowledge management capabilities should be matched to achieve effective risk management.

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Keywords: Business process outsourcing; Risk management; Project satisfaction; Pair-wised survey; Knowledge management capability

1. Introduction

Business process outsourcing (BPO) project refers to projects where service providers accept, manage, and control business processes that a client entrusts and selects (Heffes, 2005; Liu et al., 2017). BPO projects can reduce cost and enhance the competitiveness of firms (Beverakis et al., 2009), but the implementation of these projects is unsatisfactory. According to a recent survey, approximately 50% of outsourcers believe that their outsourced business processes do not generate additional value, provide special knowledge, or reduce the expected cost for business operations management (Fersht, 2014). The process of BPO project implementation is subjected to numerous risks.

Although previous studies investigated the relationship between risk and outsourcing project success, some research gaps remain unaddressed. Empirical evidence is lacking in the investigation of this relationship. For example, Alipour et al. (2011) argued that performance, financial, psychological, and strategic risks have negative effects on BPO projects, but no solid evidence was provided. Perçin (2008) divided BPO risks into six categories, namely, information security and privacy, hidden cost, loss of management control, employee morale, business environment, and service provider. They further proposed a fuzzy multi-index evaluation method to evaluate the risk effect, but the results lack practical data support. Therefore, the mechanism of how risks influence the success of BPO projects remains unclear.

Previous studies also lack a comprehensive examination into different BPO risk types. Shi (2007) indicated that market

* Corresponding author.

E-mail address: shanliu@xjtu.edu.cn (S. Liu).

performance and organizational risks of a customer will significantly affect long- and short-term performance of BPO; however, the risks of BPO proposed in the study are not comprehensive and only include three types. Based on a survey of 218 BPO projects in 126 banks, [Gewald and Dibbern \(2009\)](#) empirically showed that BPO project risk significantly affected success, but the effect of each type of risk (financial, psychological, and strategy risks) on performance was not analyzed. [Herath and Kishore \(2009\)](#) found that differences exist in the effect of risk on BPO project satisfaction in different contexts. They examined the risk of offshore BPO and contended that its impact differs from that of onshore BPO project risk. These studies have initially identified that BPO project risk has a negative effect on outsourcing project results (e.g., satisfaction). However, these studies did not conduct comprehensive risk identification. Many other risks exist in the BPO process (e.g., implementation and customer risk), but evidence for the effects of these additional risks are lacking. Further clarification on the mechanism of how different risks influence BPO project success or satisfaction is beneficial for developing differentiated and effective risk management strategies. Therefore, the first objective of this research is to address the effect of different types of risks on BPO project satisfaction.

Previous studies attempted to employ knowledge management capabilities to deal with risks because they may minimize the uncertainties around BPO projects. However, the findings of prior studies were seldom tested. Knowledge management capability is the capability to create, transfer, integrate, and apply knowledge in various aspects, such as cultural, structural, and technological ([Alavi and Leidner, 2001](#); [Gold et al., 2001](#)). [Luo et al. \(2010\)](#) proposed that two types of knowledge management capability (e.g., knowledge sharing and integration) of outsourcer and service providers can effectively mitigate three risks of BPO projects, namely, process control, data security, and transaction cost risks. However, they failed to investigate the mechanism of how knowledge management capabilities interact with risks in influencing the effectiveness of projects. [Currie \(2003\)](#) developed a framework that combines knowledge management capability and risks for outsourced projects. This framework divides knowledge management capability into capabilities for techniques and people, and can be used to evaluate the benefits and risks of outsourcing projects. [Mahmoodzadeh et al. \(2009\)](#) established a framework for knowledge management capability in BPO projects; they found that this framework can effectively reduce risk impact throughout the lifecycle of outsourcing; they confirmed their findings through a case study of corporate outsourcing practices. However, Mahmoodzadeh et al. did not conduct extensive investigations, and their study lacked data support and empirical evidence. [Willcocks et al. \(2004\)](#) first identified 19 risks of outsourcing and found that one type of knowledge management capability (i.e., knowledge utilization) can reduce the effect of such risks based on a case of a company. The abovementioned studies mainly established the knowledge management capability framework to avoid risks. However, solid evidence of the effectiveness of knowledge management capability on risk is lacking. In addition, a comprehensive examination on the joint effects of various types of knowledge

management capability and risks on project outcomes remains unclear. Thus, the second objective of this study is to determine the influence of different types of knowledge management capabilities to the effects of risks on BPO project satisfaction.

These issues should be examined to enable BPO project managers to avoid neglecting risks that significantly affect BPO success and master the appropriate approach to utilize different types of knowledge management capabilities. In summary, the present study attempts to answer two questions.

- (1) How do different types of risks affect BPO project satisfaction?
- (2) How do various types of knowledge management capabilities change the effects of risks on BPO project satisfaction?

In the following sections, we will develop the research model and hypotheses, analyze the results, and discuss the mechanisms among knowledge management capability, risks, and satisfaction.

2. Literature review and research hypothesis

2.1. BPO project risk

This study defines risk as a factor that threatens the successful implementation of BPO projects ([Liu, 2016](#)). [Hillson and Simon \(2012\)](#) proposed a methodology, namely, active threat and opportunity management, for managing project risks, achieving objectives, maximizing opportunities, and minimizing threats. In the area of project management, [Schmidt et al. \(2001\)](#) presented a large risk profile of software projects. [Wallace et al. \(2004a, 2004b\)](#) first proposed three dimensions (project management, technical subsystem, and social subsystem) and six sub-dimensions of risks based on socio-technical theory; they also presented a relatively comprehensive risk factor. The risk framework of Wallace et al. was widely applied in the area of outsourcing project management ([Liu et al., 2010](#); [Liu and Wang, 2014](#)). [Abdullah and Verner \(2012\)](#) provided a relatively comprehensive outsourcing risk structure based on socio-technical theory, which can be applied in various outsourcing forms (e.g., information technology outsourcing). However, this risk structure failed to consider the features of BPO projects. [Shi \(2007\)](#) and [Herath and Kishore \(2009\)](#) developed a set of risks solely for BPO projects, which also appropriately fits with the framework of [Abdullah and Verner \(2012\)](#). Therefore, the present study combines the risk framework of [Abdullah and Verner \(2012\)](#) and risk categories developed by [Shi \(2007\)](#) and [Herath and Kishore \(2009\)](#) to provide a comprehensive picture of BPO risks.

Based on previous studies ([Abdullah and Verner, 2012](#); [Shi, 2007](#); [Herath and Kishore, 2009](#)), the present study divided the risks of BPO projects into social and technical systems and project management risks. These three types of risks further include six categories, namely, organizational environment, client, complexity, contract, execution, and vendor risks. Organizational environment risk is the uncertainty of organizational environment and internal organization. Client risk is the uncertainty of the client's ability and cooperation of outsourcing, such as lack of

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