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Knowledge Process Outsourcing: *Emerging opportunities for India*

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Abstract

In today's competitive scenario, 'Knowledge Process Outsourcing' (KPO) has emerged as the new buzzword. The birth of globalization has paved the way for increased competition among countries. The gap between the cost of capital and productivity has made companies realize the significance of managing costs for business efficiency. The emergence of Knowledge Process Outsourcing (KPO) has transformed this, since the companies want to have tailor-made solutions for specific issues like cycle time efficiency, market research and demand-based management.

The present paper focuses on the role of KPO in generating business opportunities in India. In this regard this paper discusses upon the various advantages of outsourcing, challenges against KPO industries in India and suggests strategies to overcome these challenges.

Keywords: Knowledge Process Outsourcing, globalization, industries.

Introduction

Knowledge process can be defined as high added value processes chain where the achievement of objectives is highly dependent on the skills, domain knowledge and experience of the people carrying out the activity. And when this activity gets outsourced a new business activity emerges, which is generally known as Knowledge Process Outsourcing.

After achieving grand success in BPO, India is now looking for immense rise in KPO. Due to profusion supply of intellectual and creative workforce at very competitive cost in the country, international companies are heading towards India to set up their business establishments. It is the evolution and maturity of the Indian BPO sector that has given rise to yet another wave in the global outsourcing scenario in the form of KPO or Knowledge Process Outsourcing. The success achieved by many overseas companies in outsourcing business process operations to India has encouraged many of the said companies to start outsourcing their high-end knowledge work as well. Cost savings, operational efficiencies, availability of and access to a highly skilled and talented workforce and improved quality are all underlying expectations in outsourcing high-end processes to India. KPO business entities provide typical domain-based processes, advanced analytical skills and business expertise, rather than just process expertise. The Global Knowledge Process Outsourcing industry is expected to reach USD 17 billion by 2010. A report by E-value serve predicts that India will capture more than 70 percent of the Knowledge Process Outsourcing sector by 2010.

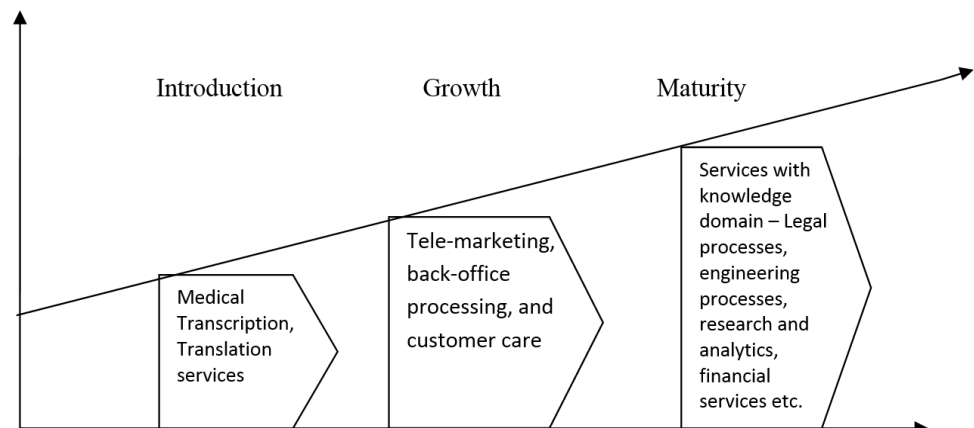


Exhibit 1: Evolution of Knowledge Process Outsourcing

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Market Size

Global

E-value serve (EVS) predicts that revenues from the KPO market will grow globally from USD 1.29 billion in FY 2003 to USD 17 billion in FY 2010. This implies a CAGR of 44.5 percent, for the global KPO market. The important growth drivers of this market are:

- Higher savings at the high-end of the value chain compared to the low end, and scarcity of a highly-trained specialized talent pool in the developed countries
- Maturity of processes and the prospect of better margins for knowledge-intensive services in the low-cost destinations

India

According to E-value serve (EVS), Indian KPO sector will increase its share in the Global KPO sector to 71% by 2010, compared to 56% share in 2003. The KPO market in India is expected to increase to USD 12 billion by FY 2010, reflecting a CAGR of 49.5 percent.

Features

As KPO has also emerged out of the traditional cost-quality paradigm, on which Business Process Outsourcing (BPO) thrives, KPO is being regarded as next stage in the outsourcing value chain. Many firms have been recognizing the importance of low-cost knowledge as a key strategic tool to lower the operational costs and to compete in the world market. However it may be noted that emergence of KPO is not purely on cost competitiveness alone, but also on value of knowledge increases sustainable competitive advantage. KPO, thus is considered to be providing higher business value to a firm that outsources its knowledge activities.

Knowledge Process Outsourcing (KPO) is the next step up the outsourcing value chain. While BPO provides extensive process expertise, KPO is emphasizes on business expertise. KPO indicates a major industry shift, away from execution of standardized processes to carrying out highly complex and customized processes that demand advanced analytical and technical skills as well as decisive judgment. The major strength of this approach is not the cost-saving aspect but it is more the value that these services provide. They offer a sustainable competitive advantage to its customers in all knowledge intensive industries by providing market and industry research, data and statistical analysis, competitive analysis, and support in legal and administration processes. This and similar forms of outsourcing have forced enterprises not only to adjust their organizational and operational structure to the global trend, but also to consider outsourcing in their overall business strategy.

Though KPO is an extension of BPO, in various aspects it differs from the latter. While the BPO work is entirely process-related, rule-based and the focus is on executing standardized routine processes, KPO processes demand advanced information search, analytical interpretation and technical skills with judgment and decision-making capabilities. The billing rates in KPOs are also higher than those of BPOs with the salaries drawn by a KPO employee being almost 50% higher than that of a BPO employee. A KPO employee can anticipate normal working hours without handling irate callers as in BPO. Similarly, KPO work is more fulfilling as it involves knowledge-intensive processes compared to monotonous services done by an average BPO employee. As a result, attrition rate in KPO is lower than BPO.

The line of distinction between BPO and KPO is difficult to establish. While BPO primarily constitutes outsourcing of non-core, non-value adding tasks to destinations with distinct cost advantages in terms of cheap labor, KPO encompasses outsourcing core activities of an organization to locations with qualified

manpower the only objective being highest quality at the best possible price. The shift from outsourcing standardized non-value adding business processes which are repetitive in nature (BPO) to outsourcing of value-adding business that largely depend on domain knowledge (KPO) is what India needs to focus on.

The nascent transition from BPO to KPO has also provided a wide array of opportunities to professionals from diverse backgrounds, from management to life sciences, with KPO firms emphasizing more on academic qualifications unlike BPOs which can afford graduates with good fluency in English. However, like BPOs, KPOs also find it hard to attract and retain talent, and training forms a core aspect in KPOs where huge investment is required. Therefore, companies in the KPO space need to make their transition from offering services requiring low human capital quality and low IT enablement to those which require a high degree of IT enablement and human capital.

Benefits of Out Sourcing

There are many benefits of our sourcing:

- **Cost-Effectiveness**

Outsourcing to countries such as India can give one access to cost-effective services. The same services with the same level of quality are offered at India for a much lower cost. This cost-advantage has increased the number of services that are being offered to India. Services such as call center services, teleradiology, medical billing, etc can help you save up to 60% of your total costs when outsourced! Getting access to high-quality services at a cost-effective price is the biggest benefit that you can get while outsourcing. Outsource and reap the benefits of outsourcing.

- **Business Growth**

Another benefit of outsourcing is seeing a big increase in your profits, productivity, level of quality, business value, business performance and much more. Outsourcing can help you see an increase in almost every aspect of your business. Outsource and see your organization experience an increase in every aspect with these benefits of outsourcing.

- **Rise in Profit**

One of the benefits of outsourcing is that a company can save on every aspect of the business and increase the profits. When a company outsource, they can save on time, effort, infrastructure and manpower. Since one doesn't have to invest in infrastructure, one can also save on making unnecessary fixed investments. Outsourcing removes the burden of changing or maintaining infrastructure. A company can also save on capital expenditure. Outsourcing can also help in saving on training costs, because the company does not have to invest in manpower. These savings will help bring about an increase in the revenue. An organization can also save on investing in expensive software and technologies.

- **Special Service**

By outsourcing one can get expert and skilled services. This benefit of outsourcing has been the key reason why several outsourcers opt for outsourcing. The function that a company would outsource may not be their core competency but they can find an outsourcing partner who is specialized in that particular business process. The outsourcing partner will be able to provide more proficient services. This is yet another benefit of outsourcing, because if one performs all the business processes in-house, they will not be able to provide specialized and skilled services. Outsourcing provides this advantage.

- **Concentrate: Core Business**

One of the benefits of outsourcing is that an organization will be free to concentrate on your core business. By outsourcing all the non-core functions, the employees can be put to better use and you will be able to see a huge growth in your core business.

- **Customers Favorable**

Another benefit of outsourcing is that one can make quicker deliveries to customers. The outsourcing partner will be able to provide faster deliverables and you in turn will be able to make quick deliveries to your customer. Faster deliveries can also help one save on time.

- **Customer Satisfaction**

With timely deliveries and high-quality services a company can impress its customers. Outsourcing can benefit a company by improving the customer satisfaction which would help in making customers loyal to a company.

- **Time Zone**

Outsourcing to countries such as India has a time zone advantage. With this advantage, an outsourcing partner can complete critical work and send it to you the next day. Thus, the work is continued by your outsourcing partner even after your employees go home. This enables the work to be completed much faster and gives the business a competitive advantage. This is one of the benefits of offshore outsourcing.

- **Efficiency**

Another benefit of outsourcing is increased efficiency. The non-core business functions will be performed efficiently by the outsourcing partner, while the core functions can be efficiently carried out in-house. Thereby one can achieve overall efficiency and see an increase in your profits.

- **Competitive**

Outsourcing can help an organization gain a competitive edge in the market. One can also get access to specialized services for different business processes and thereby provide your customers with best-of breed services. Such strategic outsourcing can give a business a competitive edge among their peers. The benefits of outsourcing can give an organization a cutting-edge in the worldwide market.

Demand Drivers and India Advantage

KPO is a high end BPO, involving processes demanding advanced technical and analytical skills as well as judgment and decision-making abilities. It is generally believed that cost arbitrage has been the major driving factor of outsourcing work to offshore centers like India. However, other factors such as quality and timely delivery, productivity vis-à-vis cost, are some of the major parameters that would be driving the demand for off-shoring in future.

Various factors influence the demand for KPO in the global market place. Domain expertise will be the principal driver for off-shoring a knowledge process vertical to another country. This may be occurring due to non-availability of particular domain expertise in local market or cost advantage of sourcing from another country. A country having skill-sets along with cost competitiveness would score high and become ideal destination for sourcing knowledge based services. India is being considered as having a large pool of highly educated people, especially in the science and management streams, showing significant achievements, both domestically and globally. Such parameters position India as an ideal destination for KPO, especially for engineering processes, market / financial research and R&D outsourcing.

Language skill is another important demand driver for sourcing knowledge based services across borders. India is in an advantageous position in this aspect also. BPO business thrived in India mainly due to the proficiency of workforce in English language. There are also other demand drivers such as time-zone / location, response time and regulatory framework (both in sourcing and sourced countries), which are important for growth in KPO. India is in advantageous position in all these parameters too.

Giving greater emphasis on factors such as breadth of coverage, domain expertise, locational advantage, sales and marketing capabilities, compliance with regulatory standards and strengthening of risk management practices would help India to differentiate and sustain competitive advantage in future. India, with its vast potential, could soon emerge as a preferred destination for KPO.

Challenges

India's major strength continues to be in its strong supply base of skilled manpower, language proficiency and lower wages along with sound domain knowledge and proven delivery capabilities. However, there is a growing realization that factors such as low cost arbitrage and availability of large pool professionals with proficiency in English language are not going to remain as the key driver of the KPO industry in India for too long. Hence, the challenges for this sector in India are likely to increase in the days to come. Some of these challenges will be generic in nature, while some of them may be domain specific.

Macro – Level Challenges

- **Poor infrastructure and Rising Real Estate Prices**

Poor infrastructure is posing immense challenges in delivering high quality services to the international clients. Metro cities are slowly getting congested and cost of operations are rising ; in such a scenario Tier II cities need to emerge with well-developed infrastructure.

- **Image of low quality associated with low cost**

India's unique positioning as a low cost service provider, at times proven to be a deterrent to its future in the global off-shoring market. Some foreign companies, at time, are wary about India's capability to provide quality service with low cost operations.

- **Policy Framework**

Under the General Agreement on Trade in Services (GATS), India needs to open up many services domain for foreign competition. Opening up of legal services to foreign competition is one of the demands by many western countries. The entry of foreign legal associates in Indian shores will bring in an entirely new dimension in this domain.

- **Concerns over Data Security**

According to industry sources, KPO units are privy to information not otherwise available in public domain. At times, clients hesitate to offshore any sensitive or confidential data to any third-party service provider. A bigger challenge is to convince clients that the quality of off-shoring services provided at low cost is associated with assurances such as confidentiality and non-disclosure.

- **Negative Public Opinion in Client Countries**

There has been a growing negative public opinion about off-shoring activity in developed countries such as USA and Europe. These are mainly because of perceived job loss in these countries and the risk associated with data security. In addition, it is propagated that companies may lose the knowledge they require to function over a period of time by off-shoring such activities.

- **Scarcity of Skilled Professionals**

Analysts have predicted that across the world there will be scarcity of skilled professionals. It is estimated that the demand for skilled professionals, especially in the streams such as technology finance, economics, management, and law will be high in OECD countries, which would stimulate the mobility of either the labour force (from developing countries) or the employment (to developing countries).

- **Suitability of Labour Force**

A survey conducted by McKinsey Global Institute has revealed that only 25% of engineers, 15% of finance professionals and 10% of generalists in India are considered employable at the pass out stage

by multinational firms. Though India is placed better than other developing countries of Asia, it scores lesser when compared to East European competitors Czech Republic, Poland and Hungary.

Firm-level Challenges

- **Manpower and Knowledge Issues**

A KPO professional requires possession of right skill-sets and significant amount of domain knowledge. Therefore, access to a large, high quality skill pool (in diverse fields such as law, patents, economics, management, finance, and engineering) is a precondition for successful KPO operations. Monotony is a psychological factor that is also attributing to the increasing attrition to the increasing attrition in KPO units.

- **Increasing Cost**

Increasing wages (as also cost of operations) in India is a challenge for the growth of KPO sector in India. Many countries from Asia, Latin America and East Europe are catching up in this sector and emerging as competitors for India. The proximity of such countries closer to Europe and America and having similar culture would pose additional competition for Indian firms.

- **Industry and Business Understanding**

A thorough understanding (of the businesses and processes executed within the KPO domain) is required to execute the knowledge based assignments successfully. This calls for extensive research work followed by an all-round training and understanding of the environment. The demand-supply gap for quality workers in India is relatively getting enlarged and this poses a big challenge to this fast growing sector.

- **Other Challenges**

Legal, language and cultural barriers are other challenges faced by the KPO units. Differences in dealing with problems and conflicts and lack of communication between the partners can cause friction and inefficiencies. Both partners need to respect each other's corporate and national cultures and find mutually beneficial ways to develop successful cooperation.

Strategies

Macro-level Strategies

- **Building Talented Manpower**

Human resource is one of the prime attributes of success in KPO units. To sustain the position of India as an emerging destination for KPO, it is imperative to increase the talent force with significant domain knowledge. Besides, it is also important to update the skills continuously. Firms may also involve foreign affiliates in this process, by encouraging them to participate in joint projects with universities and other training institutions.

- **Strengthening Education System**

It is essential to forge consistency between the curriculum taught in the schools and the requirements of the KPO industry. In order to achieve such consistency, it is essential to have an education system that reorients the classroom teaching with learning objectives, starting from primary school. This can be achieved through academic – industry partnerships, while designing the curriculum.

- **Reforming Curricula and Training**

India needs to implement measures to improve education standards in various streams (science, technology law, economics, management, finance) that have potential for outsourcing business. For example, a typical college graduate should be well – versed in various global developments, including cross cultural issues, in order to be eligible for employment in KPO_f units.

- **Financial Support for Professional Studies**

Providing financial support is another key element to attract and retain professional students. The world today is witnessing high

mobility of students pursuing not only higher education but also employment. While migration of students to other countries to pursue professional carrier might lead knowledge circulation and benefit the country in the long run, migration of bright students to non-professional streams might weaken the skill base of India. We need to strengthen the education system and provide appropriate compensation to professional students to retain the talents within the country.

- **Leveraging the Strengths of Indian Diaspora**

It is estimated that more than 20 million Indian diaspora are settled in over 70 countries across the world, who have been successful in contributing to the development in the fields of engineering, space research, health care, information technology, management, and entrepreneurship. Leveraging the knowledge gained by the Indian diaspora in various countries, Indian KPO_f units could adopt best practices in delivering the services and use the network to build brand India as an off-shoring destination.

- **Creating Positive Opinion on Off-shoring**

India may endeavor to create positive opinion highlighting the potential benefits of off shoring. It may be emphasized that there is no loss of jobs in global village, but it is only a shift of job from one region to another. It may be emphasized that off shoring is more about relocating of human as well as financial resources.

It is also important for the KPO firms to educate their customers to propagate the benefits of off shoring to the labour associations and the Government, in their respective countries.

- **Policy Framework**

It is expected that sourcing firms are likely to change their strategies and identify their off-shore location not with the objective of reduction in cost of operations alone, but to evaluate the government policies. While a suitable IPR framework is a must to undertake off shoring of R & D and engineering processes, liberalization of services sector is required for relocation of legal processes in third countries.

Firm level Strategies

- **Proper Manpower Utilization**

With the industry involving into more knowledge intensive processes, more and more firms began to consider off shoring on a strategic level and not just on an operational level. Thus, it is important for KPO_f units to utilize manpower properly to provide high quality service.

- **Innovation and Increase Efficiency in Delivery and Provision of Core Solutions**

Indian KPO firms need to be innovative in their processes, in order to increase their efficiency in service delivery and enhance their capabilities to provide core solutions to various activities.

- **Building Relationships**

With increasing locational globalization and off shoring activities, third party KPO units are required to deal with multiple clients. Transnational corporations off shoring the knowledge process activities are now demanding privileged status from the service providers to get greater attention, increased responsiveness, and service levels.

Experts opine that services off shoring should be considered as a partnership between two firms, and thus both the client and server should be cautious about the responsibilities they hold. It may be mentioned that both client and server should share the knowledge and help enhance creativity and innovation in products and service delivery.

- **Protection of Private Information**

It is imperative that KPO units recognize the legal obligations of protecting the private information, thoroughly, while undertaking off shoring assignments. This requires that outsourcing

arrangements are properly structured (legally and process-wise) to assure that the data is properly identified as “private”, and processes are put in place to protect it.

- **Certification**

While client relationship builds trust and confidence after a job is assigned and successfully completed, certification helps in bringing new clients for a KPO unit. Firms may adopt standards (for outsourcing professionals), such as those developed by the International Association of Outsourcing Professionals (IAOP) and the Outsourcing Standards Board (OSB), which will impart professionalism in their business activities.

- **Accreditation**

India may get into certain alliances with international standards organizations that can provide the KPO units with some accreditations, similar to CMM standards for the software industry. This would not only help KPO units in gaining credibility with their clients but will go a long way in grooming the face of the Indian KPO industry.

- **Near Shoring as a Business Strategy**

Having gained significant expertise in various knowledge domains and satisfactorily complying to the requirements of transnational corporations, Indian KPO units should also increasingly adopt the strategy of setting up operations outside India to render knowledge based services to the customers.

- **Develop Domain Expertise**

KPO is an evolving sector with more and more knowledge based activities are included day by day. Firms need to develop skills and expertise in new domain areas that may not be their focus area that at present. This would help them to have early mover advantage and help mobilize business opportunities.

- **Good Governance and Management**

Contracts associated with outsourcing should be dealt with good governance and better management practices to ensure continuous success. Good governance should mean that the client and the server understand the real meaning of contract as a tool for building relationship, so that the service requirements and delivery of outsourcing job is clearly understood, along with the expected role to be played by each party. Better management practices should ensure that the company retains the customers not just through the benefits of labour arbitrage but also from improved productivity.

- **Management of External Environment**

In the context of volatility in the foreign exchange market and rising wages in India, KPO units may appropriately enter the price escalation and negotiation clauses in the contract to have flexibility to suit the changing environment.

- **Training and Coaching**

Some new KPO firms do not intend to nurture, train or coach talent within the organization and find it easier to poach people from other companies. Such an approach is detrimental to the growth of the KPO industry. KPO firms need to understand the importance of training and skill development, especially at the entry level. In addition to project-specific training, firms need to focus on developing soft skills and behavioral aspects to help the employees to become more productive in their work.

Conclusion

Considered to be the next tsunami of outsourcing services, countries across the globe are preparing themselves to ride the KPO tide; India being no exception. Knowledge process outsourcing as the name indicates is the outsourcing of specialized services that warrant the expertise of highly skilled persons. Long term success of KPO in India will rest on a holistic approach to the issue of manpower and this will require; the Government to improve quality & relevance of education; recruiting agencies to

help attract, evaluate and recruit the best talent and the KPO to train, develop and retain the talent. The resource requirement should be seen as a challenge and addressed. In this knowledge era, our success depends on what we know and what we do with what we know. The changes that we are going through are mind-boggling. Embracing KPO to accelerate learning and innovation and to maximize execution power is the only answer to this challenging problem the ingredients of a successful KPO business would be recruiting and training the right professionals, developing domain expertise, creating value for clients by offering highly differentiated services, providing dependable quality over time and building credibility alongside competing countries. To achieve these, many steps need to be taken at the strategic and operational level by both the government and the individual KPO. Also, it is suggested that a dedicated body promote India's expertise in the KPO domain and help create a formidable brand in the international market.

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