Chapter 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Market Potential Analysis:

The most important and difficult task in the analysis is to estimate the market demand for the sector under study. It is because a lot of external factors control the market demand, and proper data might not be available for it. But before we start the calculations let us understand some important definitions and terms.

In his book titled Market Research, Dr. Dilip Sarwate has the following definitions in Chapter 9:

1. **Market Consumption**: Market consumption gives past data about the goods or services actually consumed by a particular market in a particular field.

2. **Market Demand**: Market demand for a product is the total volume that would be sought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing programme.

3. **Market Potential**: Market potential is a limit approached by market demand as industry marketing efforts reach the optimum for a given environment.

4. **Company Demand**: Company demand is the limit approached by a company as its marketing effort increases relative to competitors.

5. **Elements of Demand Measurement**: A careful definition of the product or product class needs to be made.

6. **Total Volume**: The units for measuring the total volume will have to be clearly defined in terms of either physical volume or rupee or both.

7. **Bought**: It is important to define whether ‘bought’ means the volume ordered, shipped, paid for, received, or consumed.

8. **Customer Group**: Market demand may be measured for the whole market or for any segments of the market.
9. **Geographical Area:** Market demand is measured with reference to well defined geographical boundaries.

10. **Time Period:** Market demand is related to a particular time period.

11. **Marketing Environment:** The demand will be in relation to defined marketing environment.

Here we will consider sale of Knowledge Process Outsourcing Services by Indian companies to clients across the world in terms of revenue generated in US Dollars for the period of one year.

We will calculate the market potential for the Indian KPO Industry by 2020 by two methods:

- By Time Series Analysis
- By way of Expert Opinion

**5.1.1 By Time Series Analysis:**
This is the most commonly used method of forecasting, which uses historical sales data to predict future sales.

The following data was taken from the Evalueserve report:

**Table No. 5.1: Revenue for KPO Sector:**

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Year</th>
<th>Global KPO Revenue</th>
<th>Indian KPO Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2006-2007</td>
<td>4.4</td>
<td>3.05</td>
</tr>
<tr>
<td>2</td>
<td>2007-2008</td>
<td>6.15</td>
<td>4.3</td>
</tr>
<tr>
<td>3</td>
<td>2008-2009</td>
<td>6.45</td>
<td>4.5</td>
</tr>
<tr>
<td>4</td>
<td>2009-2010</td>
<td>7.15</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>2010-2011</td>
<td>8.9</td>
<td>5.95</td>
</tr>
<tr>
<td>6</td>
<td>2011-2012</td>
<td>11</td>
<td>7.1</td>
</tr>
</tbody>
</table>
By using the Forecasting Function from Excel for Time Series Analysis we get the prediction for 2020 for the Global KPO revenue as USD 21.13 billion (21,13,00,00,000) and Indian KPO revenue as USD 13.43 billion (13,43,00,00,000).

5.1.2 By Way of Expert Opinion:
As per the experts, the KPO sector will have a minimum growth rate of 15%.

Table No. 5.2: Growth of the KPO Sector as per experts:

<table>
<thead>
<tr>
<th>As per Evalueserve</th>
<th>Year</th>
<th>Global KPO Revenue</th>
<th>Indian KPO Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011-2012</td>
<td>11</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>2020-2021</td>
<td>38.69664</td>
<td>24.97692</td>
</tr>
</tbody>
</table>

The prediction for 2020 for Global KPO revenue is USD 38.70 billion (38, 70, 00, 00,000) and Indian KPO revenue is USD 24.98 billion (24, 98, 00, 00,000).

Interpretation:
- So we can conclude that the market size for KPO market globally will be maximum USD 38.70 billion and Minimum USD 21.13 billion.
- Whereas The Indian KPO Market will be in the range of USD 13.43 billion to USD 24.98 billion
5.2 Conclusions:

5.2.1 Knowledge Process Outsourcing - The Global Perspective:

5.2.1.1 Forecast for 2020: The Knowledge Process Outsourcing industry is going to boom in the days to come. Right now it encompasses a few processes from an entire business but soon it will be part and parcel of each activity of business. The rise of KPO happened due to cost pressures but now organisations are realising the importance of shortening the time cycle. Also the belief in resource from developing countries is rising, fuelling the growth of KPO. So we can conclude that the KPO market size **globally** is expected to be in the range of **USD 38.70 billion to USD 21.13 billion**. Whereas the **Indian KPO Market** will be in the range of **USD 13.43 billion to USD 24.98 billion**.

5.2.1.2 Shift in the Global Economy: Earlier the world was dominated by Manufacturing. From 1980 onwards the world economy was ruled by advances in the Services Sector. But after the year 2000, the world economy faced a third wave, the knowledge intensive service economy. Technological advances and cost cutting pressure due to fierce competition have prompted a lot of organisations to make use of intellectual capital from the developing country for their knowledge intensive work.

5.2.1.3 Shift in the Global Age: Global economies are facing a problem of ageing. The majority of the population in developed countries like Japan and the UK is above the age of 35. In the near future the majority of people from these developed countries will be nearing retirement age. This has given rise to the shortage of skilled people like engineers, mathematicians and science and technology professionals. On the other hand there are developing countries like India which have an enormous English speaking youth population and are valued across the world. Also, as compared to their equivalents in developed nations, this manpower is still comparatively cheaper. This has given a boost to the outsourcing of Knowledge Intensive Services from developed nations to developing nations.
4.3.4.1 **The Service Lines:** The main service lines for Knowledge Process Outsourcing will be financial analysis, business analysis, marketing analysis, legal process outsourcing and data management and data analytics. Financial research is the largest service line. A lot of corporates need competitive intelligence, so the Data Analytics Segment is showing high growth. Due to significant cost pressure and availability of talented resource, Legal Process Outsourcing is another area showing high growth rate. So Legal Process Outsourcing and Data Analytics will be the major service lines of the future.

5.2.1.5 **Client Countries contributing to the KPO sector:** The main countries for contributing to KPO work will be the USA followed by the UK and other developed European countries. India will have a major share in the total outsourced work, approximately 70%, followed by Chile, the Philippines and Mexico.

5.2.1.6 **Leading Countries Providing KPO Services:** India is a pioneer in KPO Services. It offers a full spectrum of KPO Services while other countries are only starting now and are in the early stage of industry establishment. India offers mature industry, good government support, an excellent talent pool and affordable pricing. In this regards India is one of the youngest countries in the world. It has a number of good graduate and post graduate colleges giving quality education to its “ignited minds”. India will surely be the most preferred KPO destination for years to come.

5.2.1.7 **Types of KPOs:** Many of the MNCs from developed countries will start their global service centres or captive units in developing countries to cover more geography and do more businesses. But the third party outsourcers will also stronger in the years to come because they have gained the trust of MNCs, and have the capability to serve various verticals and provide a wide array of services.

5.2.1.8 **Nature of Work:** The nature of business involves complex activities. It also involves decision making at some levels. The knowledge workers offer
guidelines for the concerned tasks. The work is not process oriented and every task is different. So you cannot have normal SLAs. Thus it is different from normal business process outsourcing assignments and requires some additional qualities in the workforce.

5.2.1.9 **Type of Workforce Required:** As the work involved with knowledge process outsourcing is different, it calls for different sets of manpower. These companies need human resource with excellent analytical skills. Also, Subject Matter & Domain Expertise is essential for working in the KPO industry. English written and verbal communication skills are essential prerequisites to perform such roles.

5.2.1.10 **Risk Associated with Outsourcing of the Knowledge Process:** The biggest risk associated with the outsourcing of the Knowledge Process is that of knowledge loss, which may turn into the financial loss. Client companies are understandably concerned about the data confidentiality of outsourced core processes. For this reason stringent Non-disclosure Agreements are signed with vendor employees. Also the laws of the vendor country, the nature of the business environment and the organisational behaviour of employees are other risk factors.

5.2.2 **Knowledge Process Outsourcing - The Indian Perspective:**

5.2.2.1 **Forecast for 2020:** Currently India is the most preferred destination for outsourcing the Knowledge Process Work. The **Indian KPO Market** is expected to be in the range of **USD 13.43 billion to USD 24.98 billion**.

5.2.2.2 **Main Reasons behind the Rise of KPO:** The main reason behind the growth of KPO in India is the large numbers of professionally educated personnel like lawyers, engineers, and scientists. Additionally, factors like lower costs, a large English speaking population and a time zone difference which gives the advantage of 24 by 7 services are the other reasons. KPO needs people with Explicit and Tacit Knowledge. The IITs and IIMs of India, along with other management and engineering colleges, are the main sources of this human power supply. India has a median age of 25.9 years
and 49% of its population is in the age group of 20 to 54 years. There are about 14,000 colleges and 1,500 research institutes imparting quality education to Indian youth.

5.2.2.3 **Obstacles For India:** The three main obstacles for India - because of which India may lose its position as a KPO destination - are Increasing operating costs due to high inflation, High employee attrition rate and Higher wages compared to other competitor countries. The metros and mini metros are getting crowded by the day. Consequently prices in realty sector are also increasing. Also the cost of leased lines, electricity and other operational expenditure is rising in these cities. So the cost of operation is increasing.

5.2.2.4 **Next Growth Sector In India:** As per the expert opinion, Legal Process Outsourcing will be the next sector in India to show maximum growth in the years to come. The new sector is not only the new domain but the new market also. Now Europe is also opening up to accept Knowledge Process Outsourcing, India can look at this market as a new growth sector.

5.2.2.5 **Client Countries:** As with BPO, the USA is also a pioneer for KPO for the Indian market. Approximately 65% revenue of this sector comes from this country. Europe is the second contributor, accounting for approximately 30% of the revenue to this sector.

5.2.2.6 **Different Types of Organisations:** The KPO industry in India comprises over 250 small and large players offering services in various service lines to different sectors. There are four different types of organisational structures namely large integrated service players, pure play knowledge service providers, global in house analytics centers and niche players concentrating on only one service line or one type of customer segment. Out of these, around 50% organisations have less than 250 employees. The global captive centres in India have more number of employees as compared to third party outsourcers. A lot of Indian third party outsourcing companies are setting up offshore locations in different countries. One of the routes they follow is of Mergers and Acquisitions. Chile and Latin America are the destinations
considered for expansion. Also large third party outsourcers sub-contract some work to niche players to reduce the time to market.

5.2.2.7 Competitor Nations for India: Chile, the Philippines, Mexico and China are the new destinations coming up for KPO industry. The two nearest competitors for India are the Philippines, because of low costs, and Mexico, because of its proximity to the USA. Romania and Costa Rica are also coming up as good destinations to attract customers from developed European countries.

5.2.2.8 New Destination within India: KPO operations in the major cities of India like Delhi NCR, Mumbai and Bangalore are becoming more expensive by the day. So, tier two and tier three cities are now attracting the KPO operators. Cities like Madurai, Mysore and Nagpur are being considered by KPO companies. The cost of operations in these cities is comparatively less with the same talent pool performing the job. This is due to the availability of good educational institutes; stable socio-cultural life and excellent infrastructure at comparatively lower costs in these cities also. This helps in reducing costs and attracting talented manpower.

5.2.2.9 Business Prospects for the Next Three Years: The organisations are very optimistic about business prospects in India in the next three years and feel confident of increasing their revenue by 15% year on year. Also employment as well as the demand for KPO will go up in the years to come.

5.2.2.10 Type of Work Outsourced to India: More complex work requiring specific domain knowledge, analytical and logical thinking will be offshored to India. Thus simple technology knowledge process outsourcing will change to complex technology knowledge process outsourcing.

5.2.2.11 Area Of Improvement For India: India needs to work on the administrative requirement and bureaucratic behaviour for doing KPO business so as to satisfy 90% of organisations working in the KPO domain as third party outsourcers. To achieve this there is a need to establish an
organisation for KPOs only in India, similar to NASSCOM. It should help to create and promote “Brand India” for KPOs in the international markets. Such an organisation should help small players to get the international customers. It should conduct training sessions.

5.2.3 Analysis of the Indian KPO Business Environment:

The business environment of an industry consists of all the external forces that have impact on the performance and major decisions of the industry.

According to Philip Kotler, “A company’s marketing environment consists of the actors and forces outside of marketing that affect marketing management ability to build and maintain successful relationships with target customers.”

It is consisting of macro and micro environment forces. The macro environment is consists of Political, Economic, Socio-cultural, Technological, Environmental and Legal forces (PESTEL), Demographic and International forces. This is known as the PESTEL Analysis. PESTEL actually analyses all the external factors of the environment within which the business exists (Murthy 2000). The micro environment is consists of forces like companies, suppliers, intermediaries, competitors, customers and public.

Above mentioned factors affect the decisions of business managers either directly or indirectly. This environment analysis gives list of opportunity and threats for the industry.

The Macro environment factors and a few Micro environment factors are often outside the control of business and so it becomes very important for the business managers to completely understand them and take appropriate actions accordingly.

India is second most populous country in the world and the seventh largest country by area. It is multilingual country and has a diversified culture. It is amongst the leading democratic countries in the world. In 1991, it has made its
economy free and accepted a free liberal global environment. Since then it has shown constant growth in GDP. For the last 10 years when rest of the world was facing recession, India has managed to show year on year increase in the GDP. It has a strong hold on the outsourcing sector and is one of the leading nations for BPO and KPO outsourcing. Let us understand the business environment of this country as regards the KPO sector in the following section:

- **Macro environment analysis:**
  1. **Political Factors:**
     
     The major political environment factors which affect KPO in India are:

     a. **Political Stability:** The Indian Political system is very old. India has numerous political parties with varying ideologies and varying leadership patterns. It is still considered worldwide as one of the stable political systems. All the political parties believe in democracy. Elections are held at the state and central levels every five years in this nation. For many years India had alliance government as no party had been able to get a clear majority. Thus giving rise to political instability. Now the Bharatiya Janata Party (BJP) has a clear majority and one can expect a stable political stability for the next five years. Any company wanting to outsource a core process to India would like to have stable government assuring smooth day to day functioning of the business. And so this is very favourable condition for the KPO industry.

     b. **Government Policy:** India has several political parties active both at the national and state levels. Indian political divide is only on personalities and not on policies. Economic Liberalization has been accepted by all the political parties in India. Even if central and state government are formed by different parties it will not have an adverse impact on economic policy decisions. So even if state and central governments are formed by government parties there will be no adverse impact on foreign direct investment or promotion of outsourcing.
There is separate ministry, Department of Electronics and Communication and Information Technology, to promote the IT, ITES and the Outsourcing industry. The Government has a policy of supporting the outsourcing industry by way of establishing SEZs or by establishing the STPI. Also the Government is very instrumental in developing state of the art infrastructure support for power, telecom, broadband connectivity and financial assistance. Recently the Government of India has launched a programme, “Digital India”, which is based on nine pillars. One of the pillars is “Broadband Highways” giving broad band connectivity to urban as well as rural India, and creating the National Information Infrastructure (NII). Cyber security is another pillar of Digital India aimed at building a secure and resilient cyberspace for citizens, businesses and Government, by way of actions to protect information and information infrastructure in cyberspace, to build capabilities to prevent and respond to cyber threats, reduce vulnerabilities and minimize damage from cyber incidents through a combination of institutional structures, people, processes, technology and cooperation. Thus the Government is also making a promotional effort to attract the clients. This is very a positive environmental factor for KPO.

c. **Relationship with other major powers:** For KPO, the USA is still a major client today. Unfortunately, in the USA there is an anti-outsourcing drive and general publics are forcing the USA government to reduce the outsourcing to India. This will directly affect the India KPO business. But fortunately the Modi Government has taken appropriate steps to establishing relationships with the current Obama Government in the USA. This is a very good booster for the KPO industry. But the upcoming USA elections may be one of the worrying factors for the industry.

d. **Terrorism:** The Indian Government has been very successful in controlling the terrorist activities. Barring Jammu and Kashmir and some North-Eastern states, terrorist activity is by and large under control. Also, the Indian terrorist organisations have not caused significant damage to the business sector. So terrorism does not pose a major threat to KPO sector.
All in all we can say that India, currently, has a very positive political environment for the KPO and the industry should draw maximum benefit out of it.

2. **Economic Factors:**
The economy of India has been significantly stable since the introduction of the Industrial Reform Policies in 1991. As per the policy, reductions in industrial licensing, liberalisation of foreign capital, formation of Foreign Investment Promotion Board (FIBP) and so on, have resulted in constant improvement of India’s economic environment.

As per the Department of Electronics and Information Technology of India Annual Report 2014-15 “Comparing economic performances across different countries for the year 2014-15, it is seen that there has been an emergence of India among the few large economies with a propitious economic outlook. The Central Statistics Office (CSO) has recently revised the national accounts aggregates by shifting to the new base of 2011-12 from the earlier base of 2004-05. The latest indicators, emerging from the recently revised estimates of national income brought out by the CSO point to the fact that the revival of growth had started in 2013-14 and attained further vigour in 2014-15. The economic scenario presented by the new series (with 2011-12 as base year) shows that there was perceptible improvement in some of the macro-aggregates of the economy in 2013-14, which got strengthened in 2014-15. Economic Growth, measured by growth in Gross Domestic Product (GDP) at constant prices, estimated at 5.1 per cent and 6.9 per cent, respectively during 2012-13 and 2013-14 was higher than the corresponding figures of 4.7 per cent and 5.0 per cent released under the 2004-05 series in May 2014. The same is 7.4 per cent (advance estimates) in 2014-15. As per the Advance Estimates in 2014-15, growth of the services sector accelerated to 10.6 per cent as compared to 9.1 per cent in 2013-14. Software development and information technology enabled services (ITeS) has emerged as one of the most dynamic and vibrant sectors in the economy.”

The economic environment factors for the KPO industry include rise in pay scale, global recession, competition, and currency fluctuations.
a. **Rise in the Pay Scale:** India has had inherent advantage of cost effectiveness because of its lower salary structures as compared to the developed world. But the KPO work requires domain expertise and other relevant skill sets. So the salary expectations of knowledge workers are on the higher side. In the last few years due to increase in the pay scale India’s cost advantage over developed country knowledge worker is reduced.

b. **Global Recession:** The world is experiencing recession since 2008. India was not much affected by recession effect so much as its banking was not dependent on tinted assets. India’s growth process has been largely due to the domestic market, and its reliance on foreign savings has remained at 1.5 per cent in the recent period. The USA is the country most affected by recession. This is bad news for India as most of the outsourcing work in India has come from the USA. Due to recession there was pressure on the US Government to stop outsourcing work to India. But the scenario for KPO is different. The recent trend shows that due to stricter norms in the financial sectors, a lot of data processing is required at the higher level. This has given a boost to the Indian KPO industry. In fact world Recession has turned out to be a positive factor for the KPO industry in India.

c. **Competition:** The Indian economy is facing stiff competition within the industry as well as from other countries. In the KPO industry there are various operators fighting for the same share of the market. This has made the competent human resource very vulnerable, and attrition is a very big problem for the industry. Also India as a country is facing competition from China and the Philippines as a low cost alternative, and Mexico and Chile as competition due to near shore advantage. Though the KPO industry in these countries is at an early stage, in future they may pose a big threat to the Indian KPO industry. This threat has been converted into an opportunity by lot of Indian KPO companies by starting their own near shore KPO office in Chile or Mexico.

d. **Fluctuation In Currency:** India is still today looked upon as cost effective partner in KPO domain. The moment the Indian Rupee becomes stronger with respect to the US Dollar, the cost advantage margin will reduce. Due to the
recession the Rupee had become stronger in comparison with the Dollar and this had affected the KPO industry adversely. But now it is settling down.

All in all we can say that the Indian Economic environment currently is favourable to the KPO sector.

3. **Sociocultural Factors:** Every business works in a society. So social and cultural factors affect the working of business. The socio cultural environment is a set of beliefs, customs and practices that exist within a particular area. Sociocultural factors for the KPO industry include the languages spoken, the educational level, and the behaviour of the people.

a. **Languages Spoken:** India is a multilingual country. As many as 700 plus languages are spoken in India. But still the majority of the workforce can speak and understand World’s Business Language - English. India is the second largest English speaking country in the world. This has given it an immense advantage in the KPO domain.

b. **The Indian Education System:** The Indian Education system places a lot of emphasis on Maths and Science. This has resulted in a large number of engineering and science graduates. India has 677 universities and 37,204 affiliated colleges giving world class education to more than 20 million students. An Indian youth with an analytical mindset, domain knowledge and expertise in English is a ready resource as a knowledge worker. This has boosted the KPO business growth in India.

c. **Behaviour of the Indian Workforce:** The major participant is the KPO domain is the USA. Indian and US culture are altogether different. This can create a barrier for growth of the business. Many companies have taken initiative to conduct rigorous training in behaviour patterns for their employees before they start directly interacting with the clients.

d. **Working Age of People:** India is one of the youngest nations in this regard. It has the majority of its population in the age group of 15 to 45. This population
is well educated, ready to change and cherishes high aspirations. This is the perfect kind of workforce for the KPO industry.

One can say that India has the advantage of the English language, a responsive Education system, a young population which is ready to change its behaviour patterns to exploit the KPO opportunity as employees.

4. **Technological Factors:** Technological advantages significantly affect the working of any business. For outsourcing business, when the client location is far away from the vendor location, technology plays a very important role. For the KPO sector telephony, internet connectivity and the availability of new technologies are the major factors affecting the business decisions.

a. **Telephony:** India has lowest mobile call rates. The business to business call rates are also very low. Enterprise Telephone Services such as 3G, Wi-max, and VPN are poised to grow. India has the second largest telephone network after China.

b. **Internet Connectivity:** India will soon have the second largest internet base and is well connected by optical cables.

c. **Availability of New Technology:** India is leading in the new technology domain also. Technologies such as cloud computing, business analytics software, social media platforms and process automation software are now used by Indian businesses effectively.

India is served with both 3G and 4G technology, which has facilitated several of its technological projects. Furthermore, the country also possesses one of the strongest IT sectors in the world, promoting constant IT development, software upgrades and other technological advancements. We can say that the Indian technological environment is very well equipped for the growing KPO sector.

5. **Legal Factors:**

The Indian Judicial System is one of the oldest legal systems in the world today. It is part of the inheritance India received from the British after more
than 200 years of their colonial rule, and this is obvious from the many similarities the Indian Legal System shares with the English Legal System. The framework of the current legal system has been laid down by the Indian Constitution, and the judicial system derives its powers from it. The Indian government and the law system are very supportive and proactive in accepting the IT revolution and making laws to ensure the smooth functioning of the outsourcing industry.

The arrival of the Internet and the World Wide Web made it possible for people to communicate and transact over cyberspace. It was a revolutionary step for humanity, but it also created a significant need for the regulation and governance of these activities, a requirement that led to the creation and implementation of cyber laws across the globe. India became the twelfth nation in the world to adopt a cyber law in the year 2000 Indian Outsourcing Industry must comply with requirements stipulated by the Indian cyber law, namely the Information Technology Act, 2000.

From the perspective of e-commerce in India, the IT Act 2000 and its provisions contain many positive aspects:

- Firstly, the implications of these provisions for the e-businesses would be that email would now be a valid and legal form of communication in our country. It can be duly produced and approved in a court of law.
- Companies shall now be able to carry out electronic commerce using the legal infrastructure provided by the Act.
- Digital signatures have been given legal validity and sanction in the Act. The Act has given a legal definition to the concept of secure digital signatures that would be required to have been passed through a system of a security procedure, as stipulated by the Government at a later date.
- The Act throws open the doors for the entry of corporate companies in the business of being Certifying Authorities for issuing Digital Signature Certificates.
• The Act now allows the Government to issue notifications on the web, thus heralding e-governance.
• The Act enables companies to file any form, application or any other document with any office, authority, body or agency owned or controlled by the appropriate Government in electronic form, by means of such electronic form as may be prescribed by the appropriate Government.
• The IT Act also addresses the important issues of security, which are extremely critical to the success of electronic transactions.
• Under the IT Act, 2000, it will now be possible for corporate entities to have a statutory remedy in case of any break-ins into their computer systems or networks, causing damages or copying data. The remedy provided by the Act is in the form of monetary damages, not exceeding Rs. 1 crore.

**Other Laws impacting Outsourcing Industry:**

• The Income Tax Act, 1961
• The Trade Mark Act, 1999
• Ensure compliance with labor laws.
• The Copyright Act, 1957
• The Patent Act, 1970
• The Arbitration and Conciliation Act, 1996
• The Code of Civil Procedure, 1908
• The Indian Contract Act, 1872
• The Information Technology Rules

Thus India is all set to make its legal environment supportive of the outsourcing industry to further fuel its growth.
5.2.4 **SWOT Analysis of India With Respect To the KPO Industry:**

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
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| - Pioneer in KPO segment.  
  - Highest talent pool of engineers, MBAs, law, architecture, medical professionals, finance graduates and other knowledge workers required to work at KPOs.  
  - Huge English speaking population.  
  - Comparatively low cost  
  - Excellent brand name for outsourcing in the outside world.  
  - Supporting government policies.  
  - Time zone advantage reducing time to market.  
  - Adding new service lines of KPO, thus increasing the value proposition.  | - Due to stiff competition in the Indian KPO domain, salaries of knowledge workers are rising, reducing the cost reduction advantage.  
  - Rising real estate prices in major cities of India.  
  - Infrastructural constraints in the major cities of India.  
  - Increased opportunity in other sectors reducing the available talent for KPO  
  - Low employability rate despite the high number graduates passing from the colleges.  
  - High Attrition rate.  
  - High cost of training  
  - Many companies fail to reach target market due to poor marketing strategies.  |

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<th>Opportunity</th>
<th>Threat</th>
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| - Shortage of knowledge workers in developed countries like the USA and the UK.  
  - More and more areas are opening for KPO services.  
  - Europe also opening up for the KPO sector.  
  - SME segment is opening up for KPO.  | - General public’s rage against outsourcing of Knowledge processes i.e. high value paying jobs from the developed country.  
  - Mexico and Chile becoming favorite nearshore options for a lot of USA clients.  
  - A highly competitive business environment  
  - Fear of losing employees to rivals or clients  
  - Appreciation of the Indian Rupee making India less competitive |
5.2.5 **Porter’s Diamond of National Advantage:**

The latest liberalisation and globalisation policies of a lot of countries, removal of trade and communication barriers and the economic, social and technological changes that have been taking place in the world have given rise to inter country competition between companies. Some countries perform better than others in particular sectors... Michael Porter developed the Diamond Model, which provides the framework to understand why some countries are more competitive and successful in some sectors than others. He has explained this model in his book, “Competitive Advantage of Nations”. The four corners of the diamond are “Factor Conditions”, “Demand Conditions”, “Firm Strategy, Structure and Competition” and “The Presence of Related and Supporting Industries”. Factors like, “Chance and Government” are included in the system. These are known as support factors affecting competitiveness.

**Porter’s Diamond Model**

1. **Factor Conditions:** These are factors of production and infrastructure necessary to compete in a given sector. Traditionally these were considered be “Land, Labour and Capital”, but Porter argued that these were not sufficient
for the purpose. So he identified the following five broad groups under which factors could be divided:

a. **Human Resource:** The amount, ability and cost of staff etc.

b. **Material or Physical Resources:** The abundance, quality, accessibility and cost of water and land in the particular state etc.

c. **Knowledge Resource:** A state’s stock of technical, scientific and market resources for a particular sector, universities and the Government’s research institutes.

d. **Capital Resources:** Quantity and cost of capital available to fund the sector

e. **Infrastructure Resources:** The type, quality and user cost of infrastructure available, including the cost of communication and transportation systems.

2. **Demand Conditions:** The second broad group of factor conditions is home demands. It relates to the nature of consumers in the home market. The three broad characteristics of demand conditions are Home Demand Conditions, the Demand Size and the Pattern of Growth and internationalization of Domestic Demand.

3. **The Related and Supplier Industries:** The presence or absence of related and supplier industries which interact with the target sector are basic factors. It is impossible to find any successful industry without other strong supportive and related industries. The related industries produce complementary products. The supplier industry creates potential for comparative advantage by producing state of the art inputs.
4. **Firm’s strategy, structure and rivalry:** The strategy of a firm, structure of industry and rivalry amongst firms has an effect on the competitiveness. The objectives, policies and ways of coordinating firms in industries vary from nation to nation. A range of cultural aspects like the interaction between employees, the working principles and employee-employer relations play a major part.

5. **Chance:** Chance events are important as they generate discontinuities that permit changes in competitive strategy. They have the ability to nullify the rewards of previously more successful competitors. They can create the possibility of new firms replacing old once through competitive advantage in response to new and different conditions.

6. **Government:** The key role of government in the 'diamond' is to influence the four determinants. The government can manipulate the four determinants either positively or negatively. For example, the government can affect the factor conditions through subsidies, policies towards capital markets etc. All together these six factors explicate why some businesses prosper more than others. The main objective of this model is to explain how different nations hold the advantage of their home base to build relations with other nations in order to become competitive globally (Porter, 1990).

**Analysis of Porter’s Diamond Framework for the Indian KPO Sector:**

I. **Factor Conditions:**

1. Highly qualified human resource available at comparatively cheap rate

2. The realty sector is costly in Tier I and Tier II cities but it is comparatively affordable in Tier III cities.
3. In India there are 677 universities, 37,204 colleges and 11443 stand-alone institutions as per the latest statistics from the website of HRD ministry of India.

4. The cost of telecommunication is lowest in India as compare to other countries. India is digitally well connected with broadband and optic fibre cables.

II. **Demand Conditions:**

1. The demand for KPO services from the International market is the highest.

2. Demanding international clients have forced the Indian KPO industry to continuously innovate and be update.

3. International competition has forced Indian KPO firms to be cost effective and competitive.

III. **Related and Supplier Industries:**

1. The fully functional IT industry is the back bone for the KPO industry.

IV. **Firm’s Strategy, Structure and Rivalry:**

1. The competition is intense in the sector.

2. Intense competition has forced firms to change their strategies.

3. The firm’s structure and strategy is dependent on the type of business model it follows.
V. **Roles of the Government:**

1. The Indian Government supports the KPO Industry.
2. The Indian Government has provided suitable infrastructure for the KPO Industry.
3. The Indian Government has good policies for creation of more Skilled Labour.
4. The Indian Government offers tax concessions for KPO companies.
5.3 **Recommendations:**

Knowledge Process Outsourcing will be the new engine propelling the Indian Economy. From the conclusions it is very clear that India enjoys the leadership position at present but there are a few obstacles which need to be overcome.

Instead of getting known as provider of “Intellectual Coolies”, it is time for India to prove as the “Intellectual Capital” of the world providing knowledgeable workforce or partners.

To achieve this dream it is necessary that all the stakeholder of this system work hand in hand. The major stake holders are the government, companies providing KPO services and the educational institutes providing valuable resource.

The following are the set of recommendation for each stock holder, drawn from the Conclusions.

5.3.1 **Recommendations for the government:**

Knowledge Process Outsourcing is a complex business and will soon be a major contributor to the nation’s foreign exchange. The government should, therefore, take following steps for the growth of KPO.

I. **A Single Window System:** A lot of respondents felt that there were too many administrative hurdles for starting and running a KPO Company. Knowledge Process Outsourcing companies work in varied verticals right from financial institutions to attorney offices. Also it provides different types of services, right from analysis to modelling. So it is entirely possible that they would have to interact with more than one Government agency. This could make the task of operations even more complicated for these companies.

The Government should have a separate department and a single window system for these companies. This department should be centralised with
offices across India. It will help the KPO companies to expand to the different states of India and yet have the same system to work with. The first job of this department should be to define a framework of KPOs. It should be done in consultation with the KPO companies and clients. The second task of this department should be to provide all the necessary administrative as well as infrastructural support to such companies, from start up to closing down. This department should also have the authority to collect all applicable taxes and the other government fees.

These measures will definitely help KPO companies and increasingly more companies would be likely to be interested in entering the KPO domain.

II. **Smart KPO cities:** One of the major conclusions is that the cost of operating in the Metro cities of India is becoming so high that the cost saving advantage is eroding.

The metros and mini metros of India are totally congested and any additional pressure on their infrastructure will cause them to collapse. So the Government now should find out an untapped geographic potential for establishing KPO companies.

All KPO companies need an infrastructure similar to an ITES company and as well as a very knowledgeable resource pool to work with it. The Government should identify a pool of Tier III cities like Nagpur and Thiruvananthapuram, and develop them as a smart cities for KPO.

The Government could start a **KPO Park** in these cities and provide the required quality infrastructure. It could also announce some schemes to attract companies to set up KPO offices in these cities. The operational cost and cost of living in these cities is low as compared to the metros and mini metros. This would reduce the operational expenses of KPO companies.

But along with the infrastructure, these companies would also need intellectual capital. The fresher can work anywhere but people with experience like to
work in a city providing all facilities. So the government must also develop these cities with facilities like good schools, colleges, basic civic infrastructure, entertainment areas and hospitals etc. This will attract senior, experienced intellectual capital to work in these cities and so help the KPO business to flourish.

City Profile of Nagpur – The Orange City

**Population** — 25 lakh

**Existing infrastructure:**

While firms like Mahindra & Mahindra, Indo-Rama and Electrolux have been operating for long, companies such as DLF, Mantri, Satyam, Sahara, Raheja, and ShapoorjiPallonji have acquired huge tracts of land to build townships.

**Proposed and ongoing projects:**

- Nagpur Metro,
- Nagpur-Secunderabad and Nagpur-Bilaspur high-speed train,
- 10-lane flyover-cum-under bridge in Pardi worth Rs 300 crore being,
- dry port near Mihan,
- Multi-modal international hub airport.
- National Manufacturing and Investment Zone
- Development of first IIM in the state.

**Key Drivers:**

- Rapidly growing infrastructure due to the Multimodal International Cargo Hub & Airport
- Educational hub of central India with more than 40 engineering and medical colleges and good availability of fresh talent
- Major engineering hub with presence of companies like Mahindra & Mahindra, NECO Ltd, Bajaj Auto, etc.
- Commercial real estate costs are around 40% lower than the tier 1 cities on an average

**Pros and Cons:**

**PROS:**

- Very Low pollution levels,
- Favourable state government laws,
- Strategically located in central India

**CONS:**

- Extreme Climate,
- Average medical facilities,
- Poor international connectivity

**Reference: Location Analysis: Emerging cities of India April 2012**
III. **Relations with Other Countries:**

Government should act as a relationship manager for KPO companies. Foreign Policy is an important tool in the hands of the Indian Government to achieve the above. It is controlled by the Prime Minister’s Office (PMO) and Ministry of External Affairs.

Companies are getting orders because of the well established brand name in the field of IT and ITES. Up till now major orders were coming only from the USA. The tieup with the USA can be increased if government officials connect with the companies in the USA and convince them about “Doing Business In India”.

The current visits of our Prime Minister, Mr. Modi, and his interactions with the US government as well as industrialists can be considered as a first step in this direction.

The same effort can be made for the European Countries. These countries are a bit suspicious about doing business in India as the majority of them have no experience of outsourcing to India. The Indian government can take the initiative to arrange interactions of interested European companies with senior officials of the Ministry of External Affairs. Such meetings could eliminate the doubts that these companies may have about India, Indian Rules and Regulations. It could also be used to showcase the value enhancement Indian KPO companies can provide and will thus help us in creating “Brand India”.

It will be difficult for any Indian company to build that trust or brand Image on its own. With Europe opening up to the idea of Outsourcing Knowledge Services, Indian Government, through its Ministry of Foreign Affairs, can make some bilateral contracts for Knowledge Services with developed countries in Europe. Also the Indian Embassies in these countries can arrange meetings between the companies from both countries. This will help the service vendors to meet the clients and thus increase their business.
5.3.2 Recommendations for Educational Institutes

As mentioned earlier, the main asset of a KPO company is intellectual capital. Today KPO work is in the nascent stage and a lot of new techniques are required to work in this domain. So a readymade work force at the entry level is a dream for any company working in the KPO domain. The companies have to select candidates with basic skills and then train them as per company requirements. Thus the company has to put in time and money on these resources. This can be avoided if our educational institutes take an active part in the training of the KPO resources. The following are a few suggestions for this.

I. Certification Program: The institute or universities could have collaboration with a KPO company operating in a particular domain. Thus they can understand the various job profiles available for a particular stream of education at the entry level and the skill set required for the same. A certification program can be developed for these specific job profiles for a specific KPO function and can be taught additionally along with their normal degree or PG course. The institute or universities could have a tie up with various KPO companies which would give preference to candidates who have completed this certification course at the time of recruitment.

II. Sandwich Courses: Universities can develop sandwich courses at the post graduate level in which the student would have to take formal education for a year in the institute and then work full time for two to three days in a week in a KPO company in the following year. This would give students practical experience and companies a readymade resource. Thus it would be a “win-win” situation for all concerned.

III. Certification Course for Employees of KPO Companies: A few institutions of repute from a particular area could tie up with the KPO service providers for training new recruits. This would be an outsourcing of Training for new joiners. The institution, with its qualified staff, and the necessary infrastructure
for the training could help KPO service providers in reducing their costs. The curriculum could be designed by KPO service provider and they could first train the faculties of selected institutes in the same. By this the KPO service providers would be able to save on the costs like man power for training, and infrastructural and operational cost. The institutes would get funding. And their faculty members would get not only an additional source of income but also a prestigious assignment. Thus is result in a Win-Win situation for both parties.

5.3.3 **Recommendation for KPO Service Providers:**

The KPO environment is very competitive. The clients have very high expectations. There is always a risk of losing a client to a competitor. The competition is not only within the country, but also from outside the country. Some other countries have started developing themselves as KPO destinations. So Indian KPO service provider also needs to be Brand Ambassadors for India. Thus there responsibility increases manifold. The following are some suggestions which would help the KPO service providers to be competitive:

**I. For Human Resources:** KPO service providers would need excellent human resources to perform the KPO tasks. As suggested earlier for educational institutes, KPO Service providers can select any one of the above models and thus have the right type of person for the right type of job. Also continuous training and development must be the key focus area of these companies. This will help them to be with the ever changing industry all the time.

**II. For Security and Control:** The client companies have concerns over data security as well as information loss. Companies outsourcing the work in the KPO domain have a fear of Data reliability, validity and security. Companies working in this domain should have some mechanism in place to ensure that clients would have complete faith in the process and the vendor and, in turn, in India. These companies should have a security and control policy covering issues of data and information sharing as well as data and information validity.
The service providers must invest heavily in the latest information and data security tools and techniques. This will reduce the risk of Data Loss.

Many companies are doing this as this researcher experienced at the time of data collection.

III. **For Quality of Work:** The KPO client is not very worried about the cost, but is more worried about the quality of work, as it affects his business directly. The company, in consultation with the client should have methodical feedback formats and improved SLAs to check and validate the task performed.

IV. **For Marketing**— In today’s digital world websites play a very important role as an “Above the Line” communication tool.

It is impossible for the Client to visit each and every service provider personally. And, if they are situated in another country, the task becomes even more difficult. So they try to gain the information virtually.

Also, if the service provider is small, it will not have a big enough brand name in the market, and the funding required for marketing in the international environment. The website of the service provider becomes the major promotional tool.

Normally the company website gives all the information about the company, the product lines it offers and its advantages to the client through its “Value Proposition”. But in case of KPO service providers, the company should give information about the measures taken by the company for data security and knowledge loss. This will help in building the confidence of the client.

Also, the testimony of existing clients about the work process and value addition is also another common promotional tool used by companies.
The company website can also provide useful links related to Indian laws regarding outsourcing, and also for country rating agencies. It will enhance the understanding of the client.

5.3.4 An Independent organisation, for KPOs - Indian Association for Knowledge Process Outsourcing (IAKPO)

I. Background: The KPO industry is still in the growing phase and in some service lines it is in the nascent stage. The proper functioning of all the above stake holders is very important for the growth of KPO in India. It is easier said than done.

For any government it will be difficulty to make agreements with other countries for one sector alone. Also the development of infrastructure only for one sector is also not easy, without political will or pressure from the other stakeholders.

Universities or educational institutes may lack the resources to tap the KPO companies to develop an academic collaboration with them. Also, most educational institutes or universities would not have this on their agendas as the sector does not provide opportunity for a large number of students.

The majority of third party operating units in the KPO domain are not too large. These companies will not have sufficient infrastructure for marketing as well as for disseminating information on the latest developments in the market and on the availability of clients.

These three stakeholders working independently of each other will not be use for the growth of KPO sector. So the researcher would like to recommend the setting up of an organisation which would work closely with all these three resources and thus will help in exploiting the opportunity. This could be names as Indian Association for Knowledge Process Outsourcing (IAKPO)
II. Model for Indian Association for Knowledge Process Outsourcing (IAKPO):

III. Objectives of the organisation: The objectives of this association would be fourfold:
1. Creating “Brand India” for KPOs in world, to manage Demand.
2. Coordinating with the Government of India for the smooth functioning of KPOs, to manage Operations
3. Working with educational institutes or universities for getting suitable manpower., to ensure Supply
4. Working with KPO organisation for the proper operations and delivery to manage Marketing

IV. Marketing Strategy: The Association should have two major departments focussing on two types of clients. One should be focusing on already developed USA market and try to enhance benefits. The second should focus on Europe, to establish market share in this completely untapped market.
V. **Department for Europe:** This department would work to generate business from Europe. The main task of this department would be to create “Brand India” in the European Market.

As most of the European countries are still suspicious about outsourcing high value processes, this department, along with the Indian Government should work to remove this suspicion.

The department should have collaborations with different industry organisations which would be prospective KPO clients in areas like Banking, Retail or Law firms. It should sponsor the events or organize events for them that would showcase the “Indian talent and the value proposition of KPOs”.

Also it should be able to clear the doubts regarding the paperwork and other administrative problems of doing business in India. To start, with the Association should identify key verticals to concentrate on, and the top five or ten players in the European market from each vertical.

For example, if it were to concentrate Retail, companies like Carrefour, of France, Metro Ag of Germany, and Tesco of UK would be relevant.

The Association then can make efforts through the Indian Government to make presentations to these organisations on “Indian KPO Industry”.

**For KPO Service Providers:**

This Association would be the source of information for KPO service providers on the requirement of a particular service required in European countries. It would also provide updates on developments in the KPO domain.

Each European country has its unique culture. This Association could conduct training in how to do business with these countries, and also the relevant behavioural training for people working in KPOs.
The Association could also conduct training programs on the latest domain expertise and skill set requirement.

The association could also invite stakeholders from a particular European country and have a get together of service providers and prospective clients.

<table>
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<th>Sr. No.</th>
<th>For European Clients</th>
<th>For Indian KPO service providers</th>
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<tbody>
<tr>
<td>1</td>
<td>Create “Brand India”. Participate in trade show or organise trade shows.</td>
<td>Provide information on the various opportunities available in the European market.</td>
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<tr>
<td>2</td>
<td>Help in understanding the rules and regulations of the Indian Government</td>
<td>Provide information on various countries, and their legal environments.</td>
</tr>
<tr>
<td>3</td>
<td>Collaborate with different industrial organisations.</td>
<td>Conduct training programmes for the necessary domain and skill expertise for specific KPOs.</td>
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Thus the organisation could be an excellent facilitator for European clients and the Indian KPO service providers. This will help Indian KPO service providers to tap this new market.

VI. **Department for USA:** This department would work for all the KPO services for the USA market. The companies with clients from the USA would be its members. This department would work in close coordination with the Indian Government as well as contacts in the USA Government. It would keep track of all the rules and regulations of KPO outsourcing in both the countries. All its other functions would be similar to those for the department for Europe. It would also concentrate on SMEs of the USA and, try to get openings for Indian KPOs. The department would also help Indian companies to start near-shore business centres.
VII. **Working with Indian government:** The Association would also work closely with the Indian Government. It could act as a pressure group or facilitator. It could share the requirements of KPO industry with the Government so that appropriate steps can be taken. The association could be the main source for developing “Smart KPO Cities”. The organisation could facilitate a dialogue between the Government and KPO service providers and thus help in designing the blueprint for the “Smart KPO City”.

VIII. **Working with Indian Educational Institutes:** The Association could play pivotal role in bringing about collaborations with educational institutes and the KPO service providers for offering certification and sandwich courses. It would help institutes to locate the right companies and the companies to find the right educational partners.

If we could have such an apex body properly working, India could increase its KPO business and be recognised as the *“Intellectual Capital of The World”*. 

5.5 **Closing Thoughts and the Way Forward:**

This thesis is just a starting point for understanding the scope and nature of Knowledge Process Outsourcing. The data gathered was from one city, Pune. Further research needs to be done on an all India basis involving all sectors. Also one can take it ahead for a more detailed and comparative analysis of different nations, and this could add valuable knowledge in the field of Knowledge Process Outsourcing.

India has abundant potential to grow in the KPO domain. Its IITs, IIMs, engineering colleges, management institutes could be developed as centres of excellence for providing intellectual capital to KPO companies across the world. If proper Government support is given without loss of time, the researcher is confident that we would soon be proudly calling India the *“Knowledge Destination of the World”*. 