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Business Process Outsourcing Reengineering: Essence and Implementation Features

Abstract

The purpose of the paper is to explore theoretical and applied aspects of outsourcing business process reengineering. The essence of reengineering is substantiated in the context of transferring non-core functions to external contractors, and key stages of process redesign, selection criteria for outsourcing partners, and integration mechanisms are defined. *Methodology.* The study employs methods of scientific generalization, structural-functional analysis, and process modeling to investigate the transformation of management systems. The research identifies core process stages, evaluation metrics (KPIs), stakeholder roles, potential risks, and control mechanisms through a systematic approach to business process optimization. *Results of the study.* The findings demonstrate that combining reengineering with outsourcing allows enterprises to optimize operating costs, accelerate operational cycles, improve service quality, and form an integrated business ecosystem capable of rapid adaptation to market changes. An integrated management model for outsourcing reengineering was developed, outlining six sequential stages from process diagnostics to continuous monitoring. *Practical implications.* The proposed reengineering program model and functional-process management mechanism can be utilized by enterprises across various industries seeking to enhance their competitiveness, reduce operational expenses, and streamline non-core functions during digital transformation and market instability. *Value / originality.* The paper provides a comprehensive theoretical and methodological framework for integrating business process reengineering and outsourcing, establishing a structured management model that bridges the gap between internal process optimization and external partnership coordination.

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Keywords

business process reengineering, outsourcing, process optimization, business ecosystem, digitalization, performance management, strategic development, BPM, ERP, enterprise transformation

JEL: L21, M11, O32



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1 Introduction

Modern operating conditions for industrial and service enterprises, particularly in transforming and post-crisis economies such as Ukraine, are characterized by acute turbulence, structural economic imbalances, accelerating digital transformation, and the persistent imperative for rapid adaptation to shifting global and domestic market demands. The cumulative impact of geopolitical crises, macroeconomic instability, broken supply chains, and rising technological requirements has clearly demonstrated that conventional, functionally segregated management systems have exhausted their operational utility. Rigid vertical hierarchies, fragmented operational responsibility,

and bureaucratic decision-making procedures fail to provide the adaptability, flexibility, and cost resilience necessary for maintaining long-term competitiveness. Under such complex and volatile circumstances, economic entities must proactively reconfigure their management architectures and implement innovative process-oriented paradigms that prioritize customer value, operational speed, and cost efficiency.

Among modern management methodologies, business process reengineering represents one of the most powerful instruments for achieving qualitative, radical breakthroughs in organizational performance. Grounded in the fundamental redesign of core operations and the shift from departmental management to end-to-end horizontal processes,

reengineering enables organizations to eliminate systemic bottlenecks, reduce execution cycle times, and optimize structural resources. Simultaneously, the intensification of market competition has driven the widespread adoption of outsourcing, transforming it from a tactical measure for minor operational cost savings into a comprehensive strategy for building agile partner ecosystems. Outsourcing allows enterprises to externalize non-core, peripheral, and capital-intensive functions to specialized providers, thereby concentrating scarce internal managerial attention, financial capital, and specialized human resources on developing core competencies that generate strategic competitive advantages.

However, empirical evidence and operational reality demonstrate that adopting outsourcing in isolation from structural process redesign leads to systemic dysfunctions. Transferring non-standardized, opaque, or inherently inefficient processes to external vendors simply shifts internal chaos outward, multiplying transactional overheads, blurring operational accountability, creating critical supplier dependencies, and impairing service quality. Conversely, executing internal reengineering without engaging external capabilities and modern digital ecosystems limits an organization's scalability and imposes substantial capital burdens associated with maintaining secondary operational infrastructure.

This acute managerial contradiction establishes the objective necessity for synthesizing both approaches into an integrated scientific and applied concept, namely outsourcing business process reengineering. This integrative model posits that externalizing operations should not be treated as a routine contractual substitution of labor, but as a holistic, multi-phase transformation of business architectures that harmonizes internal workflows with external partner capabilities. It demands rigorous initial diagnostics, the radical optimization and standardization of process logic, the configuration of digital interfaces, and the establishment of robust coordination frameworks capable of maintaining operational transparency and managerial control.

Existing studies frequently treat process redesign and outsourcing implementation as separate administrative pathways, leaving a substantial gap regarding the holistic management mechanism that guides an enterprise through operational diagnostics, partner selection criteria, architectural integration, and long-term joint performance governance.

Therefore, the primary objective of this research is to investigate the conceptual foundations and practical implementation features of outsourcing business process reengineering, as well as to develop an integrated management framework and functional-process mechanism for enterprise restructuring within modern collaborative business ecosystems. Achieving this overarching objective requires resolving several interrelated scientific tasks, including identifying the

fundamental drivers and prerequisites of outsourcing reengineering under market volatility, defining its conceptual boundaries and governance principles, establishing criteria for identifying candidates for externalization, constructing an integrated multi-stage management model with corresponding performance indicators and risk mitigation mechanisms, and substantiating the strategic outcomes and digital tools necessary for building resilient partner ecosystems.

2 Prerequisites, Conceptual Framework and Essence of Outsourcing Business Process Reengineering

Market liberalization, globalization, and the commercialization of business processes necessitate a fundamental review of traditional enterprise management strategies (Davenport, 1993; Hammer, Champy, 1993). Companies face a complex set of challenges, including intensified competition, rising customer expectations regarding service quality, the need for rapid technological process renewal, resource scarcity for maintaining large internal departments, demands for operation digitalization and automation, and the imperative to reduce operating costs (Robson, Ullah, 1996; Strassmann, 2004). Dynamic environmental shifts compel organizations to seek novel methods of activity organization and alternative forms of interaction with partners and clients (Strickland, Thompson, 2008; Cameron, Green, 2015). Consequently, enhancing business process management efficiency through the integrated application of information technology, management, and marketing innovations has become a critical priority. A pivotal concept in addressing these challenges is business process reengineering combined with outsourcing, which enables enterprises to optimize costs, increase flexibility, and concentrate on core competencies (Vinogradova, 2005). Although outsourcing serves as a powerful tool for performance enhancement, its implementation in isolation from reengineering frequently leads to process fragmentation, loss of control, and diminished quality (Ponomarenko, 2015; Onyshchenko, 2013). Therefore, developing methodologies for outsourcing business process reengineering is essential to ensure process coherence, controllability, and overall effectiveness.

The issues of change management and the implementation of business process reengineering methods at enterprises have been extensively examined by both international and domestic scholars (Hammer, Champy, 1993; Davenport, 1993; Vinogradova, 2005). While these researchers focus on various aspects of designing and executing reengineering projects, their work largely remains confined to the theoretical framework of process management (Robson, Ullah, 1996; Strassmann, 2004). Foundational definitions of business process

reengineering as a radical redesign of processes aimed at achieving dramatic improvements in performance and quality have been established by key theorists in the field (Hammer, Champy, 1993; Davenport, 1993). Furthermore, advanced process management methodologies underpinning modern approaches to enterprise activity optimization have been developed to enhance operational performance (Harrington, van Nimwegen, 2000). Ukrainian researchers actively develop the theoretical foundations of reengineering within transforming economies (Vinogradova, 2005; Tupkalo, 2018), while highlighting the significance of reengineering as an instrument of innovative management systems (Myroshnychenko, Filipova, 2021). In addition, the exacerbation of competition and growing customer demands for service quality are recognized as key external drivers behind the proliferation of reengineering. Despite these substantial contributions, the specific integration of reengineering and outsourcing remains insufficiently investigated.

Modern trends in the service market are driving the search for new organizational forms for enterprises. One such approach involves decomposing the economic landscape into networks of interconnected business structures, within which specific forms of outsourcing and cooperation evolve. The adoption of outsourcing models (such as IT, logistics, accounting, or marketing outsourcing) should be grounded in business process reengineering aimed at simplifying, optimizing, and commercializing specific enterprise functions. Business process reengineering can fundamentally transform an enterprise's management and production systems, enhance operational efficiency, and facilitate entry into new markets. Combining reengineering with outsourcing enables the implementation of an innovative development model, characterized by a radical reorganization of the management system and a shift to a higher level of competitiveness.

Reengineering employs a scientific and practical approach to radically transforming business processes to boost an enterprise's competitiveness and efficiency. Reengineering theory identifies two fundamental components: shifting management to a process-based approach and utilizing modern information technologies (Hammer, Champy, 1993). In the context of outsourcing, this entails the need to:

- 1) clearly distinguish between internal and external processes;
- 2) optimize costs associated with functions transferred to external providers;
- 3) establish an integrated system for managing interactions with outsourcing partners. Outsourcing reengineering involves the comprehensive redesign of processes transferred to external providers with the aim of optimizing costs, improving service quality, ensuring transparency and manageability, integrating internal and external processes, and minimizing operational risks.

Unlike traditional outsourcing, reengineering entails a profound transformation of processes prior to their transfer, thereby avoiding the duplication of functions, loss of control, and inefficiencies.

The reengineering of outsourcing processes should focus on improving technological operations, optimizing resources, and enhancing service quality within the enterprise's value chain.

Before implementing business process outsourcing reengineering, it is advisable to first:

- 1) define the principles for structuring the enterprise's business ecosystem and its core – its key competencies;
- 2) justify the need for reengineering to optimize outsourcing processes;
- 3) develop a business process reengineering program and the pathways for its implementation;
- 4) establish a functional-process mechanism for managing outsourced business processes.

3 Integration into Business Ecosystems and Corporate Coordination Centers

Economic cooperation in the form of a business ecosystem enables enterprises to enhance their competitiveness by optimizing costs, expanding sales markets, and improving the efficiency of logistics and service processes. The core of such an ecosystem consists of enterprises that perform key functions and generate primary competitive advantages.

For many Ukrainian enterprises, the core of a business ecosystem can be a manufacturing or service company that coordinates interactions with suppliers, logistics operators, IT firms, and other outsourcing partners (Onyshchenko, 2019; Semenikhina et al., 2025). Business process reengineering within such an enterprise is essential to ensure competitiveness amidst market instability and volatility.

Implementing the reengineering of outsourcing processes will lead to increased operational efficiency, cost optimization, accelerated operational cycles, and improved service quality.

The enterprise's business center, which coordinates outsourcing processes, must integrate production, logistics, financial, and information flows. This center facilitates the execution of production, warehousing, distribution, information, financial, analytical, and forecasting functions required for the effective operation of the enterprise and its partners.

The key stages of outsourcing process reengineering involve a series of sequential actions, the integrated management model of which is presented in Table 1.

Let us examine these stages in greater detail.

1. Diagnosis of business processes.

Diagnosis serves as the starting point for reengineering and involves a comprehensive study of the enterprise's existing operational model. This stage entails mapping business processes, analysing value

TABLE 1 Integrated model for managing the reengineering of outsourcing processes

Stage	Key indicators (KPIs, metrics)	Stakeholders and their influence	Typical risks	Control mechanisms
1. Business process diagnostics	– Cycle time; – NVA %; – Process cost; – Error rate; – Productivity per unit of resource.	– The process analyst conducts mapping; – Department heads provide data; – Internal audit verifies accuracy; – Consultants provide the methodology.	– Incomplete data; – Staff resistance; – Hidden costs.	– BPMN modeling; – Value Stream Mapping; – Interviews and observation.
2. Defining processes for outsourcing	– Strategic Relevance Index; – Cost Gap (in-house vs outsourcing); – Standardization Level; – Risk Score.	– Top management – strategic decision; – CFO – financial justification; – Legal department – legal risk assessment; – Strategic committee – approval.	– Transfer of critical knowledge; – Supplier dependency; – Information risks.	– “Core/periphery” matrix; – TCO analysis; – Risk assessment (FMEA).
3. Process redesign	– Reduction of operations; – Automation Rate; – Reduction of management levels; – Lead Time “To Be”; – The level of digital maturity.	– BPR team – model development; – CIO – digitalization; – Process owners – alignment; – Consultants – methodological support.	– Insufficient automation; – Conflict of interest between departments; – Unrealistic expectations.	– Prototyping; – “As-Is” / “To-Be” modeling; – Pilot implementations.
4. Selecting an outsourcing partner	– SLA Compliance; – Digital Maturity Score; – Financial Stability Index; – Reputation Score; – Contract Cost.	– Procurement Department – tender; – Legal Department – contract; – Top management – approval; – IT Department – technology assessment.	– Unscrupulous supplier; – Insufficient technological sophistication; – Unrealistic expectations.	– RFP procedure; – Multi-criteria evaluation; – Due Diligence.
5. Integration of processes into the management system	– Integration Level; – Data Exchange Speed; – Incident Rate; – Consistency of procedures; – Adaptation time.	– CEO – systems integration; – ERP/CRM administrators – technical implementation; – Project Manager – coordination; – Outsourcing provider – process adaptation.	– Incompatibility of IT systems; – Data transmission delays; – Unclear responsibilities.	– Interaction procedures; – API integrations; – Control points.
6. Monitoring and performance control	– KPI/SLA compliance; – Cost Savings %; – User Satisfaction; – Incident Frequency; – Outsourcing ROI.	– Controlling – financial control; – Internal audit – verification; – Vendor Manager – contract management; – Top management – strategic control.	– Decline in quality; – Cost increases; – SLA non-compliance.	– Regular audits; – Dashboard monitoring; – Contract review.

streams, and identifying bottlenecks and structural dysfunctions. Particular attention is paid to identifying: inefficient operations that do not generate added value; redundant and duplicated functions that increase costs and complicate coordination; operational delays that extend process execution cycles; and the alignment of processes with the enterprise's strategic goals.

The result of the diagnostic process is the creation of an “AS-IS” model and the identification of optimization potential.

2. Identification of processes suitable for outsourcing.

Based on a diagnostic assessment, processes appropriate for transfer to an external provider are selected. Key criteria include: the process being non-core to the enterprise's primary activities; high internal resource maintenance costs compared to market offerings; low strategic importance of the process for competitive advantage; the feasibility of standardizing and formalizing the process; and the potential to

improve execution quality and speed through external expertise.

This approach enables the enterprise to focus on core competencies and reduce operating costs.

3. Process redesign.

Reengineering entails a radical rethinking of the logic behind process execution. Key areas of redesign include:

- horizontal compression – combining operations into larger blocks and reducing handoffs between departments;
- vertical compression – delegating authority to those performing the work and reducing management layers;
- automation and digitalization – implementing ERP, RPA, and BPM solutions, as well as data analytics, to eliminate manual tasks;
- elimination of redundant functions – removing operations that do not create value or that duplicate other activities.

At this stage, a “To-Be” model is developed, defining the new process structure.

4. Selection of an outsourcing partner.

Selecting a partner is a critical success factor. Evaluation is based on the following parameters: KPIs (operational efficiency, speed, quality); SLAs (guaranteed service levels, response time, availability); technological maturity (availability of modern digital platforms, automation, cybersecurity); financial stability and market reputation; and alignment with corporate culture and capacity for long-term cooperation.

5. Integration of processes into the enterprise management system.

Once a partner is selected, external processes are integrated into the internal management system. This includes: configuring ERP, CRM, and BPM systems for data synchronization; establishing unified standards for information exchange; defining areas of responsibility and coordination mechanisms; and ensuring the transparency and controllability of outsourced operations.

Integration must ensure business process continuity and minimize the risk of disruptions in value chains.

6. Monitoring and performance control.

The final stage involves regular auditing of outsourced processes and evaluating their effectiveness and compliance with established KPIs and SLAs. The control system encompasses: analysis of productivity and execution quality; assessment of economic impact (cost reduction, increased speed, service improvement); identification of deviations and prompt process adjustment; and periodic review of cooperation terms and contract updates. Monitoring ensures the adaptability of the outsourcing model and its alignment with the enterprise's strategic goals.

The interrelationships between the stages are structured as follows: initially, the diagnostic phase establishes the information base for process selection. The selection process itself determines the scope and depth of the redesign, which in turn sets the requirements for the partner. The choice of partner determines the complexity of integration, which affects the quality of monitoring. Following the monitoring phase, feedback is generated, initiating a new optimization cycle.

4 Stakeholders, Metrics and Strategic Outcomes of Outsourcing Reengineering

Stakeholders involved in managing the reengineering of outsourcing processes fall into the following categories: strategic (top management, strategic committee), operational (process managers, IT department), control-oriented (internal audit, controlling), and external (outsourcing partner). Their interaction determines the quality of decisions and the speed of transformation.

Key indicators and metrics include: operational KPIs (cycle time, error rate, productivity); financial KPIs (TCO, cost savings, ROI); qualitative KPIs (user satisfaction, SLA compliance); and technological KPIs (automation level, data exchange speed).

Thus, outsourcing reengineering serves as a tool for an enterprise's strategic development, enabling it to focus on core competencies, reduce operational costs by 30–50%, increase operational speed, gain access to modern technologies, improve service quality, and mitigate risks associated with the human factor.

The enterprise becomes the core of a partner network performing various functions, such as logistics, IT processes, accounting, marketing, production, and service delivery. Reengineering ensures the coherence of this network, creating an integrated business ecosystem capable of rapidly responding to market changes; the outsourcing reengineering program encompasses management structure optimization, the design of new business processes, the implementation of digital technologies, the development of a corporate culture of partner collaboration, the establishment of KPI and SLA systems, and the creation of a coordination centre for outsourcing processes.

5 Conclusions

The comprehensive theoretical generalization and structural modeling of outsourcing business process reengineering performed in this study lead to the conclusion that combining radical process redesign with the strategic externalization of secondary functions represents an indispensable management methodology for ensuring the operational stability, financial resilience, and long-term competitiveness of modern enterprises. The conducted investigation substantiates that executing outsourcing as an autonomous organizational measure without preceding deep process redesign creates severe operational vulnerabilities, including uncontrolled coordination costs, fragmented process flows, and loss of service transparency. Consequently, outsourcing business process reengineering must be conceptualized as an advanced, integrated management discipline that combines preliminary systemic diagnostics, radical structural optimization, technological standardization, and seamless IT integration, ensuring that processes are thoroughly streamlined before and during their transfer to external specialized partners.

A fundamental conceptual result of this research is the justification of an enterprise's evolution from a self-contained, closed operational structure into the strategic coordinating core of an open, multi-functional business ecosystem. Within this collaborative architectural framework, the core enterprise directs its capital, expertise, and operational focus toward core competencies that form unique market advantages, while systematically delegating peripheral tasks such

as IT infrastructure support, logistics, accounting, analytical data processing, and specialized marketing to an integrated network of outsourcing partners. To govern this complex web of interactions effectively, the study establishes an integrated six-stage management framework that encompasses business process diagnostics through rigorous “As-Is” modeling, the multi-criteria identification of non-core processes, radical “To-Be” process redesign, comprehensive partner evaluation using specialized criteria and Due Diligence, organizational and informational integration, and continuous multi-dimensional performance monitoring.

The structural integration of operational key performance indicators, Service Level Agreements, stakeholder matrices, and failure risk assessment protocols at every implementation phase guarantees the transparency, predictability, and controllability of outsourced operations. Furthermore, the study demonstrates that digital maturity and technological enablement serve as the foundational cornerstones of successful outsourcing reengineering. Deploying unified ERP architectures, BPM systems, automated API connectors, and robotic process automation bridges the organizational boundaries between collaborating entities, ensuring continuous, high-speed information flows, eliminating duplicated administrative functions,

and minimizing disruptions across joint value chains. The practical implementation of the developed models enables enterprises to accomplish profound operational improvements, radically compressing process cycle times, removing excessive bureaucratic levels, and substantially mitigating human-factor operational errors.

The proposed conceptual and procedural solutions provide a universal methodological foundation for enterprise management across diverse industrial and service sectors that seek to maintain competitive viability in the face of ongoing digitalization and macroeconomic uncertainty. At the same time, the successful adaptation of these recommendations requires careful consideration of industry-specific regulatory constraints, corporate technological capabilities, and organizational change readiness. Prospects for further academic research within this scientific domain should focus on designing formal mathematical and econometric models for quantifying risk-versus-cost trade-offs in outsourcing transitions, investigating data security and intellectual property governance protocols within cloud-based multi-vendor ecosystems, and assessing the integration of artificial intelligence and autonomous algorithmic agents for automated SLA monitoring and collaborative contract execution.

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