Knowledge Process Outsourcing: The Future Human Capital

Dr. Mahesh U. Daru

Associate Professor & HOD, Accountancy,

Smt. C.D.J. Rofel Arts & I.S.R.A. Rofel Commerce College, Vapi (Gujarat) India.

ABSTRACT

India has a large number of post-graduates, PhDs and MBAs who are involved in KPO. Taking advantage of this ability, it grants overseas organizations to increase better quality services at practical costs .KPO is one step extension of Business Processing Outsourcing (BPO) because BPO Industry is shaping into Knowledge Process Outsourcing because of its favourable advantageous and future scope. 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. India is a dominant player in this market with 70% market share. Indian KPO players offer market research, data analytics, legal services, content and publishing services, pharma data processing etc. According to one estimate, Global KPO industry to grow to $ 17 billion by 2014, from current $9 billion in 2011 and is expected to grow at an annual rate of approximately 24% for the next four years (2010-14). This paper is on future prospect and present scenario of KPO in India

Keywords: E-Commerce, Out sourcing, BPO, KPO

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International Research Journal of Commerce and Law

http://www.ijmr.net.in email id- irjmss@gmail.com   Page 26

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Introduction

Outsourcing is not a straightforward or unidirectional phenomenon; rather it can be of different types. The services which are normally out sourced by a company are:Business Process Outsourcing (BPO),Knowledge Process Outsourcing (KPO),Legal Process Outsourcing (LPO) Research Process Outsourcing (RPO),Analysis Process Outsourcing (APO). The evolution and maturity of the Indian BPO sector has given rise to yet another trend in the global outsourcing scenario: Knowledge Process Outsourcing (KPO). KPO is one step ahead of Business Process Outsourcing (BPO).

It started emerging in India around the turn of the century, when the global industries realized that apart from software development and technical support, knowledge work could also be outsourced. It involves transfer of business processes to other geographic locations; specialized domain specific knowledge and business expertise of a higher level rather than just process expertise. Many companies have started outsourcing their high-end processes like Market Research (MR), Equity Research, Engineering Design, Intellectual Property Rights (IPR), Legal Services, Remote Education and Publishing Operations to India after the success of BPOs. These companies outsource their processes to India for: Cost savings Operational efficiencies Access to highly skilled workforce improved quality.

In simple words it is the upward shift of BPO in the value chain. Old BPO companies that used to provide basic backend or customer care support are moving up this value chain. "Unlike conventional BPO where the focus is on process expertise, in KPO, the focus is on knowledge expertise." KPO involves off shoring of knowledge intensive business processes that require specialized domain expertise, thus delivering high value to organizations by providing business expertise rather than just process expertise. It is being claimed that KPO is one step extension of Business Processing Outsourcing (BPO). BPO Industry is shaping into Knowledge Process Outsourcing because of its favourable advantageous and future scope. But, let us not treat it only a 'B' replaced by a 'K'. In fact, 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. KPO is involved in services like valuation and investment research, patent filing, legal and insurance etc. KPO can simply be explained as an off-shoring of knowledge concentrated business processes that needs specialized domain oriented expertise

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International Research Journal of Commerce and Law

http://www.ijmr.net.in email id- irjmss@gmail.com   Page 27

Knowledge Process Outsourcing (KPO) is a form of outsourcing in which knowledge and information related work is carried out by workers in a different company or by a subsidiary of the same organization, which may be in the same country or in an offshore location to save cost. Unlike the outsourcing of manufacturing, this typically involves high value work carried out by highly skilled staff.

KPO involves process that demand advanced information search, analytical interpretation and technical skills as well as judgment and decision making. Typical users of KPO services includes market research and consulting firm, investment banks and financial services institutions, industry associations, media, publishing and database firms etc. Several global Players such as Mckinsey, Reuter are already using India as a remote base.

KPO Services includes the following:

- Investment research services (equity, fixed income and credit and quantitative research.)
- Business research services.
- Data Analytics
- Market research services
- Patent research services
- Business Operation support, analytics and management.

Examples of KPO functions are intellectual property or patent research, R&D in pharmaceuticals and biotechnology data mining, data base creation, equity research, competitive intelligence etc.

A KPO can provide quality work and on- time delivery with uninterrupted services. KPOs are the next big thing in the outsourcing sector. Initially, KPOs focused on data collection, updating financial models, patent searches and basic data mining. But now KPOs have also started focusing on sector insights, equity research, patent analytics, high end data mining, analysis and recommendation. Some of the hot destinations for KPOs other than India are Russia, China, Czech Republic, Ireland and Israel. (www.caclubindia.com)

KPO involves the outsourcing of knowledge intensive services that deal with the creating, sharing, maintaining, tracking and disseminating of knowledge. This industry is not restricted to the IT or ITES sectors only, but also includes other sectors like Intellectual Property related services, Business Research and Analytics, Legal Research, Clinical Research, Publishing, Market Research and many more. India, with its large pool of knowledge workers has the capability to cater to the KPO industry by providing specialized domain workers. Furthermore, the talent available in India is much more affordable. In the Indian context, KPO salaries could be 25-50% higher than those offered to the same domain experts such as Engineers, Doctors, CAs, Lawyers, Architects, Biotechnologists, Economists, Statisticians and MBAs. A study by ASSOCHAM predicted that the KPO industry could easily touch the $10 billion mark by

2012, provided the sector is opened for biotech and nanotechnology experts and steps are taken to build a strong chain of qualified professionals. At present, the KPO sector is said to be $5.5 billion and the sector is growing by about 15-17%. ASSOCHAM'S predictions point towards the KPO industry's size growing to $8 billion in 2011 and touching the 10 billion mark by 2012 with a growth rate between 25-27 per cent. Today, the Indian KPO sector offers organizations the choice of a multitude of knowledge-based services across industry .Following are the area of KPO

- Animation and Design
- Business and Technical Analysis
- Learning Solutions
- Business and Market Research
- Pharmaceuticals and Biotechnology
- Medical Services
- Writing and Content Development
- Legal Process Outsourcing
- Intellectual Property (IP) Research
- Data Analytics
- Network Management
- Training and Consultancy

Scenario of KPO in India

Recent studies conducted by the United Nations Conference on Trade and Development (UNCTD) and National Association of Software and Services Companies (NASSCOM) show that the global KPO market will reach $17 billion by 2010 and 70 per cent of this business will be outsourced to India. Reports also state that four out of ten KPO projects outsourced to Asia will come to India. These reports clearly reveal that there is a clear trend towards outsourcing KPO services to India. Reducing your operating costs can help you stay in business during this time of global recession. In an effort to cut costs, companies in the United States, Europe and Australia are turning to offshore KPO destinations, like those in India. Many are already beginning to experience the advantages of KPO, and many more have successfully seen the results. Indian companies have a long history of providing services for the IT, ITES and KPO industry. Choose India as your offshore partner for your KPO requirements and get access to the offshore KPO advantages that India offers. Indian KPO providers can handle almost any kind of knowledge-related

work or information-related work. One advantage that India has over other countries is its skilled and qualified resources.

Despite slowdown, India's Knowledge Process Outsourcing (KPO) market is growing at a compound annual growth rate (CAGR) of about 30 per cent annually and may touch $30 billion by 2015 from the current level of $20 billion."The rising demand for profession-based services is expected to drive the growth in the industry in areas of research for capital and financial markets, legal works, editing jobs for international publishing houses among many others," according to a study on "Current scenario of Indian KPO Industry", conducted by Associated Chambers of Commerce and Industry of India (Assocham).Presently, domestic KPO industry is facing stiff competition from countries like Philippines, Russia, China, Poland and Hungary as these are emerging strong contenders for KPO business in view of qualified KPO professionals, low-cost advantages, domain expertise, location advantage, sales and marketing capabilities and data compliance,

Advantages of KPO

Accelerate Reengineering Benefits: Reengineering aims for drastic improvements in critical measures of performance such as cost, service, quality and speed. But the need to increase efficiency comes into direct conflict with the need to invest in core business. As non-core internal functions are continually put on the back seat, systems become less   productive and less efficient. Therefore, by outsourcing a non-core function to a competent provider, the organization can realize the benefits of reengineering as an outsourcing benefit.

2. Access to Top Class Capabilities: Good and competent providers make extensive investments in technology, people, and methodologies. They acquire expertise by working with many clients facing similar challenges. This combination of specialization and expertise ensures the customers a competitive advantage and helps them avoid the cost of acquiring technology and training.

3. Cash Infusion: Outsourcing often involves the transfer of assets from customer to the provider. Equipment, vehicles, facilities, and licenses used in the current operations contain value and are sold to the vendor. The vendor uses these assets to provide services back to the client. Depending on value of the assets involved, the said sale may result in a significant cash payment to the customer. While selling these assets to the vendor, they are typically sold at book value. The book value normally is higher than

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International Research Journal of Commerce and Law

http://www.ijmr.net.in email id- irjmss@gmail.com   Page 30

the market value. In such cases, the difference between the two actually represents a credit line from the vendor to the client which is repaid in the form of price of the services over the life of the contract.

4. Optimal use of resources: Every organization has limitations to the resources available to it. Outsourcing allows an organization to redirect its resources, mostly human resources, from non core activities toward activities which serve the core need of customer. The organizations can redirect these human assets or at least the staff slots they represent for greater value adding activities. People whose energies are currently focused on internal activities can now be focused externally — on the customer.

5. Solution to difficult problems: Outsourcing is certainly one option for addressing the problem of managing difficult activities requiring core technical skills. It is essential to remember that outsourcing doesn't imply abdication of management responsibility nor does it work well as a solution to solve critical and suddenly erupting trouble of a company. However, a company can outsource only those difficult problems which it understands properly because if the organization doesn't understand its own requirements, it won't be able to communicate them to an outside provider.

6. Focus on main business: Outsourcing allows a company to focus on its core business by having operational non core functions assumed by an outside expert. Freed from devoting energy to these non core areas, the company can focus its resources on meeting its customers' needs. Best use of financial resources: There is large amount of competition within most organizations for capital funds. The senior management is always in a fix to decide where to invest the capital funds. It is often difficult to justify non-core capital investments when core areas directly related to producing a product or providing a service compete for the same money. In this context outsourcing can reduce the need to invest capital funds in non-core business functions .Outsourcing can also improve certain financial measurements of the company by eliminating the need to show return on equity from capital investments in non core areas.

8. Cost reduction: Companies which attempt to do everything themselves generally incur higher research, development, marketing and deployment expenses, and all of these are passed on to the customer. The outsourcing can help a company to reduce its costs as an outside provider's lower cost structure, normally as a result of a greater economy of scale or other advantage based on specialization, reduces a company's operating costs and increases its competitive advantage.

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International Research Journal of Commerce and Law

http://www.ijmr.net.in email id- irjmss@gmail.com   Page 31

9. Minimum Risk: Tremendous risks are associated with the investments made by the organizations. Markets, competition, financial conditions, Government Regulations and Technologies all change quickly. Further, it is very risky to keep up with these changes, especially those in which the next generation requires a significant investment .However, in outsourcing providers make investments on behalf of many clients, not just one and shared investment spreads risk, and significantly reduces the risk born by a single company.

Challenges faced by KPO

KPO sector has a lot of potential for growth in India. However, India faces a number of challenges to establish itself as a global KPO leader. The major challenge in setting up a KPO will be to find talented workers. There are two main issues, quantity of knowledge workers and quality of knowledge workers. MBAs, CAs, PhDs and doctors with super specialization will be in demand. There should be a balance between demand and supply of knowledge workers. The

gap between supply and demand needs to be filled. To maintain a continuous supply of knowledge supply of knowledge workers, more education institutes are required. However, opening up new institutes of higher learning is accompanied by a set of problems. A major problem faced by education system is getting good faulty members. Lack of good faculty members is a problem faced by all institutes, including IITs and IIMs. Retention of high quality faculty is a major challenge. Wide differences in salaries between industry and academia lead to exit from academia to industry. Development of good faculty members is a major challenge. The quality of knowledge workers is also a major challenge. The employability of people passing out from our education system also needs to be examined. It is seen that a large number of students graduating from our education system are not employable by industry. The quality of knowledge workers need to be maintained. For this, the education system needs to be revamped. Courses should be developed which cater to specific demands of KPO. KPOs require understanding of how a client works. The contracts in the KPO industry will be of much shorter duration. They may range anywhere from three weeks to six months. So, delivering high quality work will be the major aim. The major challenge lies in the process of developing KPO capability to deliver this high quality work. KPO businesses involve high risk and confidentiality and most of the work would be outsourced from the US. The sector also requires higher level of control, confidentiality and enhanced risk management. Proper framework for BPO taxation and data security laws is a must. KPO also faces attrition, as it is difficult for companies to retain talented and trained people. With higher pay packages

and perks, people change jobs very frequently. Many people are still reluctant to join as they feel it is an unstable career. Many are unaware of the potential of this sector and the scope of future prospects. There is a lot of scope for teachers as this sector offers a good pay package. The challenge lies in making people accept KPO as a high potential sector

(http://www.researchgate.net/publication/41846103_Knowledge_Process_Outsourcing_Indias_emerge nce_as_a_Global_Leader)

Emerging Opportunities

There are many emerging services that are in a very nascent stage at present. These services include the following:

1) Legal Process Outsourcing: The service that an LPO can provide Analytics And Drafting Paralegal Services Intellectual Property Patents Wills and Living Trusts Legal Research

2) Publishing Outsourcing: As on march 2005was $300 million strong. These services include: E-Book development or formatting Book to e -book conversion

3) Tele-radiology: Tele-radiology Solutions was started in 2002 to provide US hospitals with Emergency reporting services. Tele-radiology provided reading and interpretation ofX-rays CTs (computed tomograms) MRIs (magnetic resonance images)

4. Engineering Services: India is expected be one of the largest players in Engineering Services Outsourcing with expected market size of $ 40 billion by year 2020.

Strategies for KPO

Short term strategies:

1. Attracting the Best Talent: This can be done by providing a good working environment, competitive salary and benefits and by giving people an opportunity for growth in the organization.

2. Retaining the existing talent pool: This can be done by constant revaluation and refinement of salary packages, employee expectations and work environment conditions.

3. Implementing strict IPR related policies: This is essential to ensure so that companies are more comfortable to outsource their critical research to India without fear of losing their IP .

4. Implementing Quality Standards: Adhering and maintaining good quality standards in the process and delivery help an organization stay sharp and productive , this is something very important to prospective clients and instills confidence in them.

5. Encouraging Domain Expertise: This allows for a strong focus in a particular domain and this expertise instills confidence in prospective clients when they want to outsource work.

6. Encouraging Entrepreneurship: An industry can only be taken to the next level by entrepreneurship and it is essential to ensure that the conditions are conducive for people to innovate and create.

Long term strategies:

1. Improving supporting infrastructure: This is critical to ensure that businesses can be efficient, product and scalable so they can compete with other locations.

2. Building the talent pool by increasing the quality of education: Encouraging students to get higher education and building a large talent pool is essential to the survival and growth of this industry.

3. Promoting research in the country: Indian education system is more theoretical and has low stress on practical research. This should be mended so that bleeding edge research happens in this country, so that we lead the next wave of innovation.

4. Promoting India as brand in KPO space: The government and companies in this sector to should be the flag bearer of India and promote our country as a prime destination for KPO. This will encourage investment into this sector.

5. Controlling Brain-Drain: If the right conducive environment is made available, quality jobs and growth prospects are given, then brain drain will automatically stop happening.

Conclusion

India is currently the most popular destination in the world for KPOs. If it desires to keep its lead it needs to take the problems faced by this industry very seriously, else newer destinations such as Eastern Europe, China and Indonesia might catch up and even beat us. In sum, if the Government and companies in this sector work together to implement these short and long term policies and remedies , then the road ahead for KPOs in India indeed looks very promising

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