

# Providing KPO Services – Business Dynamics and Challenges

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## Abstract

*As technology and manpower work hand in hand and changing business paradigms, the horizon for KPO opportunities seem to extend further and further. The realm of outsourcing expanded business thinking beyond both creative and geographic boundaries. Indian outsourcing scenario has been developing and adapting to international demands at lightening speed. The KPO industry, providing to use of skill and knowledge, has taken long strides into becoming one of the leading business opportunities. While on the demand side, quality, prompt response, costs etc., emerged as decision factors, the suppliers are in a struggle for acquiring customers, attracting and retaining talented workforce, meeting the standards and such other issues on the other. It is in this context, the present paper analyses the supply side dynamics of KPO industry.*

## Introduction

Knowledge Process Outsourcing (KPO) refers to the outsourcing of high-end complex tasks and processes to specialised service providers. It involves a global delivery team. The depth of knowledge, experience and judgment

drives it. It requires technology, analytical and decision-making competencies. Maintaining knowledge-based services in-house, with a shortage of trained professionals prove to be expensive compared to getting the same job done outside with similar precision, quality and adroitness, cost effectiveness. It provides value to the customer through domain expertise. Outsourcing non-core activities enables the outsourcing firm to concentrate on core specialisation and core competency areas. It offers various advantages for the outsourcer viz.,

- Valuable cost savings that can be utilised elsewhere.
- Trained professionals at work
- Standard operational efficiency
- Increase in profit
- Saves time and management energy for maintaining in-house services
- Option to avail the services of a large workforce without incurring raising costs.

Firms, which decide to outsource its knowledge-based services, may do it either through captive units or outside-service providers. For the service provides, KPO opens up the door to innumerable avenues. The potentials of KPO are not only restricted to IT or ITeS sectors, but

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includes other sectors like intellectual property related services, business research and analytics, clinical research, publishing, market research etc., as well. Thus major candidates for KPO include legal processes (LPO), research processes (RPO), human resources (HRO), medical processes (MPO) etc.

## Providing KPO services

Providing KPO services is challenging, with its demand on advanced knowledge and skills compared to business process outsourcing. It involves serving knowledge-based tasks that are not confined to process expertise but demand advanced specialised skills. It isn't a smooth ride to become a strong KPO service provider. KPO

doesn't restrict itself to information technology like BPO, but delivers into challenging sectors like clinical research, business research and so on. In offshore outsourcing, more than technical expertise, the attainment of compatibility, reliability, trustworthiness and respect are the cornerstones upon which success can be built.

A survey conducted on priority of selection factors (table 1) shows that timely data collection and rapid response to request are the most critical factors in the choice of service providers. Highest data quality also assumed great significance on selection Cost concerns are mentioned as the second most important reason for switching suppliers.

**Table 1 : Selection Factors**

<b>Selection Factors*</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Provides highest data quality	4.66	4.81	4.77
Completes data collection on schedule	4.66	4.73	4.62
Knowledge Staff	4.42	4.57	4.56
Rapid response to requests	4.52	4.55	4.48
Good reputation in the industry	4.33	4.43	4.31
Flexibility on changing project parameters	4.26	4.37	4.35
Familiarity with your needs	4.18	4.29	4.29
Breadth of experience in target segment	4.15	4.22	4.21
Length of time in business	4.06	4.15	4.18
Use sophisticated technologies/strategies	3.90	4.03	3.97
Company is financially stable	3.75	3.87	3.95
Consultation on best practices/methods	3.81	3.81	3.81
Lowest Price	3.70	3.66	3.80
Provide data analysis services	2.99	2.91	3.23

## **Skills needed**

KPO is not just about cost arbitrage. For a sustainable business, the service providers should strive to create value for the client by offering the highest quality business expertise and superior productivity/effectiveness. Professionals need qualities like domain knowledge, intelligence, physical and data mining skills, decision-making abilities, conceptualisation skills, verbal and written communication skills, attitude and ability to work in team and under pressure.

The skills that form the basis of KPO include the following;

- Analysing data and information to generate meaningful documents.
- Using various sources to research information
- Converting raw-technical data into presentable documents
- Using high-ended conceptualisation and theoretical knowledge.
- Proficiency with various advanced software and hardware devices
- Maintaining workflow, applying quality controls and meeting deadlines.

## **Delivering KPO services - Business cares**

A company, involved as a service provider in the KPO industry works in close co-ordination and association with the client and provides services that are predefined in terms of quality and standard of work. The following business cares are crucial;

## **(1) People philosophy and development**

KPO companies are professional service companies. It is centered on professionals possessing the right skill sets. World-class people development processes are important. KPO derives its strength from the depth of knowledge, experience and judgment factor. Therefore, access to a large, high-quality skill pool is a pre-condition for successful operations. High educational standards are needed. Qualified professionals (like Engineers, MBAs, PhDs, chartered accountants(CAs), lawyers etc.) are important. Recruiting and training the right professionals, providing consistent quality over time, improving productivity to or beyond western levels and successful marketing of its services to skeptical customers are vital. Training should be given on areas such as functional skills, cross-cultural skills as well as management skills.

Developing professionals in a well-planned and systematic manner at faster rate will help to ensure better quality, productivity, retention and, as an end result, success in the market place.

After recruitment, ongoing training and cross training to handle work spurts and changing client needs are a must in the KPO business to guarantee client satisfaction.

HR management activities such as career counseling, evaluation, feedback, motivation, monitoring etc. will play an important role in helping the service providers to retain the talented and sustain the business. Though KPO sector offers 25-50 % higher salaries for professionals than

that in the conventional jobs, they hesitate to consider it as a career opportunity. This misconception has to be corrected. Recruiting agencies and service providing organisations can play a key role in this regard.

## **2. Quality and expertise**

The objective should be to deliver world-class quality at improved service levels and consistently. Successful providers measure quality and get feedback for each individual project. In-depth expertise at the respective field is required. The quality conscious of client compels the provider to follow internationally accepted standards like six sigma and ISO seals. Many KPO companies are in the process of securing quality management standards like ISO 2002, ISO 9001:2000 and ISO 9001:2001.

## **3. Focus**

The 'Jack in all Trades' approach is not likely to work in KPO. The customers want focus rather than breadth/size. The work at KPO requires domain expertise, depth and experience in the focused area. Players need to focus on a particular market segment in terms of services provided, industry verticals, functional skills as well as the type of clients served. Familiarity with client's needs is important.

## **4. Differentiation and innovation**

KPO solutions are highly customized. It is an important element of value chain for the client. Service providers have the unique opportunity to create new markets. Flexibility and speed are

critical. Providers, who offer innovative services will differentiate successful players from others who offer only cost arbitrage and will give them a sustainable place in the world markets.

## **5. Marketing**

Selling KPO services will require special sales fore and significant branding efforts in the medium term. The entire sales process in KPO is based on concept selling with pricing and contracts as essential components. Customer looks for providers who can help them to improve the time-to-market, access to special skills, absorb peak load and enhance organisational effectiveness. Lower costs and uninterrupted services will add brand value. Selling realistic scope of work and skills at the right price also assume significance.

## **6. Data Security**

Higher-level control should be maintained. Enhanced risk management and confidentiality of data have to be maintained. As KPO work requires a very close interaction between the vendor and the customer and requires a very high degree of information and knowledge sharing, including highly confidential and sensitive data, credibility of the service provider is important. Security infringement and intellectual property rights are the major concerns. As revealed by Ernst and Young (2004) in its 'Global Information Security Survey', virus, spam and employee-misconduct are serious concerns in sharing knowledge. Thus, these concerns have to be

addressed properly and client confidence has to be built by the service providers. Safety and confidentiality of data should be ensured. Better security practices, voluntary company audits, checking employee background etc will help in this regard.

## **7. Infrastructure**

Setting up of good infrastructure is a basic need. World-class delivery processes and systems are needed. Technological sophistication is also important.

## **Emerging issues**

The following are a few key emerging issues in providing KPO services on a sustained basis.

### **1) Hiring**

Hiring of professionals such as CAs, doctors, lawyers and engineers will see a sharp rise.

### **2) Fragmentation**

New service providers particularly directly by professionals like lawyers, CAs, doctors, engineers etc., are expected to enter into the outsourcing business. Minimal entry requirements, low infrastructure and set-up costs will encourage smaller but technically strong companies to establish KPO units. Unlike BPO services, size doesn't matter for KPO. It is high degree of specialisation, which is more important. Freelance work also is emerging. This style of functioning is driving the increasing fragmentation of service providers.

### **3) New segments**

Small cities are emerging as KPO centers.

### **4) Development of overseas captive centers by multinationals.**

As benefits of off-shoring businesses are becoming evident, large multinational corporations are setting up their overseas captive units for outsourcing; this trend is due to the factors like concerns over data security, intellectual property rights and confidentiality. In the recent past, several Fortune 500 companies have already established their captive centers in India. However, after a certain size, the economies of captive offshore centers become unfavourable as compared to contracting and outsourcing to third party vendors.

### **5) Consolidation Spree**

Like in any other industry, mergers and acquisitions have started at the KPO segment too. As a mode of expansion, both small deals and mega deals are taking place. Small deal acquisitions are primarily intended to acquire domain knowledge, new clients and position themselves better in the market. IT and BPO companies like Cognizant and Patni have already initiated several deals in India.

## **Challenges**

Rocsearch, a UK based research services company's study shows that a huge supply gap threatens KPO's growth. In that case, growth may be just \$5 billion by 2010, manned by one lakh

people instead of the popular projections of \$12 billion supported by 250,000 employees. NASCOM projects a short fall of 500,000 workers in the ITes and BPO sectors by 2010. The sector is restricted by low employability despite high graduate turnout and competing demand from other sectors. The studies see only 500,000 of over three million workers added to the labour pool in 2005 as employable and of these just 2 in every 100 are likely to opt work in knowledge space.

High attrition rates, high cost of training and ensuring information security and confidentiality are other challenges. Recent challenge in the form of unionising IT/BPO sector also has to be dealt with. Workers' grievances like long work hours, night shift/odd hours' work, less pay and lack of facilities are a few issues. However, opinion polls shows that IT and ITes professionals (53% of the polled) view the unionisation as a hampering factor to the industry.

## Conclusion

KPO is an evolving business. It occupies the higher end of the BPO spectrum. It is the natural progression of BPO. In fact, it is the evolution and maturity of the BPO sector has given rise to KPO. The global KPO industry is still on a nascent stage. NASCOM predicts that the global KPO industry is expected to reach \$17 billion by 2010 of which \$12 billion would be outsourced to India.

India, which is home to a large pool of knowledge workers, has plenty of opportunities

in providing KPO services. In the KPO market, India is expected to increase its share from the existing 5% to 15% by 2010. However, the long-term sustainability of the market will rest on adopting a holistic approach to the basic issues. The single largest concern for service providers is attracting, acquiring, training, developing, performance managing and retaining manpower. This will require an improvement in quality-education and training on a large-scale basis. The challenges for continuous service delivery involve business continuity, Information security and compliance.

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