Abstract

1. **Introduction:**
   Knowledge Process Outsourcing (KPO) provides domain based business expertise and thus helps organisations. These KPOs require knowledge workers with high domain skills and with analytical expertise. The cost of high skilled resource in developed countries has forced many organisations to look towards the developing world with low cost knowledge workers.

   India’s main attraction for the companies from developed nations as a KPO destination is the availability of skilled domain experts at comparatively lower rates. Also Indian companies are well versed with the laws and regulations of the client countries.

   In the light of the above one can say that India is on the verge of becoming the Global KPO Hub, and is all set to face the challenges of this emerging sector.

   So in an effort to understand the phenomenon of KPO and its true potential, the researcher felt the need of an in-depth study. The purpose of this study is to review the historical development of KPO industry, the reasons for development of the KPO, and the effect of Macro environment on the KPO sector.

2. **Definitions developed by the researcher:**

   - **Knowledge Process:**
     A business process which is non-codified and complex in nature and requiring domain experts to perform it is a knowledge process. In this process, the output for the same set of input will be dependent on the interpretation and judgment of the person performing it.

   - **Knowledge Process Outsourcing :**
     KPO involves the vendor taking responsibility for executing the knowledge process and delivering it to the client as a service, through trained resources.
3. **Research Objective:**

The research objectives of this study are as follows:

1. To study historical development of and reasons for Knowledge Process Outsourcing in India.
2. To study the Indian Knowledge Process Outsourcing business environment.
3. To develop a forecast for next five years for Knowledge Process Outsourcing.
4. To identify untapped potential for Knowledge Process Outsourcing.
5. To offer recommendations to various stake holders for exploiting the Knowledge Process Outsourcing industries potential.

4. **Research Plan:**

Data was collected from ninety respondents who were working in decision making positions in the Management of Knowledge Process Outsourcing companies in Pune. A structured questionnaire was designed to collect the information from these respondents.

Also, to understand the basic trends four case studies, two from secondary data and two from primary data, were developed. They are based on following themes.

a. Overall Journey of a KPO company – Case study of Evalueserve

b. Road to expansion by way of Mergers and Acquisitions – Case study of eClerx

c. Road to expansion by way of adding geography or service lines- Case Study of Vakil Legal Services.

d. The launch of Co-location center in South America – Case study of PS Analytics.

5. **Hypothesis:**

i. In the years to come, outsourcing will change from simple to high technology areas of Knowledge Processing.
ii. India, with its large number of scientists and engineers, will be the most preferred destination for Knowledge Process Outsourcing in the world.

iii. Knowledge Process Outsourcing will require the organisations with highly talented and knowledgeable workforces.

6. **Limitations:**
The research was based on the data collected by people working in the Knowledge Process Outsourcing organisations. The main limitation of this study was “The Non-Disclosure Agreement” (NDA.)

i. Data collection was complicated due to some information was considered as confidential and was not shared by the respondent. It took lot of time to collect the information.

ii. The respondents were also constraint by consideration in sharing the details of the clients due to the fear of competition. So the researcher was not able to contact them and so that set of respondents had to be removed from the sample.

iii. A survey research has a certain inherent limitations. It is not possible to know the state of mind of respondents when they complete the instrument. So there can be respondent bias.

iv. Sampling bias is another possible limitations as sample was collected from only one city, Pune. Other cities may show a different picture.

7. **Data Interpretations and Observations:**

i. The primary data was collected from people working in a Third Party Knowledge Process Outsourcing Company.

ii. Reasons considered “Knowledge Process Outsourcing” company were:
   a. The outsourcing processes are domain based. Specialists are required to work on these processes.
   b. They provide business expertise rather than process expertise.
c. The outsourcing processes demand advanced analytical and technical skills as well as decisive judgment.

d. Human resource with high analytical skills and domain knowledge are required in the business.

iii. The three main the obstacles for India because of which India may lose its position as a KPO destination are as follow:

a. Higher operating costs due to high inflation
b. High employee attrition rate
c. Higher wages compared to other countries

iv. All companies want an organisation for “Knowledge Process Outsourcing” sector. The expectations from such an organisation are as follows:

a. This organisation should create and promote “Brand India” for KPOs in the international markets.
b. Such an organisation should help small players to get the international customers.
c. The organisation should conduct training sessions.

v. The next sectors where India can be the leader for Knowledge Process Outsourcing are Business Analytics and Legal Process Outsourcing.

vi. The two nearest competitors for India are the Philippines, because of low costs, and Mexico, because of its proximity to the USA.

vii. Majority of respondents are confident about minimum 15% per annum growth over the next three years (2013 to 2016). The prospects for KPO business are bright.

viii. The majority of respondent are very optimistic about their business and the environment. They feel that the current time is good for doing the business in KPO domain. All respondents feel that Employment, Sales and Demand for the service will go up.

ix. 60 % of respondents are satisfied with the Administrative Requirement and Bureaucratic Behaviour in India. But still these matters cannot be ignored as 30% who are unhappy with it. So we need to understand it in depth and suggest corrective methods.
8. Conclusion
A. Knowledge process Outsourcing: The Global Perspective:

i. Forecast for 2020: The Knowledge Process Outsourcing industry is going to boom in the days to come. 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.

ii. 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.

iii. 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. On the other hand there are developing countries like India which have 50% of its population below the age of 25 and 65% below the age of 35.

iv. 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.

v. 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.

vi. **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.

vii. **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 and Domain Expertise is essential for working in the KPO industry. English written and verbal communication skills would be essential prerequisites to perform such roles.

viii. **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.

B. **Knowledge Process Outsourcing - The Indian Perspective:**

i. **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.

ii. **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.
iii. **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.

iv. **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.

v. **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.

vi. **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.

vii. **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.

viii. **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.

ix. **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.

x. **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.

xi. **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.

9. **Recommendations**

Knowledge process outsourcing will be the new wave of the Indian Economy. From the conclusions it is very clear that whole India enjoys the leadership position there area few obstacles which need to be dealt with.
Instead of getting known as provider of “Intellectual Coolies”, it is time for India to prove as “Intellectual Capital” providing knowledgeable workforce or partners. To achieve this dream it is necessary that all the stakeholders of this system work hand in hand. The major stakeholders are the Government, companies providing KPO services and the educational institutes providing the valuable resource.

The following are the set of recommendation for each stakeholder from the conclusions, drawn by the researcher.

I. **Recommendations for the Government:**
   Knowledge process outsourcing is a complex business and will soon be a major contributor of foreign exchange. With this in mind the Government should take the following measures for the growth of KPO.
   - I. Single Window System
   - II. Smart KPO Cities
   - III. Relations with Other Countries

II. **Recommendations for Educational Institutions:**
   In the normal course the KPO work is still in the nascent stage and lots of new techniques are required to work in this domain. So a ready-made work force at the entry level is a dream for any company working in KPO domain. The company needs to select candidate on basic skills and then train them as per the company requirements. Thus the company again has to invest valuable time and money on these resources. This can be avoided if our educational institutions take active part in the training of KPO resources by doing the following:
   - I. Certification Courses
   - II. Sandwich Courses
   - III. Becoming Training Partner

III. **Recommendation for KPO Service Providers:**
    The KPO environment is very competitive. The clients have very high expectations at the same time there is risk of losing client to competitor. The
competition is not only from within India, but also from outside the country. A few other countries have started developing themselves as KPO destinations. So the KPO service provider also needs to be a Brand Ambassador for India, and thus his responsibility increases manifold. The following are a few suggestions which will help the KPO Service Providers to be competitive:

I. For Human Resource  
II. For Security and Control  
III. For Quality of Work  
IV. For Marketing – Use of Attractive Website

IV. An Independent organisation for KPO – IAKPO (Indian Association for Knowledge Process Outsourcing)

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

For any government it will be difficult to make agreements with another country for any one sector alone. Also development of infrastructure only for one sector is not easy without political will or pressure from the group.

Any university or educational institute may lack the resources to tap the KPO companies to develop an academic collaboration with them. Also educational institutes or universities will not have this on their priority agenda as the sector cannot provide opportunities 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 for information on the latest developments in the market and availability of clients.

These three stakeholders working independent of each other will not be useful for the growth of the KPO sector. So the researcher would like to recommend setting up of organisation which will work with all these three stakeholders closely and thus help in exploiting this opportunity.
Model for Knowledge Process Outsourcing Association:

**Objectives of the organisation:** The main objectives of this organisation will be four fold:

1. Creating “Brand India” for KPO in the outside world to managing the Demand
2. Coordination with the Government of India for smooth functioning of KPO to managing the Operations.
3. Working with educational institutes or universities for getting proper manpower to ensure the Supply.
4. Working with the KPO organisation for proper delivery and operations to manage the Marketing.

If we can have such an apex body working efficiently, India can increase its KPO business and would be recognized as the Intellectual Capital of The World.

**Submitted by:** (Mrs. Pallavi Sajanapwar)  
Ph. D Student

**Approved By:** (Dr. D. M. Sarwate)  
Ph.D. Guide