Knowledge Process Outsourcing
This book is a part of the course by Jaipur National University, Jaipur. This book contains the course content for Knowledge Process Outsourcing.

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<td>ABN</td>
<td>Amro Bank India</td>
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<tr>
<td>ARPU</td>
<td>Average Revenue Per Unit</td>
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<tr>
<td>BPO</td>
<td>Business Process Outsourcing</td>
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<td>CAD</td>
<td>Computer-Aided Design</td>
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<td>EK</td>
<td>External Knowledge</td>
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<td>ESO</td>
<td>Engineering Services Outsourcing</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GE</td>
<td>General Electric</td>
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<td>IAOP</td>
<td>International Association of Outsourcing Professionals</td>
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<tr>
<td>IK</td>
<td>Internal Knowledge</td>
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<tr>
<td>IP</td>
<td>Intellectual Property</td>
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<td>IPR</td>
<td>Intellectual Property Rights</td>
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<td>ITO</td>
<td>Information Technology Outsourcing</td>
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<td>KP</td>
<td>Knowledge Processes</td>
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<td>KPO</td>
<td>Knowledge Process Outsourcing</td>
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<td>LPO</td>
<td>Legal Process Outsourcing</td>
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<tr>
<td>MR</td>
<td>Market Research</td>
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<tr>
<td>NASSCOM</td>
<td>National Association of Software and Services Companies</td>
</tr>
<tr>
<td>OBM</td>
<td>Original Brand Name Manufacturing</td>
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<tr>
<td>ODM</td>
<td>Original Design Manufacturing</td>
</tr>
<tr>
<td>OEM</td>
<td>Original Equipment Manufacturing</td>
</tr>
<tr>
<td>OSB</td>
<td>Outsourcing Standards Board</td>
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<tr>
<td>SME</td>
<td>Small and Medium Sized Enterprises</td>
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<tr>
<td>UNCTD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>VLSI</td>
<td>Very Large Scale Integration</td>
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Chapter I
Outsourcing

Aim
The aim of this chapter is to:

• introduce the concept of outsourcing
• elucidate the needs of outsourcing
• explain the concept of offshoring

Objectives
The objectives of this chapter are to:

• explain the process of outsourcing life cycle
• enlist the types of outsourcing services
• describe the theories in the research of the outsourcing process

Learning outcome
At the end of this chapter, you will be able to:

• understand the concept of outsourcing market
• compare outsourcing and offshoring
• recognise the advantages and disadvantages of outsourcing
1.1 Introduction

“Outsourcing” is a modern word for a very old way of having things done, often without doing them yourself or at your own place. This was “jobbing” in the retail business, “contractual” in various other enterprises, and even “mercenary” in more aggressive activities. Modern technology has added the dimension of distance and volume to the practice of getting others to do your thing thus “outsourcing”. And the recent downturn in the business environment has made it more attractive even imperative to look more closely into the why and how of outsourcing.

- Outsourcing is not something new. Although, the practice seems to have gone to warp speed in the last few years. Outsourcing is the practice of hiring outside firms to perform tasks such as pay roll management, data entry and information technology services just to name a few. Many businesses now resort to outsourcing to decrease costs in operational expenses, streamline operations, without sacrificing the quality of work done. With outsourcing, you can minimise your company’s expenses and at the same time maximise revenues.

- There are a lot of specialised skills and services from outsourcing companies. By outsourcing your company can concentrate more on your core business, and leverage the competencies of outsourcing firms to your advantage. In this way, your company saves valuable time and money from setting up your own infrastructure. When outsourcing your business needs to offshore companies you get high quality services, at a lower cost. The biggest advantage to outsourcing is getting high-quality services at cost-effective prices. Every aspect of your business can benefit from outsourcing.

- Outsourcing is a phrase that has become very popular within different business sectors over the past five to ten years. Outsourcing is most evident in customer service, data entry, information technology, back office support and other specialised or labour intensive segments. Before outsourcing became an accepted option in doing business, companies were forced to hire employees based on the actual needs of the office against the available operating budget.

- Thereby, increasing head count, needed office space, office equipment and other needs for daily operation and sometimes limiting growth due to budget or competency constraints. A business, even one in a non-profit activity, really does need to make some degree of financial profit --if only to maintain operation: expenses such as workspace, staff, materials, overhead and other costs have to be kept at a level lower than total output, otherwise the effort will exhaust funds available.

- Outsourcing is a definite way to control costs and improve (at the least maintain) output. Outsourcing is not only applicable for established companies that are looking for someone to suit their requirements. It can also be very useful to an entrepreneur, that’s looking to start his / her own business. It’s just like getting a HMO provider for your company to take care of the medical needs of your employees rather than hiring a full time MD for the office. If you’re just starting a business, or thinking of outsourcing some or if not most of the business needs of your company, this report will give you some of the basics that will be necessary to help to make outsourcing a very successful part of your business.

- The outsourcing phenomenon has been increasingly receiving attention both from academic and practitioners communities. The result of the research has lead towards the emergence of several process frameworks depicting the phases of the outsourcing process. It is commonly recognised that the outsourcing process consists of the preparation, vendor(s) selection, transition, management of relationship, and reconsideration phases. Each of the phases has been broken down in the serious of activities that an outsourcing company performs. At the same time, the phases were subject to a flow of theoretical explanations.

- The studying of the outsourcing phenomenon has been grounded in many theories. Some of them are complementary, the other are contradictory. This creates confusion among the researchers of the outsourcing phenomenon.

- In addition, we analyse the explanatory power of various theories that haven’t been much used in studying the outsourcing. Consequently we associate those theories with certain phases of the process, where they could contribute towards understanding the embedded activities and mechanisms.
1.2 Definition of Outsourcing

The term “outsourcing” has been used in many contexts and, sometimes, the subtle but important differences between outsourcing, out-tasking and contracting-out are lost. Outsourcing may have evolved from the idea Ross Perot had when working for IBM on selling spare mainframe cycles to multiple customers. He started Electronic Data Systems in 1962 to provide computer bureau services, where the service provider had the hardware and would run a program or suite of programs for customers. This concept evolved into the current IT outsourcing model where customers sign a contract with a service provider for a variety of clearly defined IT services, usually for a fixed term and with defined service levels. Out-tasking has many similarities with outsourcing, but typically out-tasking is limited to a subset of services. As an example, a customer may decide to out-task the router configuration management and monitoring while retaining all other aspects of service delivery. Out-tasking can be useful to access a very specific skill-set through the use of a third party. Contracting out usually relates to a customer buying a workforce for a specific project. This contracted team is then managed by the customer who is responsible for the deliverables. For project work, where a short term boost in people and skills is required, this is a very useful method of obtaining additional staff. There are two areas that cannot be outsourced – risk and accountability.

Outsourcing is the practice of procuring IT services from sources external to an organisation. It is important to distinguish between outsourcing and off shoring, which is a form of outsourcing. In recent years, the term “outsourcing” has become associated with organisations that employ overseas firms to perform the bulk of the work required by software development projects (off shoring), generally for cost-reduction reasons. Yet outsourcing (to domestic companies) has been used for many years, long before off shoring was commonplace. This book defines outsourcing as “The process of retaining resources external to the procuring organisation to conduct software development and related activities.” The reason for this definition is as follows:

- It places no restrictions on the size or number of resources external to the procuring organisation. The resources could be another company or an individual consultant.
- It places no restrictions on the location of the external resources in relation to the procuring organisation; in other words, the resource can be located a long distance from the procuring organisation or down the street.
- It places no restrictions on the number of organisations involved. This means that the procuring organisation may hire a number of different companies or consultants, working either in a parallel or in a serial fashion. In other words, one contractor develops the system, and another contractor deploys and maintains the system after it is in production.
- It does not preclude the procuring organisation from performing some of the work itself and outsourcing only a portion of a project to an external organisation.

1.3 Outsourcing Process

The Outsourcing Industry has been extensively researched in the past decade. Business Process Outsourcing (BPO) in particular has been the topic of many analyses. Outsourcing first appeared in the IT industry in the 1980s. This was the time when companies recognised the benefits of having IT service partners in order to develop complex systems, and enhance the way that a business process or service is managed (Schumacher, 2005). Since then, the outsourcing industry has gone through its introduction and growth stages, with growth rates of around 50%, and has reached its transformation stage. Increasing globalisation and high pressure to innovate have substantially shortened the product and service life cycles. Industry life cycles have therefore become shorter and shorter - outsourcing is no exception. Over the past five years a new form of outsourcing has become popular and promises, as BPO once did, huge growth and profit potential. Knowledge Process Outsourcing (KPO) is the next step up the outsourcing value chain. While BPO provides extensive process expertise, KPO emphasises on business expertise. KPO indicates a major industry shift, away from execution of standardised processes to carrying out highly complex and customised processes that demand advanced analytical and technical skills as well as decisive judgment. The major strength of this approach is not the cost-saving aspect but it is more the value that these services provide. They offer a sustainable competitive advantage to its customers in all knowledge intensive industries by providing market and industry research, data and statistical analysis, competitive analysis, and support in legal and administration processes. This and similar forms of outsourcing have forced enterprises not only to adjust their organisational and operational structure to the global trend, but also to consider outsourcing in their overall business strategy.
Outsourcing is the process of establishing and managing a contractual relationship with an external supplier for the provision of capacity that has previously been provided in-house (Momme, 2001). In spite of an impressive research intensity of the outsourcing process, there are only few frameworks depicting the actual stages and the layout of the overall process of outsourcing. Outsourcing is not a newly introduced concept. It is an age-old concept propagated by Mr. Adam Smith, who is regarded as the father of economics. This principle is common to everyone, starting from an individual to households and nations. Realisation of such economic thought by multinational companies led to the stupendous growth of outsourcing. Over the years, the meaning of the term ‘outsourcing’ has evolved to include more and more activities. From sourcing of raw materials to finished goods, the manufacturing activities have been shifting to low cost destinations ever since the industrial revolution. Today, outsourcing is added with more range of activities with the help of information and communication technology. It started with outsourcing of business processes and now added with high-end knowledge processes. The volume of outsourcing is also increasing along with the range of activities. This is mainly because in a competitive environment, firms are forced to reduce costs and concentrate on core activities. The outsourcing process is beneficial to the service providers / countries also, as they get technical know-how and skill development that help them to mature and prosper in building core capabilities.

1.4 Offshoring

Offshoring is the migration of productive economic activity and the associated employment from a home country – normally a developed nation such as the United States – to other parts of the world, especially low-wage countries such as India and China. Now is not the first time that this has become a major political issue. In the 1980s, political backlash in the United States was directed at the import of Japanese automobiles displacing jobs in Detroit. Many Americans have come to accept the inevitability of manufacturing jobs migrating to low cost locations, but offshoring is now hitting sectors in which the US should have comparative advantage. Starting with low value-added activities such as back office transactions and call centres, offshoring has expanded to include knowledge work embodied in software programming, design and development, accounting, law and other professional services.

1.5 Outsourcing vs. Offshoring

Experts have demarcated the terminologies of outsourcing and offshoring. While outsourcing is a general concept, which is even practised within a country (sourcing of activities/services from another firm within the country), offshoring is referred as activities/services sourced from another country.

1.6 Theories in the Research of the Outsourcing Process

The outsourcing process is a complex structure consisting of numerous activities and sub activities, carrying many managerial dilemmas. It is no wonder that many theories have been utilised to help the academics to understand the nature of those activities, and to help practitioners successfully manage the process. It is a common knowledge that each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. From its occurrence, the outsourcing has been approached by different theories. This creates confusion among the researchers of the outsourcing phenomenon. Various authors identified significant number of theories that could explain the outsourcing phenomenon. In order to depict the utilised theories we have conducted a literature study of the research papers in outsourcing from the 1990 up to 2006.

1.7 Basic Types of Outsourcing Services

In the growing age of information and communication technology, outsourcing services are standing out because of their great advantages. From cutting costs to saving manpower, outsourcing has brought into effect a better strategy for different businesses in different fields to exult in.

• Quality has never been a problem for different companies nowadays that resort to the great advantages of outsourcing. There are actually different kinds of services that can be outsourced. Look at the following services which are categorised according to their functions:
• Manufacturer outsourcing services: Most of the time, manufacturer services that involve outsourcing are the ones that are particular in terms of industry. For instance, the manufacturing of particular items is outsourced in order to cut down the time necessary for the whole project to be accomplished. Not to mention, the cost is expected to be reduced as well. While this is beneficial in the end of the outsourcing company, quality cannot be ensured to be at its best unless regular evaluation is done.

• Operational outsourcing services: When it comes to the trade division of many communities, this kind of outsourcing are very typical. Specific activities necessary for the operation of a bigger entity are handed out to another company from whom the outsourcing services can be acquired. Maintenance and repair are just two of the most common operations that this kind of outsourcing facilitates.

• Process-oriented outsourcing services: Other services that are conventionally outsources are oriented with various processes that should be done methodically in order to follow distinctive processes. The point of the matter is indispensable advantage of outsourcing different processes to save time and to cut cost. Whenever a particular business is in need of other company’s help on keeping the pace of particular processes and methods, outsourcing is done to meet the requirements and specifications of that business.

• Professional outsourcing services: This can be considered as the most popular kind of outsourcing service. The involved assembly is unmistakably perfect for any specialised service. This is most especially through in terms of information technology and its branches. Not only does time and cost are saved, effort is also preserved and diverted to other internal matters. In small-scale businesses, outsourcing makes it possible for them to concentrate on other issues within the processes and faculties of the business while having the professional services provided by their contractor.

If you are interested in outsourcing a certain process for the best interest of your business, it is very feasible to do so according to your mission and vision. Your goals as a company can be secured as long as you have the determination to choose among the wide array of service providers all around the world. Take into consideration the specific needs of your business and off you go for success.

1.8 Outsourcing of Market

Research / Analytics competitive advantage in a global arena requires highly developed data analysis in areas such as market size, demand estimate, pricing strategies, competitive position, risk management, customer satisfaction and better service offerings. Market research analyses in such areas enable the organisations to avail of critical insights into core business principles and strategic policies. Global outsourcing market for market research and analytical activities is estimated to be valued at US $ 150 billion; of which about 2% (US $ 3 billion) are estimated to be off-shored. Market research and analytical activities that are being outsourced are in areas such as financial services (banking, insurance, mutual funds, bonds / securities), retail industry, manufacturing sector, and utilities (telecom, healthcare).

Some of the leading domains requiring market research and analytics demand include: banking and insurance; securities, investment banking and mutual funds; business / industry research and analysis; analysts put low-cost advantage as one of the significant drivers of knowledge-based activities in India. However, some analysts put the scarcity of skilled professionals in OECD countries (which has eventually played a key role in increasing wages) as a driver of sourcing of knowledge-based activities from developing countries, like India. India, at present, has the presence of large pool of skilled professionals that match with the quality of workforce available in developed countries, but at significantly low cost. The added advantage is knowledge and experience in various domains that are increasingly being outsourced / off-shored to developing countries. Indian professionals hold the competitive edge of skill in English and use of IT applications, vis-à-vis many competitor countries in Asia, Eastern Europe as also Latin America. The first-mover advantage is also working in positioning India as an ideal destination for off-shoring knowledge-based activities.
There are six phases in the life of an outsourced project or program:

- **Strategy:** A decision to outsource is suggested, reviewed, and evaluated. It may be part of a larger strategy to move the company to a leveraged business model and to focus on core competencies. It may be strictly a decision to outsource a particular function, operation, program, or project. Typically, the strategy is developed at senior levels within the company.

- **Selection:** This critical phase covers the definition of the work to be outsourced, as well as the sourcing of the vendors using RFI and/or RFP processes, and finally making the selection of the “best-fit” vendor.

- **Negotiation:** This phase includes both the negotiating of the contracts and associated agreements, and the final contract signing. Often this phase is completed after the implementation phase has begun, as both the company and the vendor may have extensive legal review processes. A memorandum or letter of understanding may be put in place until the final contract has been signed.

- **Implementation:** This phase involves the start-up activities of planning the transition and implementation of the outsourced agreement, as well as establishing the detailed budget and administrative functions needed for its management, and formal launching of the program.

- **Management:** The phase encompasses all ongoing activities required to manage the program and achieve the contracted results. Specifically, this includes liaising with the customers, financial administration, performance monitoring, vendor or partnership management, delivery integration, and change negotiation and vendor transition.

- **Completion:** The final phase covers all completion activities and close out of the program.

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![Outsourcing Lifecycle Chart](http://www.think180.com/Pages/PDFs/OSLifecycle.pdf)

*Fig. 1.1 Outsourcing lifecycle chart*
(Source: http://www.think180.com/Pages/PDFs/OSLifecycle.pdf)
1.10 Owning the Process or Managing a Phase

Depending on the size of the outsourcing contract, the manager responsible for the program’s delivery and integration may be responsible for all of the process, or only some. These are the horizontal and vertical factors of outsourcing management.

- A manager of the horizontal process is often involved in the decision to outsource, and is then responsible for defining the work, selecting and engaging the vendor, and managing the delivery and completion of the program.
- This manager normally handles all day-to-day negotiations. With larger programs, particularly those on a global scale, there is often a decision taken at senior levels to outsource.
- A negotiation team is appointed to work through the complex agreements, usually under strict confidentiality, until the agreement is finalised and announced. It is then the role of the manager of the vertical component to implement and manage the ongoing program. Part of this role is the interpretation of the agreement, and identification of areas not covered by the agreement.

1.11 Advantages and Disadvantages of Outsourcing

Outsourcing is an arrangement wherein a company subcontracts services to another company. The aim of this is, if not to cut costs, to employ skills that are not available in-house. Today, the increase in the number of outsourcing companies has put outsourcing in the spotlight, and debates on whether it is undesirable or desirable have been many. Summing it up, a lot of commercial companies are all for it, while employee unions are often against it. Business enterprises usually opt to go for outsourcing for the following benefits:

- Cost savings, including cost re-structuring: Businesses become successful when they are able to minimise costs, and outsourcing provides this advantage. For example, an automobile company can cut on their expenditures if they buy the parts they need, and simply put them together.
- Quality control: By outsourcing, companies are able to tap better into pools of expertise and gain access to intellectual property, as well as sustainable sources of skills. Moreover, this method avoids the time-consuming process of training to develop the particular services in-house. Also, by providing new service-level agreements in their contracts, enterprises are able to make sure that the quality of the outputs or products isn’t lost. These contracts usually contain penalties or legal redress for transgressions.
- Time-related advantages: It is possible that services are made available every day, at any time of the week. This is achievable because the services can be done in different locations with time zones. When the organisation from Country A goes off-duty, the organisation from Country B can take over. Not only that, a product can also be speedily developed and marketed because of outsourcing. Going back the automobile company example, they can stock up on the different parts of cars in their warehouses, and just assemble. There is no time needed to manufacture the parts, and they are always at hand in their depots. Unions, on the other hand, argue that outsourcing harms a local labour force. Outsourcing results in fewer jobs, and this can be observed everywhere. This happens because services that can be done in home organisations are now shifted to other locations, especially to countries that work for cheaper labour.

Consequently, the labour rates will decline, especially since there will be competition for jobs. Unemployment will definitely affect a country’s economy. There are also some complaints that the true business value of services aren’t realised and so aren’t paid enough for. Some take it further and call it exploitation of lower-paid employees. In another angle, language barriers are eyed as being detrimental to the quality of service. When the services are drawn from places with different culture or when the first language is dissimilar, it could do more harm than help. Furthermore, it is possible that since data is moved around, leakages or even misuse of information can happen. There was a case before of bank accounts being tampered with when call centre workers were able to get a hold of customer accounts. There also exist claims that outsourcing is actually counter-productive, and that instead of purchasing actual technology to improve the company, enterprises are instead, resorting to outsourcing. This could lead to dependency. In conclusion, there are two sides to a coin. To outsource or not is up to the company. Whatever methods they choose have both good and bad effects, although the good part will mostly be enjoyed by the business enterprise.
1.11.1 Advantages of Outsourcing

The outsourcing market is growing rapidly with an increasing number of companies outsourcing both low end and high end jobs to offshore destinations. On the other hand, the number of companies providing outsourcing services is rising, thus resulting in large variety. Because more and more companies are outsourcing, the risks are getting smaller as businesses have more experience and clearer objectives. There are several highlighted advantages of outsourcing:

- Concentration on core business areas: Back offices are critical for the company’s everyday activities; the operation of the back office requires high maintenance and specialised attention. By outsourcing the back office operations to a specialised third party company, businesses can concentrate on their core competencies.

- World-class technology at lower rates: As the technology market develops rapidly, investing in new technology is very costly and often risky. It is very hard to keep up with latest innovations and solutions. Thus companies can outsource the technology part to companies that have the resources, expertise and desire to continuously update their technological solutions, to save the cost and reduce the risks it bears.

- Skilled manpower at affordable prices: A company can get access to skilled and trained manpower at extremely low rates by outsourcing. This in turn leads to an increase in productivity as well as cost savings. Some internal operations such as recruitment, training and other human resource costs can be reduced by outsourcing; otherwise the company would maintain it internally with higher costs. In addition, by outsourcing the company is able to utilise the kind of expertise it could not internally provide.

- Increased productivity: Companies’ productivities can be increased by employing skilled manpower in larger numbers at lower costs. It would result in better customer satisfaction and increased profitability.

- Beat competition: In today’s fast paced global economy a company needs to provide high-quality services to its customers in order to retain them, as well as provide the services for cheap prices. Outsourcing in this case can help the company maintain lower rates with better service solutions, thereby giving them a better market position or even a competitive advantage.

- Tax benefits: By selecting the right BPO destination companies can save up on taxes in turn saving on costs.

1.11.2 Disadvantages of Outsourcing

Although there are several reasons in favour of outsourcing, a company must also consider the disadvantages of outsourcing. There are risks that need to be analysed whenever a company embarks on a new business venture. It is a hot trend nowadays and seems an attractive option for many, but if the risks are not considered in detail, the disadvantages of outsourcing may dominate the advantages. Lately however, the concept of outsourcing has been criticised. The negative attitudes toward offshore outsourcing have been mostly discussed by parties in the US and UK, due to job losses in the mentioned countries. Some people in countries like the US, feel that outsourcing is a threat to their economy. Outsourcing jobs to offshore destinations, is causing unemployment in the minds of some people. The needs of companies, national economies and those of individual people often clash.

The disadvantages of outsourcing may also include the following:

- Loss of managerial control, because it is more difficult to manage outside service providers than managing one’s own employees working possibly in the same building.

- Often the hidden costs are difficult to calculate or prepare for. These include legal costs related to putting together a contract between two companies and the time spent to coordinating the contract.

- There would be a threat to security and confidentiality. If your company is outsourcing processes like payroll, medical transcriptions or other confidential information, a company must be very careful in choosing which process it wants to outsource and to which provider.

- A possible loss of flexibility in reacting to changing business conditions, lack of internal and external customer focus and sharing cost savings may also be a disadvantage of outsourcing.

- Other disadvantages of outsourcing may include unfavourable contract lengths, loss of competitive edge, problems in contract renewal, and contractual misunderstandings.

- Outsourcing can be beneficial or risky, and there is a real example below to show how manager integrate the advantage and disadvantage of outsourcing and to decide if outsourcing is needed.
1.12 Need of Outsourcing

Outsourcing has moved from initiatives that were financially motivated to the current stage of being strategically motivated.

- Financially motivated outsourcing efforts have been around since the early days of commerce. Manufacturing work, such as garment production, has long been outsourced to locations in South East Asia.
- The goal of these efforts was to get the best financial deal in terms of lowest cost of production. These efforts were mainly one-sided; information and requirements moved from the client to the vendor, who would then construct the product and/or service and deliver this back to the client.
- Information and knowledge would seldom flow back from the vendor to the client, as the client was assumed to be more knowledgeable than the vendor. In financially driven outsourcing efforts, it was common for a firm to structure a long-term deal with a single vendor so as to get the best possible discounts and secure the most stable relationship.
- After all, the goal here was to offload work to places where it could be done at lower cost. Strategically driven outsourcing efforts are capability and competency-intensive. The focus here is to tap into specialised expertise, knowledge, processes and capabilities found outside the organisation, and to use these as inputs to help improve the effectiveness and efficiency of operations.
- More important, if done properly, strategically driven outsourcing efforts can not only help operations, but can also contribute to the strategic and competitive advantages of the organisation. Strategic outsourcing often involves partnerships between the client organisation and multiple vendors. As a prime example consider the case of Dell Computers.
- Dell does not hold large amounts of computer hardware in its inventory; instead its core competency is its information systems and supply chain management systems. Dell takes in customer orders, and then coordinates the full fulfillment process. To be successful in this, Dell must rely on a vast network of suppliers and manufacturers, not only for the products, but also for knowledge.
- Dell realises that it does not have the necessary resources to have up-to-date information about each and every component of computer hardware. Such knowledge resides in the minds of Dell’s business partners and hence Dell must not only send order information to these suppliers, but must also access the knowledge possessed by them. In addition, Dell must ensure that knowledge from one supplier is shared with the others, so that each one benefits from improved knowledge and insights.
- Strategically driven outsourcing efforts involve such collaboration between the client and multiple vendors, because the client organisation is focused on getting the best breed of knowledge and expertise, as these have serious ramifications on its strategic and competitive advantages. There are several factors that are influencing firms to consider outsourcing as a business strategy.

1.13 Global Outsourcing

Outsourcing is one of the responsibilities of purchasing departments and plays a critical role in an organisation’s survival and growth. Materials sourced from outside rather than produced by in-house facilities will influence service quality and profitability. Despite the ongoing debate over the benefits and risks of outsourcing for businesses, outsourcing has become a common approach that purchasing managers cannot ignore. Indeed, outsourcing has exhibited dramatic growth in recent years.

Since the 1980s, the opinions of purchasing managers and management scholars regarding optimal firm sourcing strategies have changed significantly in two respects.

- First, firms have replaced vertical integration with increased outsourcing based on the conviction that lean, flexible enterprises that focus on their core competencies to perform better.
- Second, in the era of globalisation of the 1990s, enterprises were advised to use the principles of “global outsourcing” to pick the best global suppliers and thereby to improve their competitiveness.
Implementing both or either of these strategies has important consequences for the structure and performance of multinational corporations. Given the rapidly shifting contours of the global economy, companies need to be able to anticipate changes in the economics and geography of outsourcing. Forward-thinking companies are making their value chains more elastic and their organisations more flexible. Furthermore, with the decline of the vertically integrated business model, outsourcing is evolving into a strategic process used to organise and fine-tune the value chain. Supplier selection and evaluation play an important role in reducing the cost and time to market while improving product quality. Supplier selection can significantly affect manufacturing costs and production lead time. Although several techniques and models have been used to select and evaluate suppliers, each technique or model has its own strengths and limitations indifferent situations. Therefore, it is necessary to further improve the performance and effectiveness of supplier selection and evaluation in manufacturing in different contexts.
Summary

- “Outsourcing” is a modern word for a very old way of having things done, often without doing them yourself or at your own place. This was “jobbing” in the retail business, “contractual” in various other enterprises, and even “mercenary” in more aggressive activities.
- Before outsourcing became an accepted option in doing business, companies were forced to hire employees based on the actual needs of the office against the available operating budget.
- If you’re just starting a business, or thinking of outsourcing some or if not most of the business needs of your company, this report will give you some of the basics that will be necessary to help to make outsourcing a very successful part of your business.
- Outsourcing is an arrangement wherein a company subcontracts services to another company. The aim of this is, if not to cut costs, to employ skills that are not available in-house.
- Quality has never been a problem for different companies now-a-days that resort to the great advantages of outsourcing. By means of making the most out of the aid of their contractors, these companies.
- A decision to outsource is suggested, reviewed and evaluated. It may be part of a larger strategy to move the company to a leveraged business model and to focus on core competencies.
- In today’s fast paced global economy a company needs to provide high-quality services to its customers in order to retain them, as well as provide the services for cheap prices.
- First, firms have replaced vertical integration with increased outsourcing based on the conviction that lean, flexible enterprises that focus on their core competencies perform better.
- Strategically driven outsourcing efforts involve such collaboration between the client and multiple vendors, because the client organisation is focused on getting the best breed of knowledge and expertise.
- Outsourcing is the practice of procuring IT services from sources external to an organisation.

References

- Jeanfaster1, 2012. Introduction to outsource force 1 [Video online] Available at: <http://www.youtube.com/watch?v=wUGeQ9h_0vQ>[Accessed 10 December 2012].

Recommended Reading

Self Assessment

1. Outsourcing is the practice of hiring outside firms to perform tasks such as _______ management.
   a. payroll
   b. off-roll
   c. pay-scale
   d. financial

2. Outsourcing is most evident in customer service, data entry and _______ technology.
   a. data
   b. support
   c. information
   d. intensive

3. _______ is not only applicable for established companies.
   a. KPO
   b. Outsourcing
   c. BPO
   d. Management

4. ________________ process is a complex structure consisting of numerous activities and subactivities, carrying many managerial dilemmas.
   a. KPO
   b. Outsourcing
   c. Management
   d. BPO

5. Which of the following statements is false?
   a. As the technology market develops rapidly, investing in new technology is very cherry but often risky.
   b. Outsourcing is a phrase that has become very popular within different business sectors over the past five to ten years.
   c. A decision to outsource is suggested, reviewed and expanded. It may be part of a larger strategy to move the company to a leveraged business model and to focus on core competencies.
   d. By selecting the right BPO destination companies can save up on taxes in turn saving on costs.

6. Which of the following is not one of the advantages of outsourcing?
   a. Concentration on core business areas
   b. World-class technology at higher rates
   c. World-class technology at lower rates
   d. Increased productivity
7. _________ motivated outsourcing efforts have been around since the early days of commerce.
   a. Management
   b. Strategically driven
   c. Financially
   d. Accountancy

8. Outsourcing is an arrangement wherein a company _________ services to another company.
   a. subcontracts
   b. contract
   c. agreement
   d. contracts

9. Outsourcing is a definite way to control costs and _________ output.
   a. account
   b. add
   c. decrease
   d. improve

10. Match the following

| 1. Implementation       | A. Fast paced global economy |
| 2. Beat Competition     | B. Final contract signing    |
| 3. Migration of productive economic activity | C. Planning the transition |
| 4. Negotiation          | D. Offshoring                |

   a. 1-B, 2-A, 3-D, 4-C
   b. 1-D, 2-A, 3-B, 4-C
   c. 1-C, 2-A, 3-D, 4-B
   d. 1-A, 2-D, 3-B, 4-C
Chapter II

Knowledge Process Outsourcing

Aim

The aim of this chapter is to:

- explain the concept of knowledge process outsourcing
- elucidate the types of KPO service providers
- introduce the global trends in KPO

Objectives

The objectives of this chapter are to:

- define the value proposition for KPO
- explicate contribution of KPO towards Indian economy
- enlist the skills required in KPO

Learning outcome

At the end of this chapter, you will be able to:

- understand the Indian suitability for KPO
- analyse challenges faced by KPO
- identify most probable areas of KPO
2.1 Introduction

Outsourcing has long been practiced as a means of cost reduction and efficiency by delegating non-core activities to third-party service providers. As the outsourcing industry matures, more complex processes are being offered as services by providers. The recent wave in the evolution of the dynamic outsourcing market is Knowledge Process Outsourcing (KPOs).

- Knowledge process outsourcing refers to performing “high end knowledge or judgment services”. According to Outsourcing.com, a professional information institute, the KPO market is currently estimated anywhere from $1-3 billion and is projected to reach USD 17 billion by 2010. Potential candidates in the KPO marketplace are services as complex and varied as - pharmaceuticals, biotechnology, data search, integration and management services, financial services, research and analytics, technology research, computer-aided simulation and engineering design and professional services such as business research and legal services.

- KPOs pose considerable administrative and technical challenges due to the intricate nature of the services involved. Client organisations participating in the outsourcing marketplace have achieved sporadic success and realised that success at obtaining sustainable value from an outsourcing arrangement requires a thorough understanding (of the outsourced process/function) and considerable governance related effort (in terms of monitoring and performance evaluation). This realisation also brought a services orientation to outsourcing in contrast to a task orientation. As the practice of outsourcing evolves from standard, non-core functions and processes (example infrastructure, payroll) to more complex and multidimensional processes, governance of such outsourced processes are bound to become exponentially complicated.

- Knowledge work, by its very nature and definition, cannot necessarily be accomplished successfully by following a set of predefined procedures. Moreover, the outcome of a knowledge process (example research and development) may be interwoven with an organisation’s core competency and/or long term sustainability, as opposed to commodity processes typically included in BPO (Business Process Outsourcing) contracts. Finally, the outcome of a knowledge process may be subjective (rather than objective), thus rendering performance evaluation extremely difficult. In light of the emergence of KPO practices and their associated governance and administrative difficulties, the objective of the current research is threefold.

- Initially, this research identifies differences inherent between standard business process outsourcing and the new wave of knowledge process outsourcing. Secondly, we investigate the impact criteria of knowledge process outsourcing on inter organisational relationships and the corresponding governance structures available to minimise organisational risk. Finally, we propose a research agenda to identify candidate processes that can be outsourced with minimal impact/knowledge loss to the organisation and subsequently investigate the appropriate contract structure(s) to facilitate such outsourcing.

- Since knowledge processes are embedded in organisations business processes and have similar characteristics, a knowledge process can be differentiated as a set of logically related tasks performed by knowledge workers for the purpose of creating, making presentable or transferring knowledge within an organisation to achieve a defined business outcome. With a working definition of knowledge processes and since our final aim is to explore the impact of KPO on inter organisational relationships and the corresponding appropriate governance structure, we will need to further identify the challenges associated with this new wave of outsourcing.

2.2 Knowledge Process Outsourcing

Knowledge Process Outsourcing refers to the outsourcing of high-end complex tasks and processes like market research, investment research, patent filing, legal and sourcing and information amongst others. It includes legal process outsourcing. These are both high-value-added forms of business process outsourcing (BPO). KPO firms provide domain-based processes and business expertise, rather than just process expertise. Firms gradually move from low end to high end outsourcing. The IT industry started from programming and maintenance. It has gradually evolved to IT led business strategy. The Insurance industry has evolved to Underwriting and Asset Management from contact centres and customer support. Among the fast-moving verticals within the KPO space, data search and Integration & Management are expected to witness the fastest growth, with close to 50% CAGR and hit a USD 5 billion market globally. Market Research and Business Intelligence sectors will also witness close to 54% CAGR growth. Few areas which are evolving but have high potential are Engineering & Design, Animation and Simulation Services, Paralegal Content &Services, e-learning, Biotech & Pharmaceuticals, Research & Development and Equity, Financial Services and Insurance Research.
Knowledge Process Outsourcing

The central premise of a KPO is to create value for the customer by providing domain expertise rather than process expertise. Technological progress and rise of knowledge industries have created new business opportunities in the global scenario. One major business opportunity is that of outsourcing. After low end business processing, global corporations have started outsourcing high-value added forms of business process outsourcing. This has given rise to a new trend in outsourcing, Knowledge Process Outsourcing, KPO. This includes research and work on intellectual property, equity and finance, analytics, market research and data management, etc. After achieving success in BPOs, India is now gearing towards KPO’s.

Outsourcing has significant impact on the Indian Economy. Though an important area, there is lack of relevant research literature in this field. Knowledge Process Outsourcing was identified as a future opportunity.

2.3 Types of KPO Service Providers in the Market

There are three types of KPO service providers in the market there are given as follows:

- Pure-play providers: These could be specialists in a specific domain or offering a broader range of Knowledge Services, but in many cases are start-up firms who fashion themselves as “boutiques”.
- Integrated IT/BPO providers: Integrated IT/BPO providers with Knowledge Service offerings – these firms have historically been IT and BP providers to clients across industries and have now articulated their KSO offerings.
- Captive offshore operations of global corporations.

![Fig. 2.1 Types of KPO service providers](http://www.zeitgeistmanager.com/wp-content/uploads/2010/09/Knowledge-Process-Outsourcing-KPO-Free-Report.pdf)

2.4 Global Outsourcing Trends in KPO and its Rationale

Outsourcing has been one of the major business trends of 90s. Outsourcing involves contracting with a supplier; this may or may not involve some degree of offshoring. Outsourcing of business processes lead to cost reduction of 80-90%, improved access to new technology and allowed a firm to focus on core competency. Cost savings, operational efficiencies, access to a highly talented workforce and improved quality are all underlying expectations in offshoring high-end processes to low wage destinations. The outsourcing firm focuses on broader business issues, or maintains a clearer strategic focus, while operational details are assumed by an outside expert.

“Outsourcing,” in a corporate context, represents an organisational practice that involves the transfer of an organisational function to a third party. The third party may be located in another country. Definitions of outsourcing vary and some examples are: “an arrangement where one company provides services to another company that would
Outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. Outsourcing is “the transference to third-parties, the performance of functions once administered in house. Outsourcing is really two types of service: ITO (IT Outsourcing), involves a third party who is contracted to manage a particular application, including all related servers, networks and software upgrades. BPO (Business Process Outsourcing), features a third party who manages the entire business process, such as accounting, procurement, or human resources.

Knowledge Process Outsourcing refers to the outsourcing of high-end complex tasks and processes like market research, investment research, patent filing, legal and sourcing and information amongst others. Initially, global firms outsourced less skilled business processes to countries with a large pool of skilled labour. This phenomenon was known as BPO or Business Process Outsourcing. This is a business model where a company contracts out some functions to a service provider who delivers the outsourced function back to the company. BPOs consist of services like customer services, insurance, banking, mortgage and asset management. The sales turnover of top 100 outsourcing Companies in 2008 was around 1.78 billion and employed 27,000 people. The slowdown of US economy due to recession may further expedite the process of cost cutting resulting in increase in outsourcing to low cost nations. India became a leader in this field of business process outsourcing, BPO. The contribution of BPO was 2.78 bn in 2003 and is expected to grow at a rate of 26% up to 2010. Indian firms are figured high on list of outsourcing firms. In 2008, 20 Indian companies were placed in world’s top 100 firms in outsourcing. Outsourcing experience is attributed as the main strength of firms as Tech Mahindra and HCL Technologies. Analysis of Heckscher Ohlin theory as a basis of Comparative Advantage in KPO Industries The main proposition of Heckscher Ohlin model is a country exports those goods that use intensively its relatively abundant factor of production. That is, countries export those goods that they are best suited to produce, given their factor endowment.

The Heckscher Ohlin model is used as a basis of comparative advantage in KPO industries. Heckscher-Ohlin asserts that differences in comparative advantage come from differences in factor abundance and in the factor intensity of goods. The Heckscher-Ohlin model ignores differences in Total Factor Productivity across industries and assumes that all countries possess the same production function in a given industry. If countries exploit their comparative advantage in production and trade, there can be specialisation in the production of goods in a specific sector, though the specialisation does not need to be complete. There are several economic theories, which analyse comparative advantage and patterns of specialisation. Heckscher-Ohlin explains a comparative advantage in production through comparing a country’s relative endowment of production factors in the economy within and across countries. A country will produce goods using the abundant factor most intensively in production, which can lead to specialisation in a specific sector.

Different countries have different factor endowments that stem from their inherent geographic, historic and cultural heritage. Knowledge industries are typically intensive in skilled labour and educated manpower. Therefore what matters for a country’s comparative advantage in knowledge industries is its resource base in terms of skilled and educated manpower or human capital. To assess this, there is a need to study the endowment of human capital in developing nations. India is a labour intensive country. India has largest pool of manpower, which is capable of efficiently serving the KPO industry. The country produces more than 3 Million graduates annually. India enjoys the second biggest reservoir of scientists, managers and engineers in the world. In India, large numbers of people have an access to quality education but at the same time they get low salary as compared to their counterparts in other developed countries. This led the professionals to move to other developed countries. A large base of human capital along with low salaries is clearly what is going to determine the direction of knowledge process outsourcing.

2.5 Value Proposition for KPO

Outsourcing creates value for both clients as well as vendors. Before outsourcing, the revenue breakup of a typical management-consulting firm in the US consists normally 20 percent fixed costs, 60 percent variable cost and 20 percent is profit margins. After outsourcing, the costs are 18 percent fixed cost, 30 percent variable cost, 20 percent is profit margins. This leads to savings, which is value creation of 32 percent for ‘clients’ of KPO firms. This increases competitiveness of firms. The variable cost of the client becomes the revenues for the KPO vendors. 30 percent of the revenues of a typical KPO vendor are profits (before taxes). Employees’ costs constitute around 35 percent of the revenues. The balance, i.e., 35 percent of the revenues, comprise overhead costs, such as telecom, transport, catering,
infrastructure costs, etc., of the KPO vendors. This leads to a multiplier effect for profit and employment generation. Shortage of highly skilled labour in developed countries is leading to outsourcing. More and more companies are turning to India for offshoring. Shortage of manpower can be solved through outsourcing. It is seen that there will be excess demand for labor of 5.6 million in 2010. This gap will be partially filled by offshoring of 1.3 million jobs. Apart from cost cutting and corresponding saving that are accrued, companies are offshoring their services as to take advantage of the low wage structure in some countries. This helps them to reduce costs. Outsourcing also helps to take advantage of the time zone differences to enhance flexibility (such as adding another shift of work). This brings products and services faster to the market. A large and better talent pool can be accessed. Offshoring also occurs due to the need for product or service localisation. The Indian KPO sector has immense opportunities for the SMEs. The SMEs can change their costs as per the short-term demands, which can create new business models. Outsourcing presents opportunities for small and medium enterprises. Small firms find outsourcing relatively easy. Many external services are already being outsourced and help achieve economies of scale.

2.6 Contribution of KPO towards Indian Economy

India has a trained army of chartered accountants, doctors, MBAs, lawyers and research analysts which will enable it to get a major share of global KPO business. The KPO industry has tremendous potential for India. The KPO sector in India employed around 25,000 people in 2003 and generated total business worth $720 million. By 2010, it is expected to be worth a $14 billion business employing 250,000 people in India. The growth rate in this sector is very high, 45% in KPO as compared to 26% growth rate of BPO. In 2003-04, the knowledge process offshoring (KPO) business was worth $720 million out of the total business process outsourcing (BPO) work of $3.6 billion. By 2010, KPO is expected to grow to $12 billion, while the entire outsourcing industry will be worth $18 billion. The value added per employee in KPO is expected to be $4,8000 as compared to $21950 in BPO in 2010. KPO will contribute 1.8% to the Indian service sector by 2010 as against 0.24% in 2003.

2.7 Skills Required in Knowledge Process Outsourcing

The demand for manpower in KPO is very specific focusing on educational qualification as the work involves special knowledge. Work includes abstraction of technical patents, extraction of legacy technical data, cataloguing and indexing, taxonomy building and database creation and updating. All this requires a basic interest and knowledge in specific domains besides an aptitude for working with data and information. These processes demand advanced analytical and specialised skill of knowledge workers. Companies have a cut-off for marks (grades), depending on the kind of domain knowledge required for the particular project. The works also require people to have a right aptitude and attitude for doing research-oriented work. After recruitment, the candidates are trained in various skills. Besides this, the candidate should possess good communication skills, should have an aptitude towards programming and should be able to work in a team, under pressure and different shift timings. KPO is a lucrative career option for upcoming knowledge professionals. KPO sector offers a good working atmosphere with global exposure and an opportunity to develop skill sets in a specialised field. The remuneration is high as a person with about two years experience can draw a pay packet of around Rs 6 lakh (Rs 600,000) to Rs 8 lakh (Rs 800,000) annually, while an experienced professional gets anywhere between Rs 15 lakh (Rs 1.5 million) and Rs 20 lakh (Rs 2 million). The average annual salary in the Indian KPO sector is currently around $8000 per annum as compared to $6000 per annum in BPO (Manu 2005). Companies like Valueserve, GE Caps and MarketRx have set up KPO in India. Evaluatehave set up a centre in Gurgaon. Law firms such as Patent Metrix, Cantor-Colburn and Schwegman, Lundberg and Woessner & Kluth have set up offices in India. Pharma majors AstraZeneca and GlaxoSmithKline have set up drug discovery centres at low-cost destinations to boost their research and development activities. For R&D in software and chip design, major telecom and IT companies opt for India. Motorola, Intel, IBM, Cisco, Texas Instruments, Nokia and Philips have set up offshore design centres in India. Microsoft has opened its R&D centre in Bangalore. Some US law firms have set up their captive centres in India. Others are collaborating with Indian firms for the same. GE has a 2,000 strong workforce at its research centre in Bangalore. Efunds has more than 80% of its work force in India. For Valueserve, out of 650 employees globally, 600 are based in India itself.
2.8 India Suitability for KPO

This evolution needs to be understood from the perspective of the strengths of India as a destination and driver of the KPO phenomenon. Analysts put cost advantage; incidentally one of the most significant drivers of KPO, from a KPO assignment at 50 percent. Another critical driver is the deficit of skilled human capital in developed countries like the USA and UK. It is expected that, by 2010, there will be a shortfall of 5.6 million skilled professionals in USA and 700,000 in UK. This, coupled with the cost advantage, has resulted in high-annualised growth in the KPO business.

2.8.1 Offshoring Attractiveness Index

India is considered a very suitable location for KPO. India ranked the highest score in terms of location attractiveness Index. As per AT Kearney 2004 survey, India ranked the highest position in offshoring attractiveness index due to low costs and people skills and availability. India has the twin advantage of a large knowledge base and lower costs. India’s main strength has been the English language education system. Also, India has a favourable demographic picture with a majority of workforce belonging to the younger age group. Philippines, Ireland and Israel have small talent pools while China and Russia have non-English speaking population. Several countries are now trying to build capabilities in specific KPO areas. Russia claims to be a good destination for healthcare- and technology-related KPOs. The Philippines has established itself as a successful animation-outsourcing destination.

2.8.2 India’s Education System

India’s education system is its main strength in KPO. Indian ancient education system was very scientific. The British developed a strong English speaking based education, which helped India to have a comparative advantage. The tertiary level of education system is well developed in India. There is a pool of highly skilled labour. Indians have a good aptitude for R & D. Low cost advantage due to currency value also is a major advantage. India is a democracy, so is US. The similarity between two countries is also an advantage. The huge talent pool, low cost and strong research infrastructure attract many MNC to set up R&D centres in India. These R&D centres are beneficial to both developing and developed countries. India has the world’s largest number of scientific and technological personnel after USA. In India, six times more people go to universities than in China.

The supply of manpower comes from people from diverse backgrounds. Engineers, MBAs, professionals with financial background and even journalists are qualified to work in KPO. People with science background have a better chance, as some tasks require data analysis and programming. India’s strong education background provides a large pool of knowledge workers in various sectors as Pharmacy, Medicine, Law, Biotechnology, Education & Training, Engineering, Analytics, Design & Animation, Research & Development, Paralegal Content and even Intelligence services. India’s has a strong education sector. The number of colleges for professional education was 886 in 1990-91, which increased to 3201 in 2004-2005. It was estimated that there were 407 Universities, deemed universities and institutions of national importance.

In BPO, rising labour wages have led to rapid costs increase. In BPO, Indian salaries have increased at an average of 14 per cent a year (Evalueserve analysis). If this trend continues, they will increase by 2.5 times the current salaries (in constant dollars) by 2010, thereby reducing the cost-arbitrage benefit from the present 40 to 25 per cent. India may have become too costly to provide low-end services at competitive costs (Dash & Agarwal2005). Low-end services may move to cheaper destinations like Ukraine, Belarus and Malaysia. Commoditisation of BPO services will further boost the transition of present low-end destinations to the higher end of the value chain. Hence, companies have to move from BPO to KPO to move up the value chain. As companies will get higher returns, they will prefer to shift to KPO.

2.9 Most Probable Areas of KPO

The most probable areas of KPO are:

- Off shoring R&D in pharmaceuticals and biotechnology is another area where there is enormous potential for KPO. Agarwal says destinations such as India offer significant cost advantages (as much as 40 to 60 per cent) in the areas of contract research and clinical trials. Companies such as AstraZeneca and GlaxoSmithKline have recently set up drug discovery centres at low-cost destinations to offshore R&D activities.
Chip design and embedded systems is another critical area. The reason why all major integrated design manufacturers such as Motorola, Intel, Analog Devices, National Semiconductor, IBM, Cisco, Cypress Semiconductor, Nokia and Philips have set up offshore design centres is simple. The compensation for a chip design engineer with a master’s degree and five years’ experience is about $7,000 a month in the US. An engineer with the same qualification and experience in India gets about $1,200 a month.

Data-mining services companies can save as much as 60 to 70 per cent on analytics and inventory management costs by off-shoring them. The cost differential between PhDs/engineers in the US and India is almost $60,000 to $80,000.

The cost differential between PhDs/ engineers in the US and India is almost $60,000 to $80,000. Companies like Evaluserve, GE Caps, MarketRx have set up centres at low-cost destinations to provide these services. And more are expected to follow soon.

### 2.10 Service Level Agreement (SLA) Requirements for KPO

SLAs are formal written agreements developed by the provider and customer specifying details of the service to be provided, the desired service level in measurable terms, penalties (rewards) for failure (exceeding) to meet service level expectation.

The objective of the SLAs is to provide a communication tool to help manage expectations, clarify responsibilities and provide an objective basis for assessing service effectiveness.

- The challenge of creating an effective SLA for knowledge processes is the fact that performance evaluation is subjective and imperfectly measured compared to the traditional outsourced process. Arguably, without definitive objectives, relational aspects between the provider and customer play a significant role.
- The agreements should be structured in a way that the outsourcing arrangement yields value for both participants beyond cost reduction (for the customer) and revenue (for the provider).
- For the customer, this translates to the ability to retain and nurture knowledge elements required to effectively utilise the benefits from outsourcing the particular process.
- For the provider, the outsourcing arrangement should create both contextual and generic knowledge. Hence, we classify the factors determining knowledge outsourcing SLAs into two broad domains customer side factors and provider side factors. Within each domain, we identify major sources that have direct impact on the quality of service.
- Customer side factors: In a knowledge outsourcing arrangement, the customer delegates the responsibility and/or ownership of the process and information infrastructure to the provider. Agency theory posits that such delegation may lead to opportunistic behaviour if:
  - The outcome of the agent’s (service provider) effort cannot be measured directly (outcome uncertainty)
  - The principal (customer) does not have the necessary resources/abilities to evaluate the action(s) taken by the agent (information asymmetry).

Academic literature in the information systems field has cited information asymmetry as the major source of opportunistic behaviour in any kind of IT outsourcing context. Organisations subscribing to the knowledge outsourcing services must have appropriate mechanisms in place in order to mitigate the risks arising from information asymmetry. The customer’s role in ensuring service quality is to bridge the information gap as much as possible by having appropriate governance mechanisms. Implications from research in agency theory and recent outsourcing literature help identify the set of customer side actions/variables that would lessen the chance of delivering substandard service by the provider.
Detailed contractual agreement: Contracts serve as the basic instrument for communication in any exchange relationship. The importance of communication has been underscored in buyer-supplier relationship research. Although, research in contracts suggests it is never possible to foresee all future contingencies at the time of contracting, the customer’s efforts should be directed at making the contract as detailed and complete as possible. This poses a challenge in the case of knowledge outsourcing because of the inherently fuzzy nature of such processes—example the clarity in defining objectives, performance measure and customer expectation (do the customers know what they want and how does it change with time?). One option is to include a communication aspect in the contract where requirements, performance and expectations are revisited on a periodic basis. Additionally, expected value derived from the knowledge outsourced should be detailed for both the provider and customer to benchmark progress for both partners.

Performance measurement metrics: Although service quality in knowledge outsourcing process is imperfectly measurable, it is still worth negotiating clearly formulated business objectives. The difficulties in measuring performance are exacerbated by the fact that some of the outsourced services may be dependent on other services, example the effectiveness of communication between the participants may be affected by the network infrastructure. Performance degradation in one service area often has a ripple effect on other areas, thus rendering performance measurement even more difficult. To effectively evaluate provider’s performance, two things are necessary:

- Measurement metrics in terms of business objectives
- Incorporating the notion of interdependencies among services in the evaluation process

Performance based incentive mechanism: Literature on agency theory cites outcome based incentives as a governance mechanism where actual effort level put by the agent is immeasurable. Agency theory suggests that a variable portion of the total compensation over and above a base compensation works as a motivation to excel. In the present context, penalties/rewards associated with the services would stimulate the provider to encourage its employees to put in their best efforts. Service level agreements document the expected service levels. Penalty/reward schemes would be inspire the provider to meet the quality standards. The challenging issue here is quantifying the appropriate “level” of service since the goal for this type of SLA is to reduce the knowledge loss for the customer. The lack of clarity associated with the knowledge gained by the provider and lost by the customer can be makes it difficult to derive optimal incentives for these fuzzy outcomes.

Knowledgeable resources: The customer organisation’s ability to make proper judgment of the client’s service is critical in ensuring successful relationship. Crafting service level agreements to cater to the unique organisational knowledge needs is a non-trivial task and much of the success of the service provisioning model is dependent upon the preciseness of the agreements. This is not possible without having personnel, from both sides, with in depth knowledge about knowledge process being outsourced. Coming up with the proper performance measurement metrics, implementing them and monitoring the provider’s performance continuously are significant activities for the customer. This is more important in the knowledge outsourcing context than traditional contexts. However, the challenge arises in the cost associated with the retention of such resources, as the primary skills of such resources may seem to be less relevant to the organisation as it outsources its knowledge process.
Summary

- Knowledge workers are those workers who have higher levels of education and their work is the output of their skills.
- In a knowledge economy, the sustainable comparative advantage of a country lies in its intellectual resources in comparison to its natural resources or cheap labour force.
- The evolution and maturity of the Indian BPO sector has given birth to KPO or Knowledge Process Outsourcing. BPO is getting differentiated into strata based on the level of skill and knowledge required for the job. As global business is becoming more competitive, the cycle time for introducing products and services has become smaller.
- Among the fast-moving verticals within the KPO space, Data Search and Integration & Management are expected to witness the fastest growth, with close to 50% CAGR and hit a USD 5 billion market globally.
- Business Intelligence sectors will also witness close to 54% CAGR growth. Few areas which are evolving but have high potential are Engineering & Design, Animation and Simulation Services, Paralegal Content & Services, e-learning, Biotech & Pharmaceuticals, Research & Development and Equity, Financial Services and Insurance Research.
- Outsourcing has significant impact on the Indian economy. Though an important area, there is lack of relevant research literature in this field. Sargeant (2006) examined the existing outsourcing relationship literature and identifies areas of opportunity for study as customer vendor relationship.
- Outsourcing has been one of the major business trends of 90s. Outsourcing involves contracting with a supplier; this may or may not involve some degree of offshoring. Outsourcing of business processes lead to cost reduction of 80-90%, improved access to new technology and allowed a firm to focus on core competency.
- Cost savings, operational efficiencies, access to a highly talented workforce and improved quality are all underlying expectations in offshoring high-end processes to low wage destinations.
- The main proposition of Hecksher Ohlin model is a country exports those goods that use intensively its relatively abundant factor of production. That is, countries export those goods that they are best suited to produce, given their factor endowment.

References


Recommended Reading

Self Assessment

1. Outsourcing provides two types of services namely, ITO and _______.
   a. KPO
   b. BPO
   c. LPO
   d. Offshoring

2. KPO firms provide ___________ processes and business expertise, rather than just process expertise.
   a. result-based
   b. inter dependant
   c. domain-based
   d. independent

3. ___________ serve as the basic instrument for communication in any exchange relationship.
   a. Contracts
   b. Cost-effective values
   c. Relationships
   d. Trust between the two parties

4. ___________ involves contracting with a supplier; this may or may not involve some degree of offshoring.
   a. BPO
   b. Outsourcing
   c. KPO
   d. ITO

5. Outsourcing creates value for both clients as well as _________.
   a. suppliers
   b. buyers
   c. vendors
   d. consumers

6. Which of the following statements is false?
   a. Initially, global firms outsourced less skilled business processes to countries with a large pool of skilled labour, known as ITO.
   b. Outsourcing of business processes lead to cost reduction of 80-90%, improved access to new technology and allowed a firm to focus on core competency.
   c. Commoditisation of BPO services will further boost the transition of present low-end destinations to the higher end of the value chain.
   d. Outsourcing has significant impact on the Indian economy

7. Indian ancient education system was very _________.
   a. scientific
   b. standard
   c. old
   d. specific
8. _______ service companies can save as much as 60 to 70 per cent on analytics and inventory management costs by off-shoring them.
   a. KPO
   b. BPO
   c. ITO
   d. Data-mining

9. The final aim of outsourcing is to explore the impact of KPO on _____________ relationships and the corresponding appropriate governance structure.
   a. customer
   b. organisational
   c. intra-organisational
   d. inter-organisational

10. Match the following

<table>
<thead>
<tr>
<th>1. Service Level Agreement</th>
<th>A. Ensuring successful relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Knowledgeable Resources</td>
<td>B. Formal written agreements</td>
</tr>
<tr>
<td>3. Incentive to innovate</td>
<td>C. Knowledge process may often be fuzzy</td>
</tr>
<tr>
<td>4. Measurability of outcome</td>
<td>D. Source of knowledge</td>
</tr>
</tbody>
</table>

   a. 1-B, 2-A, 3-D, 4-C
   b. 1-D, 2-A, 3-B, 4-C
   c. 1-C, 2-A, 3-D, 4-B
   d. 1-A, 2-D, 3-B, 4-C
Chapter III
Evolution of Knowledge Process Outsourcing

Aim
The aim of this chapter is to:

• explain the concept of value proposition of KPO
• explain evolution of IT and KPO industries in India
• enlist important sub sectors within KPO

Objectives
The objectives of this chapter are to:

• enlist the third-party service providers
• define contribution of KPO towards Indian economy
• explicate virtual captives

Learning outcome
At the end of this chapter, you will be able to:

• identify major segments of KPO industry
• understand the concept of data management, search and analytics
• identify the characteristics of KPO
3.1 Introduction

The evolutionary phases of the Indian KPO industry are very similar to that of the Indian IT industry. Activities related to IT offshoring/outsourcing commenced in India in the late 1980s. During this period, foreign companies such as IBM, Texas Instrument, Motorola, HP, etc., preferred establishing captive centres in India. A few third-party players were also active in India during this period. Subsequently, the number of IT vendors in India increased with more companies venturing into IT. The Nascent KPO industry is following the footsteps of the IT industry. Both industries started with captives, and subsequently saw the rise of vendors. KPO will follow the IT model with a time lag of 10 years. Although KPO and BPO sound synonymous, they are involved in activities which are completely different.

In the BPO sector, the vendor acquires a process from the end client and runs it at its site until the process reaches its logical conclusion, after which the results, if any, are then sent to the client. In contrast a KPO vendor functions at different levels which are as follows: KPO focuses on delivering value-added services to the clients. Its prime objective is to provide clients with useful insights that may assist them in their strategic decision making process.

- KPO companies provide knowledge-intensive work and engage highly skilled professionals such as MBAs, CAs, CFAs, engineers, Phds, doctors, lawyers, etc.
- Training is an essential component of the KPO industry. As the market is highly dynamic, one has to keep abreast with the latest trends, technologies and developments. KPO professionals continuously hone their skills through rigorous training plans.
- Hourly charge rates for KPO services are significantly higher. The number of players in the KPO domain is also less as compared to the BPO industry. This results in less congestion in the KPO market, which eventually translates into better profit margins. Overall, KPO creates value for the client by focussing on domain expertise rather than process expertise.
- Given the economic recession, it may have been a bad 2009 with the market declining, but the telecom market is expected to grow 3.2 percent in 2010, henceforth, taking the total service provider market to $1.9 trillion. All major segments from computing hardware to telecom services are expected to grow as confidence returns and more credit is made available.

Observers of modern society have long commented on the trend of societies’ progress from a “command and control” mindset to “connect and collaborate”. Certain technological advances have amplified and turbocharged this societal trend; termed as “the steroids” of the flattening world by Thomas Friedman. The technologies that Thomas Friedman refers to includes computing, instant messaging & file-sharing, VOIP, video conferencing, computer graphics and wireless technologies and devices; everything related to the telecom and communications industry. Given the economic recession, it may have been a bad 2009 with the market declining, but the telecom market is expected to grow 3.2 percent in 2010, henceforth, taking the total service provider market to $1.9 trillion. All major segments from computing hardware to telecom services are expected to grow as confidence returns and more credit is made available. This does not necessarily mean good news for players in this sector.

Regardless of the growing optimism in the sector, it is not untouched from the challenges around. All the major players are driven by very little differentiation in basic products, decreasing ARPU (Average Revenue per Unit), increasingly demanding customers who are not willing to spend much and furthermore, every player running after the same customers. And due to the ‘optimistic’ nature of the sector, there are constantly new and more competitive entrants, current players are moving into new geographies and Greenfield operators entering the field.

Increasingly TELCOs are looking at increasing ARPU from current and maturing markets through value added services and competitive costs. New operators and operators entering new geographies are looking for a ways to give an impetus to their business. Focused strategic outsourcing is being seen as a way to short circuit some of the initiatives. Operators are looking for outsourcing of not just basic operations processes like in-bound and out-bound calling, but looking at more KPO related work. Operators are looking for expertise in functions as well as domain so that their outsourcing can be turbocharged.
As in the case of the overall BPO industry, BPO for telecoms has also evolved. From the first phase of outsourcing where we saw people intensive non-core processes like providing basic customer service, the BPO industry has evolved into outsourcing of more evolved and less standardised processes. This move is resulting in more knowledge and information related work being outsourced for getting functional and domain expertise. A few examples of KPOs in finance and accounting may include billing, contract management. Similarly, marketing operations include market research, implementation and execution of marketing plans, advertising & communication and analytics.

The emergence of KPOs has multiple benefits for the providers. For vendors who either offer IT services or BPO services, it is an opportunity to bundle their offerings, upgrade their partnerships and therefore build self-sustaining relationship with their existing clients. For the client, the motivation or the business drivers to outsource key business processes, amongst many, is that it allows them access to talent (pool of highly specialised consultants), more flexibility in up sizing and downsizing at a relatively lower cost. By and large, these are exciting and buoyant times for the industry. As this segment within the overall BPO sector matures, speciality services and new business models will emerge. The winners will be service providers who can effectively demonstrate distinguishing value propositions at each level. India is seen as a source of high quality brain power by western multinationals. Knowledge intensive companies such as IT specialties and consultancies have stepped up the number of people they employ in India.

63 companies in the Fortune 500 list have R&D centres in India, example, GE and Cisco India will continue to be seen as a favoured destination for KPO services. On one hand it has the legacy of outsourcing as a destination for non-core processes, on the other hand, young Indians increasingly focus on education and most importantly, English is the primary business language. An indicator of this is the sheer number of engineers that churned out every year over 350,000 currently and could rise to 1.3 million by 2015. A similar trend can be seen across other professions like doctors, lawyers, MBAs, etc.

3.2 Value Proposition of KPO

The increasing competition in global businesses has resulted in a smaller cycle time for introducing products and services. With customers demanding high-quality services, enterprises are forced to adopt systems and business models that will not only provide operational efficiency, but also add strategic value to their products and services. This is where KPO helps enterprises by enabling companies to reduce design-to-market lead times; manage critical hardware efficiently; provide research on markets, competition, products and services; enhance organisational effectiveness in business administration; and help in dealing with rapidly evolving business scenarios. Customisation
enhances the value proposition of KPO. Companies outsourcing work to a KPO vendor can help save costs up to 32 per cent on revenues, assuming that the profit margin remains constant. Business Model Indian KPO vendors operate mainly through three business models, that is, captives, third-party and virtual. The selection of a business model depends on many parameters such as the complexity of the work, internal competency levels, nature of business (core or non-core) and costs involved.

### 3.3 Captive Centres

In a captive centre set-up, a multinational company establishes its dedicated operations in countries offering high talent availability and low cost of operations. Captive centres cater only to the requirements of the parent company. The investment required to establish a captive centre is incurred by the parent company. As the capital investment involved (in establishing a captive centre) is large and the payback period is also high, these set-ups are generally established only by large MNCs. Moreover, the scalability of the captive centre is dependent on the amount of work, which is generally low as the centre caters solely to the requirements of the parent company. Examples of prominent captives in India include Goldman Sachs, Morgan Stanley, McKinsey, J. P. Morgan, UBS, Deutsche Bank, etc.

### 3.4 Third Party Service Providers (Third-Party Players)

Since the cost associated with captive centres is high, especially if the volume of work is not large, third-party service providers offer a viable option to companies. A number of large and small companies are working as third-party services providers and supplementing KPO services from India. One of the key benefits of third-party service vendors is that operations can be ramped up as and when required. At the same time, third-party vendors offer greater flexibility and customisation to clients. Some of the companies operating on this service model include. Since KPO services involve the assimilation and dissemination of sensitive information, clients place great emphasis on data security and other data confidentiality parameters. Third-party service providers address these concerns by formulating service-level agreements with clients and certifying their process under quality audits such as ISO 27001.

### 3.5 Virtual Captives

Virtual captive centres have both the functionality of captives and third party service providers. It is a hybrid business model. There is no upfront investment undertaken by the parent company in establishing the centre as in a captive centre. This centre acts as an overseas resource centre for a client in the third-party service provider setup. The major advantage of virtual captive is that, it provides higher quality of services involving higher transparency, control and security. The clients are usually willing to pay a premium for virtual captive services. Indian KPO industry is witnessing a significant growth of third-party service providers with respect to captives. The prominent reasons include the range of services, cost advantage and scalability which is driving higher growth of third-party service providers. According to a study by Everest Research Institute, third-party service providers are 5 to 15 per cent less expensive than their captive peers, in terms of the total cost of operations.

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**Fig. 3.2 Knowledge process outsourcing business models in India**

(Source: http://www.ibef.org/download%5CKnowledge_Process_Outsourcing_170708.pdf)
3.6 Major Segments of KPO Industry

The Indian KPO industry is estimated to be worth US$ 3.05 billion in 2006-07. Indian players provide a wide range of solutions to diverse industry segments such as FMCG, engineering, automobile, telecom, R&D, banking and financial services, insurance, etc. It is expected that in the coming years both the volume and complexity of the work being outsourced to Indian KPO players will increase.

![KPO Services Outsourced to India](Source: http://www.ibef.org/download%5CKnowledge_Process_Outsourcing_170708.pdf)

3.7 Data Management, Search and Analytics

Data Management, search and analytics services include information regarding the market, competition, products and services, customers, etc. These services assist clients in gaining a better understanding of their business issues and developing effective solutions to mitigate these. This service segment is availed by a large number of clients across industries such as FMCG, telecom, banking services, etc. A clear understanding of the subject, an in-depth knowledge of the industry and specialised software such as SPSS, SAS, etc., facilitate the provision of insightful data to the clients. Some of the major data analytics services employed by KPO firms include the following:

- Customer analysis (mainly used for FMCG companies, telecom operators, insurance firms, banks, etc.)
- Supply chain analysis (mainly used for manufacturing and logistics firms)
- Retail analysis (mainly used by FMCG companies to understand the buying behaviour of customers)

3.8 Contract Research and Biotech

Contract research is among the fast-growing segments in the biotech and Pharma R&D domain. The growth of the global healthcare and Pharma industry has been hindered by high development costs, lower number of unique molecules discovered, increased development timelines and dynamic market conditions. These factors expose the industry to high risks as a large number of investments are involved in research-related activities. Currently, the outsourcing of research and development work seems to be a viable option available to mitigate the risks involved. India has been receiving substantive works in the biotech and Pharma fields. India offers a strong advantage in clinical research and trials due to the following factors:

- Availability of a large and diverse patient pool
- Reduced time for data analysis
- Availability of large skilled workforce

India’s success in contract research and biotech outsourcing can be attributed to the confluence of several factors such as a high degree of support from the government, low cost, highly skilled professionals (scientists and research personnel), a large number of patients from diverse backgrounds and quality infrastructure. Further, the Indian contract research and biotech KPO firms have established strong position in contract research, generic research and manufacturing, and innovative product developments. Pharma research relates to innovative drug discovery, drug
development, generic manufacturing, contract manufacturing, etc. Contract manufacturing services outsourced to Indian vendors include clinical development services, bioavailability, bioequivalence, clinical trial management and monitoring, data management offerings, etc. It is estimated that there are approximately 400 large and small Pharma companies operating in India, which cater to the domestic demand while fulfilling the outsourcing requirements of global players.

### 3.9 Engineering Design

Engineering design outsourcing or Engineering Services Outsourcing (ESO) as it is popularly known refers to the outsourcing of engineering-related work to other companies to leverage the differential cost advantage. For example, an intensive automotive design involves US$ 800 per man hour in Europe as compared to US$ 60 per man hour in India. ESO involves the outsourcing of activities ranging from design to production and maintenance. The major industrial sectors benefiting from ESO include automotive, aerospace, hi-tech/telecom, utilities and construction/industrial machinery. Apart from India, other countries that have developed expertise in ESO are Canada, China, Mexico, and countries in Eastern Europe. Earlier, the quality of work outsourced to India was low due to engineering and design work. However, the availability of a versatile, high-quality workforce at a low cost has resulted in ESO work moving up the outsourcing value chain, from design work using computer-aided design (CAD) to high-end engineering activities.

### 3.10 Origins of Knowledge Process Outsourcing (KPO)

During the late 1990s, the success of Information Technology and Business Process Outsourcing to low-wage countries and the resulting cost savings prompted several multinational companies to experiment with outsourcing higher-end knowledge-based work. For example:

- In 1997, General Electric’s captive unit in Bangalore, India, started providing services related to risk analytics to GE Capital (worldwide).
- During 1998-99, American Express’ wholly owned subsidiary in Delhi-Gurgaon, India, started performing risk and credit analytics for several of its credit card divisions worldwide.
- McKinsey and Company started its own captive centre (called McKinsey KnowledgeCentre) in 1998 in Delhi-Gurgaon, India, which started providing market research, business research and data analytics services to more than 6,000 of its consultants worldwide.

The boom in the Business Process Outsourcing (BPO) industry has been the key factor behind the origin of Knowledge Process Outsourcing (KPO). Effective and accurate results from offshore companies in the BPO sector have encouraged US, UK and other clients to outsource responsible data analysis work. KPO is more advanced version of offshore outsourcing than BPO. As its name says it all, KPO Services is a processing of complex data i.e., knowledge, rather than just the raw data. Knowledge Processing Outsourcing comprises of more advanced Data Manipulation, Data Analysis and Data Research. Industry leaders are brought together to create the knowledge from the information they have. This information driven knowledge outsourcing is known as Knowledge Process Outsourcing or KPO. Knowledge management can be considered a private activity where company or employee’s private data is manipulated or researched to improvise on performance. It makes it more profitable for organisation where employees’ knowledge research is linked to companies’ knowledge base. The temptation to outsource this high-end processing is because of low wage destinations like India, China and Philippines.

KPO Services India is not just restricted to IT (Information Technology) or ITES (Information Technology Enabled Services), but it can be exploited for many other sectors like Business Research, Business and Technical Analytics, Property related services, Market Research, Legal Research, Pharmaceutical and Biotechnology Research, Clinical Research, Learning Solutions, Animation and Design, Writing and Content Development, Training and Consultancy services and many more. As KPO is a new buzz word in the Offshore Industry, it has got some challenges to face. As it delivers high significance to the business or organisation by providing domain-based practices and business expertise, it requires advanced analytical, specialised and skilled knowledge workers. Maintaining the quality standards of the results; Infrastructure facilities and investment; and Confidentiality and Security of personal Data are some of the areas to look upon.
3.11 Characteristics of KPO

A business process that is repeatable, scalable and that does not require the physical presence of a worker near the client can theoretically be outsourced and offshored; this forms the basis of Business Process Outsourcing or BPO. A Business Process Outsourcing or Offshoring firm’s function acquires a process from the end-client and runs it at its site until the process has reached its logical conclusion, after which it sends the results if any to the client.

In contrast, a KPO or Knowledge Process Outsourcing firm functions at a higher level and can be differentiated from BPO firms in the following ways:

- A KPO firm requires substantially more domain expertise (unlike a BPO firm, where the skills can usually be taught in a matter of days or weeks). In fact, Knowledge Process Outsourcing and Offshoring is an area where professionals continue to learn, just as doctors and lawyers undergo continuous training to learn new treatments and procedures and newer interpretations of existing laws. Hence, it is not surprising that training such professionals can range anywhere from two months (in Market Research & Data Collection) to a year or more (in Intellectual Property). Consequently, a good KPO firm is likely to care more about the depth of knowledge and experience and the judgment skills of its professionals than just its size.

- Not surprisingly, experienced professionals can leverage their expertise to generate more revenues for the KPO firm. Such professionals can earn anywhere between $80 and $500 per hour in the US, Canada or the UK and between $20 and $100 per hour in India. Clearly, the more experience its professionals have, the more the firm can earn. For example, an Indian Telecom Expert with ten years of experience can easily fetch up to $100 an hour, whereas a corresponding professional with two years of experience only fetches about $30 an hour.

- Since domain expertise is the key factor, not only companies but also countries can easily differentiate themselves from each other. The countries that will emerge as strong contenders in the KPO business are those that have large numbers of engineers, medical doctors, graduates in sciences and technology (including biotech and pharmaceuticals), MBAs, certified financial analysts, accountants, statisticians, lawyers, etc. Low-wage countries that seem to have these professionals in large numbers include India, China, Russia, Poland, the Philippines, Hungary, and many republics from the erstwhile Soviet Union.

- Most KPO projects are smaller by a factor of 5 to 10 than the corresponding BPO projects. Furthermore, the salespeople selling KPO services need to be well versed in these services and to have the required domain expertise in order to be credible. In this regard, a typical KPO firm lies somewhere between a BPO firm on one hand and a consulting firm on the other.

- The fifth facet of a KPO is the scalability factor of the process wherein the methodology is similar but there is a premium placed on domain expertise. Research and development departments of global high-technology companies (example, IBM Research) and consulting companies cannot be considered KPO firms and, not surprisingly, such organisations take substantial time to reach scale. For example, IBM Research took nearly 50 years to reach 3,000 researchers and McKinsey took 75 years to get to 6,000 consultants. In contrast, a pure KPO firm like Evaluerserve may only take ten years to reach 6,000 professionals globally.

- The last but probably the most important distinction between a KPO firm and a BPO firm is that in a KPO firm, the client is involved during the entire execution process. Furthermore, the offshoring company providing KPO services may only contribute 70-95 percent of the work-product, with the Client contributing the remaining 5-30 percent by providing the appropriate direction to the KPO firm or by otherwise adding value to the work-product.
In other words, the relationship between a KPO firm and its client is more of a partnership and less of an arm’s length, client-vendor relationship. As a final remark, it is worth mentioning that although most Knowledge Process Offshoring services are being provided from India, countries such as the Philippines, Russia, Ukraine, Poland, Hungary, China and South Africa are beginning to provide more and more KPO services. Indeed, in the near future, Knowledge Process Outsourcing and Offshoring is likely to be driven by factors such as breadth and depth of coverage, domain expertise, location advantage (example, near-shoring and language capabilities), sales and marketing capabilities, data compliance with respect to regulatory standards (especially those defined by the United States, Canada and the European Union) and the management of business risks. Hence, it is quite likely that companies – both those with their own captives and those that use third-party vendors may use a “hub and spoke” model, in which a provider in India may constitute the “centre” and other units around the world may provide the appropriate “spokes”.

3.12 Important Sub Sectors within KPO

Provides estimates for the number of billable professionals likely to be employed in various sub-sectors within the KPO industry in India during 2010-11 and the revenue generated within these sectors. Of course, the delineation between some of the sectors is somewhat arbitrary and both the revenue and the number of billable professionals among them are fungible. Of all the sub-segments of India’s KPO sector eluded, still seems to be at a nascent stage of development. These stages are explained in the section below.

3.12.1 Banking, Securities and Industry Research Services

There are currently 3,500 billable professionals in this sector in India, of which approximately 1,100 are doing research related to risk management for credit card and capital leasing companies as well as insurance research. The remaining 2,400 billable professionals are involved in helping sell-side and buy-side analysts in bulge bracket banks (example, Citigroup, Merrill Lynch, Morgan Stanley, and J. P. Morgan), mid-tier M&A banks, independent research providers, hedge funds, mutual funds, pension funds and private equity groups. Given the strong M&A activity that is ongoing worldwide, the demand for investment research analysts has been growing at a furious pace and clients in high-wage countries would use an even higher number of high-quality professionals, if low-wage countries like India could train and provide them.

3.12.2 Contract Research Organisations and Bio-Pharmaceutical Services

Given the cost pressures related to research and development of new drugs, biotech and pharmaceutical companies both large and small are outsourcing a lot of clinical research trials to countries in Eastern Europe, India and China. In fact, according to a recent study by McKinsey and Company, the clinical trial segment in India is expected to earn US $1.5 billion in revenues by 2010. Furthermore, our forecasts reveal that the Indian Biotech sector is expected to attain $6.6 billion in revenue during 2010-11, and about one-fourth of this revenue will come from biotech services’ exports, particularly in the agricultural biotech and bio-pharmaceutical services areas.

3.13 India’s Intellectual Potential

The myth that Indian companies can only provide “software coolies” is soon changing to the reality of Indian companies being capable of almost anything, even rocket science! India has a large pool of knowledge workers in various sectors ranging from Pharmacy, Medicine, Law, Biotechnology, Education & Training, Engineering, Analytics, Design & Animation, Research & Development, Paralegal Content and even Intelligence services. This talent is soon being discovered and tapped by leading businesses across the globe resulting in the outsourcing of high-end processes to low wage destinations. Hence Knowledge Process Outsourcing involves offshoring of knowledge intensive business processes that require specialised domain expertise.
Summary

- The evolutionary phases of the Indian KPO industry are very similar to that of the Indian IT industry. Activities related to IT offshoring/outsourcing commenced in India in the late 1980s. During this period, foreign companies such as IBM, Texas Instrument, Motorola, HP, etc., preferred establishing captive centres in India.
- KPO companies provide knowledge-intensive work and engage highly skilled professionals such as MBAs, CAs, CFAs, engineers, Phds, doctors, lawyers, etc., countries and the resulting cost savings prompted several multinational companies to experiment with outsourcing higher-end knowledge-based work.
- In a captive centre set-up, a multinational company establishes its dedicated operations in countries offering high talent availability and low cost of operations.
- Virtual captive centres have both the functionality of captives and third party service providers. It is a hybrid business model.
- A business process that is repeatable, scalable and that does not require the physical presence of a worker near the client can theoretically be outsourced and offshored; this forms the basis of Business Process Outsourcing or BPO.
- Because of attrition and rising costs, companies with existing captives are also beginning to work with third-party vendors that can provide complementary skills and handle “spikes” in workload.

References

- Kanikajayant, 2008. KPO and India, [Video online] Available at: <http://www.youtube.com/watch?v=JOkjCDC1ygw>[Accessed 14 December 2012].

Recommended Reading

Self Assessment

1. _______ companies provide knowledge-intensive work and engage highly skilled professionals.
   a. KPO
   b. BPO
   c. LPO
   d. ITO

2. Focused _______ outsourcing is being seen as a way to short circuit some of the initiatives.
   a. offshore
   b. vendor
   c. strategic
   d. nearshore

3. The increasing competition in global businesses has resulted in a smaller cycle time for introducing _______ and _______.
   a. products and services
   b. clients and vendors
   c. third party and company
   d. products and producers

4. Captive centres cater only to the requirements of the ________.
   a. offshore company
   b. own company
   c. captive company
   d. parent company

5. _______ is an essential component of the KPO industry.
   a. Attitude
   b. Motivation
   c. Training
   d. Development

6. Which of the following statements is true?
   a. Virtual captive centres have both the functionality of captives and third party service providers.
   b. Captive centres cater only to the requirements of the parent company.
   c. The key benefit of third party service vendors is that operations can be ramped up as and when required.
   d. A BPO firm requires substantially more domain expertise than a KPO firm.

7. ________, search and analytics services include information regarding the market, competition, products, services and customers.
   a. Data management
   b. Financial management
   c. Administration
   d. KPO management
8. ________ acquires a process from the end-client and runs it at its site until the process has reached its logical conclusion.
   a. Business
   b. Offshoring
   c. Management
   d. Firms

9. ________ captive centres have both the functionality of captives and third party service providers.
   a. Prominent
   b. Electrical
   c. Client
   d. Virtual

10. Match the following

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<td>1. Customisation</td>
<td>A. Include information regarding the market competition</td>
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<td>2. Data management</td>
<td>B. Requires substantially more domain expertise</td>
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<td>3. Contract research</td>
<td>C. Enhances the value proposition of KPO</td>
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<td>4. KPO</td>
<td>D. The fast-growing segments in the biotech and Pharma</td>
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a. 1-B, 2-A, 3-D, 4-C
b. 1-D, 2-A, 3-B, 4-C
c. 1-C, 2-A, 3-D, 4-B
d. 1-A, 2-D, 3-B, 4-C
Chapter IV
Profile of Select KPO Verticals

Aim
The aim of this chapter is to:
• introduce engineering process outsourcing
• elucidate market and research analysis
• explore KPO delivery

Objectives
The objectives of this chapter are to:
• define knowledge process outsourcing
• enlist major segments of outsourced engineering services
• explain outsourcing of HR services

Learning outcome
At the end of this chapter, you will be able to:
• compare legal process outsourcing and engineering process outsourcing
• understand research and development outsourcing
• recognise banking and insurance process outsourcing
4.1 Introduction to Engineering Process outsourcing

Sourcing select or entire design and engineering requirements of an organisation from external service providers may be termed as Engineering Process Outsourcing (EPO). This may be done by contracting required engineering processes to a third party vendor within or outside the country or to a company owned engineering centre (captive centre) located outside the country. Engineering process services were earlier categorised under the R&D activities in the areas such as aerospace, automobiles, electronics and telecom. These are being clubbed along with services rendered in the civil construction and utilities sector and categorised as engineering processes. The demand for EPO has been on the rise of late. Information technology and development of software associated with engineering design, product lifecycle management have enabled assimilation of engineers from diverse locations to cooperate in designing and undertaking engineering services across the borders. According to a NASSCOM study, spending on engineering services across the world is estimated to be US $ 750 billion in 2004, which is expected to cross US $ 1 trillion by 2020. While only US $ 15-20 billion (2% of total demand) are off-shored, off-shoring market is expected to grow to US $ 150 billion - US $ 225 billion (around 20% of total demand) by 2020. Although, in general, firms have been focusing on cost reduction by off-shoring lower-end services, as of now, it is expected that availability of engineering skill and expanding market would drive the demand for off-shoring high-end services to developing countries. Major segments of engineering services can be classified as depicted in figure below.

Fig. 4.1 Major segments of outsourced engineering services
(Source: www.eximbankindia.com/op/op121.pdf)

4.1.1 Mechanical Engineering Services

Machine design and development involve activities such as developing concepts and mechanisms for machines, integrate electrical / electronic / hydraulic and pneumatic components and design development to suit manufacturability and reduction of costs. Manufacturing support and process planning – involve activities such as design and production support to optimise resources and minimise cost, while setting standards to achieve world class quality. Manufacturing support and process planning is expected to be the lifeline of manufacturing business. Reverse engineering involve activities such as back-to-front process in which the working of an existing product is analysed to create a superior improved design. Reverse engineering services have emerged as a key aspect in compressing development cycles and achieving cutting edge product design. Finite element services: Involve activities such as improving product development cycle through engineering simulation techniques to optimise efficiency and functionality of existing designs. 2D/3D Modelling and Services involve surface modelling, prototype design, assembly and manufacturing models, shop drawings, electrical drawings and piping drawings and tooling, among others; associated services involve assembly services, changes in assembly dimensions, migration of CAD data to other platforms and tolerance analysis, among others.
4.1.2 Civil Engineering Services

Paper to CAD conversion: Involve digitisation of paper drawings; documentation management; construction drawings; involve provision of sequential description of each phase of construction; planning and estimation of cost; cost estimation and quality assurances; accurately estimating construction and building costs, estimating profitability, comparing actual costs with estimated costs as the project develops.

4.1.3 Architectural Engineering Services

Architectural design and documentation services; involve automated mapping and facilities management; conversion services; documentation and centralised retrieval services; layering services (for mechanical, electrical and plumbing systems); 3D rendering services; involve visualisation of non-existent buildings; architectural animation services (virtual tours such as walkthrough, walk-around); Landscaping and interior design; involve master planning; site design; project management; cost estimation.

4.2 Legal Process Outsourcing

Sourcing of legal processes – both low-end (such as legal transcription, preparation of case law bibles, compilation of interview documents, contract review / amendment / proofing, discovery and document processing, contract drafting / proofing ) and high-end (such as patent research, intellectual property searches, patent filing, legal / insurance claim analysis, litigation support) services - are called as legal process outsourcing (LPO). Though LPO is one of the risk prone areas (given the issues of confidentiality) to be outsourced, demand is growing across the world with the objective of gaining efficiencies by focusing on core competencies. The availability of world class legal expertise in developing countries at cheaper cost is also boosting the growth of outsourcing by legal entities. LPO is not mainly done by legal firms of developed countries. Even large corporations as also the state and federal governments and government agencies are increasingly outsourcing their legal work to low cost developing countries. Although there are no precise estimates about the size of world market for LPO, estimates have put the global spending on legal services at US $ 250 billion. Even if we assume about 1% of the legal services are offshored, the LPO market is estimated to be about US $ 2 billion. USA is a major spender on legal services accounting for two-third of global legal spending. According to a study by Forrester Research, market potential for globally delivered legal services in USA is estimated to be two third (US $ 111 billion) of total legal spending (US $ 170 billion). The primary difference between low-end and high-end LPO services is that in low-end LPO services the domain knowledge is required but not in-depth knowledge in a given legal jurisdiction. Major segments of low/ high end LPO services can be classified as depicted in Fig. 4.3.

![Fig. 4.2 Global spending on legal services](Source: www.eximbankindia.com/op/op121.pdf)
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MAJOR SEGMENTS OF OUTSOURCED LEGAL SERVICES

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**Paralegal services**

It means provision of legal support by managing various aspects of litigation, including handling preliminary investigations, drafting documents, interrogating witnesses, depositions and trials. Para-legal services are generally required in the fields of business litigation, IPR, mergers and acquisition deals, medical insurance claims, among others.

**Document management services**

Services such as legal transcription, coding, data digitisation are included under this head. Litigation Support includes document discovery (case studies), organising, reviewing and indexing documents, identifying data pertinent to litigation or corporate due-diligence matters, populating databases and preparing reports regarding such data. Major segments of high-end LPO services can be classified as under:

**Intellectual property services**

Safeguarding trademarks and aligning intellectual property assets, patent and trademark search, mapping competitor IPR assets, research on patentability and infringement assessment, patent application drafting and status tracking, IPR management, licensing and commercialisation, are included under this head.

**Due-diligence services**

It includes understanding of legal suits, employment issues, compliance to local laws, liabilities and contractual commitments and review of Target Company’s patent portfolio. Legal Research – undertaking research in legislative history, analysis of international and administrative case laws are included under this head.

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**4.3 Research and Development Outsourcing**

Rising Research and Development (R&D) costs, increasing risk and complexity of technological development and intense competition in domestic and global markets force global firms to locate their R&D activities out of home loan borders. United Nations Conference on Trade and Development (UNCTAD) classifies the internationalisation of innovation into three categories, as described in Fig. 4.4. In the first category, the firms are engaged in international commercialisation of technologies developed at home country. The second category relates to domestic and international collaborations for technology development / transfer among firms or research institutions. The third category relates to internationalisation of R&D through innovative activities in home and host countries. It is estimated that R&D outsourcing market is valued at around US $ 100 billion in 2005.

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**Fig. 4.3 Major segments of outsourced legal services**
(Source: www.eximbankindia.com/op/op121.pdf)
According to UNCTAD, the degree of R&D internationalisation is high in chemicals, pharmaceuticals, electronics, automotive and IT sectors. Most of the strategic alliances in R&D were in the form of FDI. However, non-equity based technology alliances are increasing with formation of R&D consortiums and inter university linkages. Besides, transnational corporations are outsourcing their technology development activities to firms and research institutes worldwide, including developing countries. A survey conducted by UNCTAD has ranked USA and UK as the top most destinations for R&D internationalisation. Amongst developing countries, China has been placed as the top most destinations, followed by India. The trend is same for non-equity based R&D collaborations between developed and developing countries.

A survey conducted by R&D Magazine revealed that mostly private sector firms outsource their R&D activities, followed by independent R&D organisations, academic institutions and suppliers. The work that have been outsourced include new process innovations, new product innovations, component innovation, electronic design, materials innovation, system design and packaging design. Process Innovations include activities such as integrating new production methods, technologies that help improve efficiency, quality or time to market, or services associated with the sale of products.
The end results of process innovations include increase in bottom-line profitability, reduction of costs, improvement in efficiency and productivity and enhancement in employee job satisfaction. Process innovation also delivers enhanced product or service value to the customer.

- **Product Innovations** are the result of bringing to life a new way to solve the customer’s problem through a new product or service development that benefits both the customer and the sponsoring company.

- **Component Innovations** (or modular innovation) entail changes to one or more components of a product system without significantly affecting the overall design. Materials Innovations: Materials are the driving force for innovative product developments in industry. Innovative usage of materials influences the technological performance of industrial societies, improve the competitiveness of companies and reduce the ecological impact through an efficient use of resources.

- **Design Innovations** are meant for differentiating the products over others, through breaking new ground in performance, size, shape, capacity, durability, value or other attributes that makes consumers to select a product over another. Packaging Innovations changing consumer preferences and lifestyle trends have triggered the need for innovative packaging. In addition, packaging regulations continue to influence the demand for packaging innovation across the world.

### 4.4 Outsourcing of Market Research/Analytics

Competitive advantage in a global arena requires highly developed data analysis in areas such as market size, demand estimate, pricing strategies, competitive position, risk management, customer satisfaction and better service offerings. Market research analyses in such areas to avail of critical insights into core business principles and strategic policies. Global outsourcing market for market research and analytical activities is estimated to be valued at US $150 billion; of which about 2% are being off-shored. Market research and analytical activities that are being outsourced are in areas such as financial service (banking, insurance, mutual funds, bonds / securities), retail industry, manufacturing sector and utilities (telecom, healthcare). The segments of market research and analytics are described briefly below:

**Banking and insurance**

Analysis on accounts payable, accounts receivables, treasury and risk management, credit analysis, asset liability management, primary / secondary survey for credit card, consumer loans, insurance products are some of the activities included under this head.
4.6 Major segments of outsourced market research services
(Source: www.eximbankindia.com/op/op121.pdf)

Securities, investment banking and mutual funds
Research in securities, reference and market data management, analytical services for hedge funds, portfolio analysis and management are some of the activities included under this head.

Business / industry research and analysis
Industry and company analysis, mergers and acquisition trends and reasons, sector studies, inter-firm comparison, capital structure and credit analysis are some of the services offered under this head.

Primary and secondary market research
Questionnaire design, undertaking survey, database maintenance, demand / supply forecasting, market study and analytics, competitor profiling, customer profiling and segmentation, analysis of customer satisfaction, customer loyalty and customer lifetime for various products are some of the services included in this vertical.

Database management
Data acquisition, data entry, data warehousing, data processing, documentation and library services are included under this head.

Others
In addition to these popular verticals, mentioned above, there is also other domain an area in which outsourcing is increasingly taking place. These include outsourcing of HR (human resources) services online education services and software as a service, person-to-person outsourcing.

4.4.1 Outsourcing of HR Services
World market for outsourcing of HR services is estimated to be over US $ 40 billion in 2006. USA, with an estimated market size of around 50%, is the largest market for HR outsourcing. Popular HR activities that are being outsourced in the world include payroll services, skill development and training services, benefits administration services, recruitment and staffing services and administration and hiring of human resources. Off-shoring trend started in the HR outsourcing segment initially in the processing services, especially payroll services. This has been catered by the BPOs operating in India, Philippines, China and select South American countries. Subsequently, the off-shoring of HR services shifted its focus to employee benefits and administration and skill development and training. As a result, world-over, HR service providers are entering into large and complex contracts that require significant capital investment and excellent HR expertise. Alongside, the increase in number of contracts the time-span of the contracts has also increased from five years to nearly ten years.
4.4.2 Person-to-Person Outsourcing

Technological advancement and increasing ICT penetration into households make the possibility of outsourcing at individual levels. Many firms, principally from the small and medium segments, consider that person-to-person outsourcing (PPO) would improve significantly their cost efficiency in operations, as compared to the traditional model of firm-level outsourcing. Players in the offshoring industry believes that sizeable scope exists in placid activities such as translation, proofreading/editing, web-site development, designing, marketing and sales support services. KPO firms, such as Evaluserve, believe that many of the activities that are undergoing the off-shoring trends are at the beginning of their lifecycles and thus it is not ambiguous to predict a continuing trend in the long run. However, cost advantage is significant as the service provider has less overhead expenses and the sourcing firm is assured of timely delivery. Online Education Services Outsourcing of education services or coaching services, using the IT platform is another emerging area of KPO business. Though this is being practised in India principally to cater to the domestic demand, it is highly possible to extend such services to students from other countries also.

4.5 Software as a Service

Software as a Service (SaaS) is a new business model for software vendors, providing web-based access to applications, on a subscription rather than license basis. The model is predicated on a ‘one-to-many’ or multi-client delivery model, in which an application is shared by a number of clients. According to industry sources, growth in software usage under this model is increasing, especially due to demand from small and medium enterprises, who need not invest high resources in technology, hardware and ongoing support services.

4.6 Knowledge and Legal Process Outsourcing

From last decade, India has become a hot place for recruitment of talented employees in various sectors. Knowledge Process Outsourcing (KPO) industry has emerged as one of the highly paid and rewarding career options in monetary terms and incentives. KPO has excellent earning potential for the candidates having technical and analytical skills in their area of expertise including engineering, medicine, pharmacy, legal, architecture, finance, economics or journalism. Knowledge process outsourcing (KPO) is a form of outsourcing in which the knowledge related work is performed in an organisation or by a division of the same organisation, which may be in the same country or in an offshore location to save the cost. In contrast to the outsourcing of production or manufacturing, KPO has specific focus on knowledge expertise and high-value knowledge based work. In contrast to BPOs, the KPO professionals are not kept busy in receiving and replying to the customers’ phone calls only. KPO industry involves high-value tasks carried out by organisation.

KPO industry is always in need of candidates with proficiency in advanced information search, analytical, interpretation and technical skills along with the professional and decision-making aptitude. It is one of the growing fields and generating lots of job opportunities for candidates having proficiency in their domain. KPO is not restricted to a particular stream rather it prefers employees from diverse academic backgrounds. It helps in getting different perspectives for delivering quality work to the clients in global market. In last 5 years, there has been a strong requirement of engineers, CAs, doctors, MBAs, lawyers, research analysts, scientific researchers and PhDs. India has lots of intellectuals to full-fill the growing need of KPO industry in all the fields. In-depth domain knowledge with conceptual understanding is the key to success and growth in a KPO establishment. One can make full use of his/her educational qualifications and can earn a handsome salary package while working in a KPO.
Good performers and intelligent candidates have tremendous opportunities in KPO organisations in terms of growth, salary package, managerial responsibilities, positions and designation. KPO is a quick-money sector and provides long-term jobs as well. Well-educated, intelligent, knowledgeable, analytical and deserving candidates can make handsome money in this sector, far more than that is being paid in the BPO sector. India is a country rich in educated and talented people, competent in handling knowledge-based work and research with efficiency. India is famous in the world for its hardworking and intelligent people. With this talented pool, India has appeared as a global KPO hub with specialised knowledge workers in respective verticals. In a statement, former US President George W Bush also warned the American school children that if they will not gain the skills needed to compete with their counterparts from India and China, new jobs would go to those countries. He was addressing a magnet school in Maryland. Now it is the fairy tale and moreover misconception that Indian companies are having “Software Labour or Software Coolies”, but Indian stuff is now preferred in almost every stream. India has a pool of sharp knowledge workers in different sectors ranging from Pharmacy, Medicine, Law, Biotechnology, Education & Training, Engineering, Analytics, Design & Animation, Research & Development, Legal, Paralegal Content and even Intelligence services.

This talented generation is now given attention by leading business giants across the globe which results in the outsourcing of high-end processes to low-wage destinations. KPO organisations, in addition to providing expertise in the processes themselves, often make many low level business decisions - typically those that are easily undone if they conflict with higher-level business plans. KPO industry is more concerned on value chain rather than a traditional BPO company that provides basic backend or customer care support. Knowledge Process Outsourcing (KPO) is concerned with the highly skilled outsourcing services including document writing, global filing, prior art searches, legal advice on infringements, invalidation search, freedom of use search, executing standardised processes and requires advanced analytical and technical skills. The KPO services that are outsourced to India are:

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

India has hardworking and proficient knowledge workers to meet this emerging sector’s challenges and bringing foreign currency in India.

### 4.7 KPO Delivery

When it comes to the KPO delivery model, one size does not fit all. Currently, three key KPO delivery models exist, which are:

- Offshoring through affiliated legal entities in India, which can be thought of as “Captive KPO”
- Contracting with unaffiliated third party vendors, or what can be called “Third Party KPO”
- Partnering with local entities to share control of local operations used for delivery of KPO services, or “Joint Venture KPO”
Each model has its own advantages and risks and should be evaluated carefully so as to identify and assess the relative pros and cons for a particular KPO strategy. Businesses should adopt different delivery models for different situations, taking into account variables such as the nature and scope of the activities to be off-shored, previous offshoring experience, concerns about security and control of intellectual property (IP), risk tolerance, tax considerations and budgetary constraints. For example, Third Party KPO can be more quickly implemented and often can offer greater flexibility in access to talent, scalability and cost structure. But it also yields to the third party more control over day-to-day operations and the handling of sensitive data and IP and creates more reliance on the foreign host country’s legal regime and the timely enforcement of contracts. In comparison, a Captive KPO model usually requires more time to implement and provides less flexibility to ramp up or down quickly, but it ensures substantially more control over the management of the offshore operations and the company’s sensitive data and IP and less dependence on foreign enforcement of contract rights. A KPO customer should consider adopting the Captive KPO strategy if the scope of KPO involves a substantial transfer to India of the customer’s critical proprietary technology, IP, or data and the enterprise cost of possibly losing control over some meaningful component of any of those assets is high.

In India, KPO initially took hold in captive centres through the establishment of local subsidiaries and reportedly over 50 percent of offshore business in India is currently Captive KPO. But as the Indian KPO market matures and the business, legal and regulatory environment there continues to advance and stabilise, businesses can be expected to increasingly leverage the Third Party KPO model in light of the advantages that model offers in terms of flexibility, scalability and range of expertise. Regardless of the delivery model, KPO invariably requires the customer to disclose and share knowledge-intensive processes with the offshore provider, which knowledge may be in the form of proprietary technology, software, chemical entities, specifications, product designs, business processes, methodologies, drug formulations, or other sensitive data. Accordingly, the substantial benefits that KPO in India offers must be seen as “hand in hand” with the unique and heightened risks inherent in the transfer of customer-owned knowledge to India. These risks must be carefully considered upfront and mitigated to realise the full benefit of KPO to India.

4.8 Benefit to Client

The benefits to client are given as follows:

- Cost savings, converting fixed costs into variable costs
- Operational efficiencies: Flexibility for companies to add or reduce personnel based on business cycles and the continuous execution of work by taking advantage of different time zones
- Access to highly talented workforce
- Improved quality from domain expertise
- Reduction of design-to-market lead times

4.9 Productivity Enhancement

Of all the benefits accrued by a BPO, productivity enhancement is quite significant. A successful and lucrative outsourced business process saves the executives plenty of time, which otherwise they would have expended in mundane managerial activities rate than strategy formulation. The time thus saved is invested in exploring new areas, accelerating other projects and focusing on their core areas. This, undoubtedly, leads to productivity enhancement. Companies that outsource their business processes are often able to capture new efficiencies and in the process improve upon their productivity. They are in a better position to reallocate their resources to other important projects. This also helps their employees to increase their efficiency and productivity. In most cases, high-calibre subject-matter experts are brought in to design and manage these processes. They bring with them increased productivity and years of experience that most companies don’t have access to or can’t afford on their own. Availability of highly qualified skill pool and faster adoption of well-defined business processes leads to productivity improvements without compromising on quality.
4.10 Focus on Core Competency

Another benefit of outsourcing one’s business process is to have the span of focus on the core areas. A firm’s competitive advantage is derived from those capabilities that are unique, inimitable and non-substitutable. These capabilities constitute the core competencies of the firm. According to the competence approach, a firm may outsource activities other than its core competencies. For example, a firm should outsource its IT activities if IT is not part of its core competencies. Business Process Outsourcing gives tremendous help to the companies to concentrate more on the core areas of their business. The most important factor behind the growth in the BPO market worldwide today is an increase in the number of enterprises that are reviewing their internal operations in an attempt to fully understand their true core competencies. In the process they are able to focus more on their core competencies. Companies generally outsource processes to reallocate accountability and control costs.

Thus the management is in an improved position to concentrate on core areas and not keep itself engrossed in other non-core areas. BPO gives more freedom to the management to focus more time, energy and resources on building the company’s core businesses. It is because the BPOs assume full responsibility for managing the day-to-day back-office operations. Once outsourcing of certain processes takes place it becomes easier for the company to compare and evaluate the efficiency and effectiveness of services that are being delivered from outside and inside. This decision-making process often includes an evaluation of the cost of owning technology with its associated support costs, which are not core to the enterprise (HR is one such example). This trend is leading to an increased keenness to outsource processes that are considered non-core, yet critical activities. These critical activities include claims administration, HR services and payment services.
**Summary**

- Sourcing select or entire design and engineering requirements of an organisation from external service providers may be termed as Engineering Process Outsourcing (EPO).
- Engineering process services were earlier categorised under the R&D activities in the areas such as aerospace, automobiles, electronics and telecom.
- Manufacturing support and process planning is expected to be the lifeline of manufacturing business.
- Reverse engineering services have emerged as a key aspect in compressing development cycles and achieving cutting edge product design.
- Though LPO is one of the risk prone areas (given the issues of confidentiality) to be outsourced, demand is growing across the world with the objective of gaining efficiencies by focusing on core competencies.
- Paralegal Services means provision of legal support by managing various aspects of litigation, including handling preliminary investigations, drafting documents, interrogating witnesses, depositions and trials.
- Rising Research and Development (R&D) costs, increasing risk and complexity of technological development and intense competition in domestic and global markets force global firms to locate their R&D activities out of home loan borders.
- According to UNCTAD, the degree of R&D internationalisation is high in chemicals, pharmaceuticals, electronics, automotive and IT sectors.
- Product Innovations are the result of bringing to life a new way to solve the customer’s problem – through a new product or service development – that benefits both the customer and the sponsoring company.
- Technological advancement and increasing ICT penetration into households make the possibility of outsourcing at individual levels.
- Knowledge Process Outsourcing (KPO) industry has emerged as one of the highly paid and rewarding career options in monetary terms and incentives.
- Knowledge process outsourcing (KPO) is a form of outsourcing in which the knowledge related work is performed in an organisation or by a division of the same organisation, which may be in the same country or in an offshore location to save the cost.
- Once outsourcing of certain processes takes place it becomes easier for the company to compare and evaluate the efficiency and effectiveness of services that are being delivered from outside and inside.

**References**

Recommended Reading

**Self Assessment**

1. __________ involve activities such as back-to-front process in which the working of an existing product is analysed to create a superior improved design.
   a. Reverse engineering
   b. 3D Modelling
   c. CAD Conversion
   d. Sourcing select

2. Match the following

| 1. Engineering process services | A. Involve digitisation of paper drawings; documentation management. |
| 2. Machine design and development | B. Involve activities such as developing concepts and mechanisms for machines. |
| 3. Paper to CAD Conversion | C. Categorised under the R&D activities in the areas such as aerospace, automobiles, electronics and telecom. |
| 4. 2D / 3D Modelling and Services | D. Involve surface modelling, prototype design, assembly and manufacturing models. |

   a. 1-B, 2-A, 3-D, 4-C
   b. 1-A, 2-B, 3-C, 4-D
   c. 1-C, 2-B, 3-A, 4-D
   d. 1-D, 2-C, 3-B, 4-A

3. __________ involve automated mapping and facilities management, conversion services, documentation and centralised retrieval services, layering services.
   a. 3D rendering services
   b. 2D / 3D modelling and services
   c. Finite element services
   d. Architectural design and documentation services

4. __________ involve activities such as improving product development cycle through engineering simulation techniques to optimise efficiency and functionality of existing designs.
   a. 3D rendering services
   b. 2D / 3D modelling and services
   c. Finite element services
   d. Architectural design and documentation services

5. Sourcing of legal processes, both low-end and high-end services are called as __________.
   a. reverse engineering
   b. legal process outsourcing
   c. knowledge process outsourcing
   d. research and development
6. __________ are the result of bringing to life a new way to solve the customer’s problem through a new product or service development that benefits both the customer and the sponsoring company.
   a. Product innovations
   b. Component innovations
   c. Design innovations
   d. Packaging innovations

7. Changing consumer preferences and lifestyle trends have triggered the need for innovative __________.
   a. materials
   b. packaging
   c. design
   d. product

8. __________ is a form of outsourcing in which the knowledge related work is performed in an organisation or by a division of the same organisation, which may be in the same country or in an offshore location to save the cost.
   a. Knowledge process outsourcing
   b. Legal process outsourcing
   c. Reverse engineering
   d. Research and development

9. Which of the following statements is false?
   a. A firm’s competitive advantage is derived from those capabilities that are unique, inimitable and non-substitutable.
   b. Business Process Outsourcing gives tremendous help to the companies to concentrate more on the core areas of their business.
   c. KPO is restricted to a particular stream and it prefers employees from limited academic backgrounds.
   d. Players in the offshoring industry believes that sizeable scope exists in placid activities such as translation, proofreading / editing, web-site development, designing, marketing and sales support services.

10. __________ involve provision of sequential description of each phase of construction; planning and estimation of cost; cost estimation and quality assurances.
    a. Reverse engineering
    b. Construction drawings
    c. CAD conversion
    d. Landscaping and interior design
Chapter V

Advantages of KPO in India

Aim

The aim of this chapter is to:

• explain the concept of KPO industry
• elucidate advantage of KPO in India
• explicate the stages of evolution in India

Objectives

The objectives of this chapter are to:

• define the sub sectors of the KPO industry
• explicate anticipated growth of KPO industry in India
• enlist the characteristics of KPO

Learning outcome

At the end of this chapter, you will be able to:

• understand the knowledge process offshoring advantage in India
• analyse the succeeding in KPO
• identify different models in KPO
5.1 Introduction

A number of industry verticals are introducing the use of externally sourced KPO capabilities in their target operating models which can support fee-earning activities. This is in response to increasing pressure on financial performance and the need to maintain competitive positioning. Leading organisations strive to retain their leadership role by constantly re-evaluating their strategy, performance and operating model. This is particularly true for highly competitive industries like Investment Banking, Insurance and the Law. Investment banks were early adopters of new operating models which encompassed the use of externally provided services for their back office functions such as technology and operations. This change in the operating model was used to deliver cost savings, access to skilled resources and to off-set the typical investment in training and retaining skilled staff. Investment banks also saw the potential to drive new operating models for other corporate-level functions by applying sourcing strategies to functions such as human resources and procurement and facilities management. Insurance and Law verticals have also sought to change their operating models for group-wide functions by sourcing services from external service providers or developing captive shared service centres in low cost locations.

5.2 Evolution of KPO

In this knowledge era, our success depends on what we know and what we do with what we know. The changes that we are going through are mind-boggling. The evolution and maturity of the Indian BPO sector has given birth to yet another wave in the global outsourcing scene: KPO or Knowledge Process Outsourcing. The success in outsourcing business process operations to India has encouraged many firms to start outsourcing their high-end knowledge work as well. Cost savings, operational efficiencies, access to a highly talented workforce and improved quality are all underlying expectations in off shoring high-end processes to India. India’s intellectual potential is the key factor for India being the favoured destination for K.P.O industry. Some of the factors fuelling growth in KPO are: Developed economies, such as the US, the UK and countries in Western Europe are increasingly facing a shortage of highly trained and specialised professionals in various knowledge-intensive high-skill sectors, such as R&D in VLSI, engineering design, IT, financial risk management and many more. Buyers of off shoring services save more at the high end of the value chain, as compared to the low end on a per-job basis. High quality specialised vendors and successful captives have emerged as role models and created awareness for KPO, both in the West as well as in India.

During the late 1990s, the success of Information Technology and Business Process Outsourcing to low-wage countries and the resulting cost savings prompted several multinational companies to experiment with outsourcing higher-end knowledge-based work. For example, in 1997, General Electric’s captive unit in Bangalore, India, started providing services related to risk analytics to GE Capital (worldwide). During 1998-99, American Express’ wholly owned subsidiary in Delhi-Gurgaon, India, started performing risk and credit analytics for several of its credit card divisions worldwide. McKinsey and Company started its own captive centre (called McKinsey KnowledgeCentre) in 1998 in Delhi Gurgaon, India, which started providing market research, business research and data analytics services to more than 6,000 of its consultants worldwide. Although a few companies began providing higher-end, knowledge-based services as early as 1997, this trend did not gain much momentum until 2003 and it was Evaluserve’s Chief Operating Officer, Ashish Gupta, who coined the term Knowledge Process Outsourcing (KPO) in September 2003, in an effort to differentiate between his firm’s services and those of the established BPO firms. “KPO” has since come to refer to those outsourcing activities that require significant domain expertise (for example, market research, business research, investment research and data mining).

Since a seminal report in 2004, the acronym KPO has become part of the lexicon of the outsourcing industry worldwide. Indeed, more than fifteen independent articles have been written on this topic (including those from Deloitte Consulting, TPI and Price Waterhouse Coopers); at least twelve firms providing such services have KPO as part of their name; there are at least five annual conferences worldwide that are solely about KPO (and some even have “KPO” as part of their names); about 120 captive units of large multinational companies are providing KPO services to their offices in North America and Europe; the majority of the mid-sized and large IT and BPO companies in India have a KPO division; and there are at least 282 “niche” companies in India providing third-party KPO services.
5.3 Stages of KPO Evolution in India

In the late nineties, few high profile knowledge-based organisations (such as Mc Kinsey) from developed countries have set up captive centres to undertake high-end knowledge based activities in India. Later on, several BPO units (such as Progeon now merged with parent entity Infosys, WNS, Office Tiger, WIPRO Consulting, Accenture, Integreon, Mphasis) have moved up in the value chain and started offering knowledge-based services in KPO domain. Following the transformation of BPO units into KPO units and setting up of captive centres by global consulting/knowledge-based firms in India, several third party KPO units have emerged in India to make use of the talent-base available in India.

Another transformation happened with several global knowledge-based/consulting firms (such as Goldman Sachs, Morgan Stanley, J P Morgan) have established their captive centres in India. KPO activities are increasingly gathering popularity as a promising sector in India that could generate foreign exchange for the country, while providing employment opportunities. After successfully doing business, some of the Indian KPO units are also going abroad to set up their operations. In such models, though it is not direct off-shoring of knowledge based activities to India, Indian KPO units stand to gain by offering their services from third country markets, to clients from developed countries, taking advantage of time difference and skill availability in select verticals. Some firms are also strategically setting up marketing /sales offices abroad, to tap the business potential in various markets. Such strategies help Indian firms to specialise in domain knowledge to suit the end-user requirements.

Many knowledge-based firms have evolved out of BPO domain and thus are well aware of the need for data/ information security. Many firms that have BS 7799-2 standards are moving towards ISO 27001 standards. The trend has mandated the new entrants in this industry also to go for ISO 27001 certification to assure the clients about the quality in data security.

5.4 KPO Industry

The biggest customers of KPO services would include market research and consulting firms, investment banks and financial service institutions, media, publishing and database firms, pharmaceutical and biotechnology companies and corporate planning departments of large Fortune 500 companies. Several global players such as McKinsey, Goldman Sachs, Reuters, IMS Health, J. P. Morgan, A. C. Nielsen and the W.P.P. group are already using India as a remote base for knowledge-intensive processes. Even in the R&D area, contract research organisations are being widely used by pharmaceutical companies. Destinations such as India offer significant cost advantages- often as much as 40% to 60%. Recently, companies such as AstraZeneca and Glaxo-SmithKline have set up offshore drug discovery centres at low-cost destinations for R&D work. In spite of the promising opportunities that the KPO industry offers, executing KPO projects is not easy and requires a more professional culture than what is found in BPOs. Processes executed within the KPO domain require higher quality standards because the stakes for the clients are high. Furthermore, the clients are likely to have apprehension about the quality of the services delivered (especially by low-cost destinations like India) and these may be difficult to alleviate.

- Being a new industry with a diverse workforce, the key challenge in the management of a KPO firm as perceived by most leaders in the KPO industry is the identification of performance criteria- setting the right expectations with the client as well as its own professionals, continuous assessment and monitoring, constructive feedback, appropriate coaching and mentoring as well as identification of the right career paths for the diverse profile of its professionals.

- However, these factors will not impede the growth of the KPO industry. In fact, the protectionist lobby and their anti-BPO drive in the USA and the UK has helped global off-shoring and, in particular, global KPO by providing free publicity. Evaluserve estimates show that between June 1, 2002 and May 31, 2004, India Inc. alone received more than USD 89 million in free publicity from more than 1,980 distinct articles in newspapers and magazines and over 210,000 distinct references and “threads” in the U.S.A and U.K.

- As a country, India needs to work much harder for more companies to flow into the KPO pool. A few companies abroad are still skeptical about outsourcing high-end services for varied reasons such as data security issues, professionalism and quality concerns, unstable political and regulatory climate. Enacting stringent data security laws, ensuring high-class transportation, communication and power infrastructure uniformly throughout the country are some of the government initiatives that would aid the growth of this industry.
• The typical KPO functions that these companies would be providing are intellectual property or patent research, patent filing, R&D in pharmaceuticals and biotechnology, data mining, database creation and a range of analytical services such as equity research, competitive intelligence, industry reports, insurance underwriting, risk assessment and financial modeling. The most exciting part of the industry is that the whole range of these high-end services would be provided from a remote location using the power of information technology. KPO thus relies on high degree of human capital and IT enablement unlike the low human capital quality and low IT enablement that drove the BPO revolution.

5.4.1 Features
As KPO has also emerged out of the traditional cost-quality paradigm, on which BPO industry thrives, KPO is being regarded as next stage in the outsourcing value chain. Many firms have been recognising the importance of low-cost knowledge as a key strategic tool to lower the operational costs and to compete in the world market. However, it may be noted that emergence of KPO is not purely on cost competitiveness alone, but also on the value of knowledge that increases sustainable competitive advantage. KPO thus is considered to be providing higher business value to a firm that outsources its knowledge activities. Some of the end-users of KPO services include market research and consulting firms, investment banks and financial services institutions, industry associations, publishing house/media, database companies and corporate planning department of large corporate groups.

5.4.2 Categories
Knowledge processes that are being sourced from developing countries are not restricted to few domains. The range of services that are being availed is increasing day by day. At present, major categories of domain knowledge that are being increasingly outsourced by developed countries include legal process, engineering design, research and development, market research, business intelligence and data/information management and financial services research. Industry estimates put verticals such as data search, information management and market research and business intelligence sectors as fastest growing segments in KPO. Areas such as engineering and design, animation and simulation services, legal processes, financial services are estimated to be having low business volume, at present, but have huge growth potential.

5.4.3 Market Size
Global market size for the Knowledge Process Outsourcing is estimated to be US $ 1.5 trillion; of which about 2% is being off-shored to other countries. Countries that are involved in KPO business include India, China, Philippines, Russia, Ireland, Israel, Mexico and Brazil. India is estimated to be having a share of 29% of world KPO business. Industry estimates reveal that much of KPO’s growth is expected to come from Small and Medium sized Enterprises (SMEs) across the developed countries, who are eyeing the potential of leveraging KPO to improve their global competitiveness. It may be mentioned that so far KPO has been the strategy adopted predominantly by large corporate.

5.4.4 Demand Drivers
Various factors would influence the demand for KPO in the global market place. Domain expertise will be the principal driver for offshoring a knowledge process vertical to another country. This may be occurring due to non-availability of particular domain expertise in local market or cost-advantage of sourcing from another country. A country having skill-sets along with cost competitiveness would score high and become ideal destination for sourcing knowledge based services. Language skill is another important demand driver for sourcing knowledge based services across borders. BPO business thrived in many developing countries leveraging the availability of proficiency in English language. There are also other demand drivers such as time-zone/location, response time and regulatory framework (both in sourcing and sourced countries).

5.5 Characteristics of KPO
A business process that is repeatable, scalable and that does not require the physical presence of a worker near the client can theoretically be outsourced and offshored; this forms the basis of Business Process Outsourcing or BPO. A Business Process Outsourcing or Offshoring firm’s function can be simply defined as follows: it acquires a process from the end-client and runs it at its site until the process has reached its logical conclusion, after which it sends
the results— if any— to the client. In contrast, a KPO or Knowledge Process Outsourcing firm functions at a higher level and can be differentiated from BPO firms in the following ways:

- A KPO firm requires substantially more domain expertise (unlike a BPO firm, where the skills can usually be taught in a matter of days or weeks). In fact, Knowledge Process Outsourcing and Offshoring is an area where professionals continue to learn, just as doctors and lawyers undergo continuous training to learn new treatments and procedures and newer interpretations of existing laws. Hence, it is not surprising that training such professionals can range anywhere from two months (in Market Research & Data Collection) to a year or more (in Intellectual Property). Consequently, a good KPO firm is likely to care more about the depth of knowledge and experience and the judgment skills of its professionals than just its size.

- Not surprisingly, experienced professionals can leverage their expertise to generate more revenues for the KPO firm. Such professionals can earn anywhere between $80 and $500 per hour in the US, Canada or the UK and between $20 and $100 per hour in India. Clearly, the more experience its professionals have, the more the firm can earn. For example, an Indian Telecom Expert with ten years of experience can easily fetch up to $100 an hour, whereas a corresponding professional with two years of experience only fetches about $30 an hour.

- Since domain expertise is the key factor, not only companies but also countries can easily differentiate themselves from each other. The countries that will emerge as strong contenders in the KPO business are those that have large numbers of engineers, medical doctors, graduates in sciences and technology (including biotech and pharmaceuticals), MBAs, certified financial analysts, accountants, statisticians, lawyers and many more. Low-wage countries that seem to have these professionals in large numbers include India, China, Russia, Poland, the Philippines, Hungary and many republics from the erstwhile Soviet Union.

- Most KPO projects are smaller by a factor of 5 to 10 than the corresponding BPO projects. Furthermore, the salespeople selling KPO services need to be well versed in these services and to have the required domain expertise in order to be credible. In this regard, a typical KPO firm lies somewhere between a BPO firm on one hand and a consulting firm on the other.

- The fifth facet of a KPO is the scalability factor of the process wherein the methodology is similar but there is a premium placed on domain expertise. Research and development departments of global high-technology companies (for example, IBM Research) and consulting companies cannot be considered KPO firms and, not surprisingly, such organisations take substantial time to reach scale. For example, IBM Research took nearly 50 years to reach 3,000 researchers and McKinsey took 75 years to get to 6,000 consultants. In contrast, a pure KPO firm like Evalueserve may only take ten years to reach 6,000 professionals globally.

- The last but probably the most important distinction between a KPO firm and a BPO firm is that in a KPO firm, the client is involved during the entire execution process. Furthermore, the offshoring company providing KPO services may only contribute 70-95 percent of the work-product, with the Client contributing the remaining 5-30 percent by providing the appropriate direction to the KPO firm or by otherwise adding value to the work-product.

In other words, the relationship between a KPO firm and its client is more of a partnership and less of an arm’s length, client-vendor relationship. Although most Knowledge Process Offshoring services are being provided from India, countries such as the Philippines, Russia, Ukraine, Poland, Hungary, China and South Africa are beginning to provide more and more KPO services. Indeed, in the near future, Knowledge Process Outsourcing and Offshoring is likely to be driven by factors such as breadth and depth of coverage, domain expertise, location advantage (for example, near-shoring and language capabilities), sales and marketing capabilities, data compliance with respect to regulatory standards (especially those defined by the United States, Canada and the European Union) and the management of business risks. Hence, it is quite likely that companies both those with their own captives and those that use third-party vendors— may use a “hub and spoke” model, in which a provider in India may constitute the “centre” and other units around the world may provide the appropriate “spokes.”
5.6 Changing Dimension of KPO Units

KPO sector is increasingly gathering popularity in India as a promising sector that could generate foreign exchange for the country, while providing employment opportunities. KPO units are innovating to add more domains to serve their international customers. Earlier, medium-end knowledge based activities were being carried out by the BPO units; however, new KPO units have embarked into higher-end knowledge based domains like legal processing, engineering processes and R&D processes. These units are competing with the introduction of newer innovative solutions in the knowledge domain addressing various international requirements. These include animation, publishing, web-services, content development, education, research, nano technology, management of IT infrastructure, application operations, IT security and maintenance.

After successfully doing business based in India, some of the Indian KPO units are also going abroad to set up their operations. In such models, though it is not direct offshoring of knowledge based activities to India, Indian KPO units stand to gain by offering their services from third country markets, to clients from developed countries, taking advantage of time difference and skill availability (including language skills) in select verticals. Some firms are also strategically setting up marketing /sales offices abroad, to tap the business potential in various markets. Such strategies help Indian firms to specialise in domain knowledge to suit the end-user requirements.

Many knowledge-based firms have evolved out of BPO domain and thus are well aware of the need for data/information security. Many firms that have BS7799-2 standards are moving towards ISO 27001 standards. The trend has mandated the new entrants in this industry also to go for ISO 27001 certification to assure the clients about the quality in data security. This is especially required in LPO vertical.

5.7 The Indian KPO Advantage

The following are some of the advantages of the KPO industry in India:

- India has taken a lead in the knowledge process outsourcing space, better known as KPO. However, the services have been around for more than sometime, for example in Australia, but were not tagged with the popular acronym. According to Pradeep Ulhas, global head, sourcing advisory at KPMG India, told the Nasscom India Leadership Forum 2008, the industry started to leverage cost advantages, but that is no more the case. Now, it’s all about intellectual arbitrage, with factors such as skill availability, locations and decisions such as captive or third party centres at the forefront of the industry.

- Adding further, Egidio Sarrella, better known as Edge, global partner for IT advisory practice at KPMG, said that it’s now about unlocking the core. Wetware is what it is about now, according to Edge, which simply put, translates as the power of using your brains.

- Edge says that if you’re doing this kind of work at USD40 an hour, it’s not KPO. It is now about intellectual arbitrage, with the top end of the market showing amount in excess of USD 100,000 a resource in markets such as Singapore, which are more developed in this regard and provide niche, high end advisory services.

- Edge opines that India has the people to remain number one in this industry, as KPO is a long term play, with an average time span of at least eight years before a person can give that strategic advice to customers based on knowledge, experience and insights. You do not need volume, you need niche, he says, emphasising that it is not about the numbers. Edge foresees the number of boutiques, specialised small players in the KPO space, as exploding in times to come.

- Meera Sanyal, country executive at ABN Amro Bank India and Chairperson of the banks outsourcing initiative ACES, added that KPO is also about skills that are no longer available in different geographies, adding that ACES is now evolving from a BPO, outsourcing setup into a captive KPO and is providing its services in fields such as trade finance that help unlock working capital, for up to 94 per cent of the bank. It is also starting to provide services in analytics and risk management.

- Ranbir Singh, chief operating officer of J. P. Morgan Services India summed it up best, saying, you have to be able to differentiate in the space. Who provides the best value proposition is where the game goes.
5.8 India-The World’s Largest KPO Destination

Reducing your operating costs can help you stay in business during this time of global recession. In an effort to cut costs, companies in the United States, Europe and Australia are turning to offshore KPO destinations, like those in India. Many are already beginning to experience the advantages of KPO and many more have successfully seen the results. Indian companies have a long history of providing services for the IT, ITES and KPO industry. Choose India as your offshore partner for your KPO requirements and get access to the offshore KPO advantages that India offers. Indian KPO providers can handle almost any kind of knowledge-related work or information-related work. One advantage that India has over other countries is its skilled and qualified resources.

Top 5 benefits of outsourcing knowledge process outsourcing to India:

- Get proficient KPO services at a cost-effective price. With India as your partner in KPO services, you can save more than half of your current operating cost.
- KPO services cannot be provided by just about anyone. For quality KPO services, you require highly qualified professionals who are very knowledgeable and skilled. You can get access to such professionals at Indian KPO companies.
- You can be assured of the security of your confidential information as most Indian KPO service providers take the security of data very seriously.
- By outsourcing KPO services, you can concentrate more on your core business functions while your offshore partner handles all your KPO requirements.
- Indian KPO providers use the latest in software, technology and infrastructure. You can be assured of error-free work and speedy deliveries.

India has been the pioneer in providing outsourcing solutions, offering a range of services to companies across the globe. Over the years, India has established a culture of trust with companies worldwide. Outsourcing to India gives you access to high quality services at lower costs. India’s resource pool is vast, highly qualified and growing with access to high-end technology. Outsource2india, a pioneer in outsourcing, has years of experience in providing KPO services to companies across the globe. With Outsource2india as your partner, you can get access to proficient KPO services at a cost-effective price and within a quick turnaround time. A pioneer in outsourcing services, Outsource2india provides technology-driven solutions to more than 5400 customers in over 45 countries. They offer a range of services including highly specialised ones in domains like Engineering, Financial, Web Analytics, HR and more.

5.9 Different Models of KPO

Any company that operates in the manufacturing or the services sector, namely, Telecom, Banking, IT and many more, needs to use the services of a KPO. The objectives that drive the decision of the business model for the KPO is in line with gaining maximum advantage, that is:

- saving money by lowering costs
- improving the quality of the service provided

But the real decision as to which business model is adopted depends on several other factors which are strategic in nature. There are basically three broad models followed by the KPOs all over the world:

- Captive KPOs: The offshore units of the parent organisation dedicated to KPO
- Third-party outsourcing: Pure-play KPO players who provide services to firms across all domains
- Hybrid Model: A complex model involving both the captive component as well as third party vendor interaction
5.10 Anticipated Growth of KPO Industry in India

According to the Evalueserve study in 2007, the development of the more nascent Indian KPO industry is showing very strong similarities to that of the IT industry. Both offshoring industries started with captives and in time saw the emergence of vendors. There are even some indications that the KPO industry is developing more quickly than the IT industry did ten years ago, since the fundamental business model of offshoring was already established when KPO started. However, the average deal size in IT is bigger than in KPO, which implies more complex and distributed marketing and sales in KPO thereby neutralising the above effect to some extent.

5.10.1 Knowledge Process Offshoring: India Advantage

The evolution of KPO needs to be understood from the perspective of the strengths of India as a destination and driver of the KPO phenomenon. Analysts put cost advantage, as one of the most significant drivers of KPO business. Another critical driver is the prevailing shortage of skilled human resources in developed countries, like the USA and EU. It is expected that, by 2010, there will be a shortfall of 5.6 million skilled professionals in USA and 700,000 in UK. This, coupled with the cost advantage, has resulted in high annualised growth in various KPO verticals in India.

5.10.2 Advantages in Off-Shoring of Engineering Processes to India

It is estimated that India is currently receiving about 30% of global EPO opportunities, valued at around US $6 billion. There are several key advantages, which India has in its fold. In India, public sector firms, defence research establishments and private organisations continue to be in the forefront of engineering design and innovation. Another major reason for growth in offshoring of high-end engineering and design services to India is availability of engineering talent (about 300,000 students graduating every year). Average starting salary of Indian engineers is estimated to be one-tenth of average salary prevailing for engineers in developed countries. There are estimates that India offers overall cost reduction of 25% in EPO business. India also holds significant expertise and experience in handling outsourcing opportunities in technology processing segments. End user segments of engineering services, such as automobiles, aerospace, construction/erection of industrial plants, electronics and telecom, are having vibrant presence in India. India’s strengths in such end-user segments are also globally recognised.

5.10.3 Advantages in Off-Shoring Legal Processes to India

India has the world’s second largest legal profession with more than 600,000 lawyers. India is currently having a share of 20% in global LPO market (approximately US $400 million). India holds significant advantage in various parameters that work in favour of driving the LPO industry towards India. The legal system in India, the USA and in the UK are rooted in British common law, making the Indian lawyers to be efficient, without much additional training to undertake standard legal work. Over the years, the legal system in India has undergone changes with the increasing globalisation of Indian economy. This has enabled transformation of Indian lawyers into global service providers. Since liberalisation, Indian lawyers have been gaining dynamic experiences in handling of cases spanning fields such as banking, telecom, insurance and power, civil aviation, transportation, which were largely under the purview of public sector. In addition, experiences are being gained in areas related to taxation, mergers and acquisitions, joint ventures, intellectual property rights, foreign direct investment and special economic zones. As far as institutional expertise is concerned, India has over 750 law colleges graduating about 30,000 lawyers every year. It is estimated that off-shoring legal work to India saves about 80% of the cost that may be incurred in a developed country like USA.

5.10.4 Advantages in Off-Shoring R&D Processes to India

World market for R&D outsourcing is estimated to be over US $100 billion, of which off-shored R&D is estimated to be valued at US $8 billion. R&D offshoring to India is estimated to be over US $2 billion. The decisions to undertake R&D investments in India have been governed by various factors such as the regulatory environment, availability of qualified researchers, existing education and institutional framework and the range of global alliances and sub-continental relationships formed by the Indian industry. In addition, the manufacturing capabilities and availability of resources are other determinants to position India as a R&D hub.
Another important determinant of R&D locations is proximity to the market. India being a large market itself and having close proximity to many developing Asian markets, further the scope of India becoming a R&D hub. India has the fourth largest reservoir of scientific manpower in the world, with more and more students showing interest in the science field. There are about 3000 R&D institutions in India, including national laboratories, R&D institutions in the central, state and non-government sector and R&D units in the industrial sector. In addition, the cost of a researcher in India is one-fifth than that in USA or Europe. Government of India has amended and introduced a number of acts in accordance with the changing environment and the requirements of WTO. Over the years, Indian R&D professionals have developed domain knowledge in various R&D intensive sectors such as automobiles, pharmaceuticals, engineering, IT and telecom. Many Indian firms have formed global alliances or sub continental relationships with transnational corporations. More than 100 Fortune 500 companies, such as Delphi, Eli Lilly, GE, Hewlett Packard, Daimler Chrysler, Novartis, Volvo, Bosch, have put up product development / R&D facilities in India in the past few years. Advantages in Off-shoring Market Research and Analytics to India World market for off-shoring of market research and analytics is estimated to be little less than US $ 2 billion. India, which is currently having a MRO size of US $ 600 million, is considered as a growing market for MRO with world’s leading research and analytics firms setting up their offices, to cater to both captive and third party demand.

There are several drivers for offshoring of market research and analytics activities to India. Management education in India has made rapid strides since liberalisation. These institutes churn out thousands of students every year, some of them possess higher degrees in streams such as engineering, technology, commerce, economics and science. India also holds significant domain knowledge in various market research segments. These include consumer research, research in financial services and research in money market, equity market and foreign exchange market. Indian researchers have also acquired domain knowledge in US-GAAP, with an increasing number of Indian multinationals adopting the US-GAAP norms. The continuing efforts by the Securities and Exchange Board of India, to upgrade the corporate governance framework in Indian stock markets, have positioned Indian stock markets at an above-average level vis-a-vis other emerging market economies.

In the last few years, Foreign Institutional Investors have shown renewed interest in Indian stock markets. The players in Indian stock markets have developed skills in equity research, in a global context, with the introduction of derivative products. These factors have also brought in many global market research/management/investment consulting firms into India. India’s relatively low real estate cost and salaries have attracted several market research organisations/consulting firms to set up captive research centres in India. Leading rating agencies such as Standard & Poor’s, Moody and Fitch have established their presence in Indian market, undertaking firm and sector specific research. Presence of these agencies are creating spill over effects in Indian market with medium sized consulting firms paving entry into Indian market.

5.11 Succeeding in KPO

Nature and type of knowledge work is complex and companies must consider several factors before outsourcing knowledge work. Following are some of the factors companies should pay close attention while deciding in their KPO efforts.

**Process fragmentation**
Organisations must identify if a process can be easily sliced into smaller unit of works that can be transferred to offshore locations. If not it is impossible to offshore the knowledge work.

**Global project management**
Any type of KPO work needs global project management skills as the work is carried out in different countries and possibly in different time zones. Some type of knowledge work is not possible to manage globally and those types of KPO projects should not be offshore.

**Intellectual Property Rights (IPR)**
Several vertical industries like Equity Research, Pharmacy R&D, Software Product Development; Engineering R&D needs works that are protected by Intellectual Property Rights. Protecting IPR should be one of the key considerations for western companies to consider the countries before outsourcing knowledge work.
Legal issues
Some knowledge work like Medicine, Medical Tourism, Law and Accounting limits the scope of services that can be outsourced to other countries. The litigation environment that surrounds these works further makes it difficult to perform the work in other countries. This type of knowledge work may not suitable for outsourcing to other countries.

Skills availability
For BPO work, availability of skills in different countries can be easily identifiable based on the number of graduates and English speaking population. But for knowledge work it is not the general skills that are needed to perform the job but the availability of certain domain expertise that is needed to successfully complete the knowledge work. Companies should pay close attention in choosing the countries before sending the knowledge work.

5.12 Characteristics of KPO Projects
Companies are outsourcing several KPO projects to countries like India, China and Russia, it varies in nature and scope and the result varies from company to company. Following are some of the general characteristics of the knowledge work that are been outsourced. Business processes are performed based on domain expertise, interpretation and individual intellectual capabilities. There are no set rules on how to perform the tasks and professionals need to use their intuition and creativity in solving the problems on a day-to-day basis. The responsibilities of solving a KPO problem lay in the organisation and the KPO vendor; both parties collectively share the success or the failure of the projects. Risks Identification and mitigation in KPO work is complex in nature, not like BPO work where automatic rules and technology will mitigate the risks. Individual professionals must use their technical and judgment capabilities in mitigating the risks at the right time. KPO project management is complex and it is managed in global basis in which teams are located in different countries and mostly in different time zones. So communication and coordination between the teams are of utmost importance for the success of the KPO projects.

5.13 Important Sub-Sectors within KPO
The following are the important sectors that come under the KPO industry in India:

5.13.1 Banking, Securities and Industry Research Services
There are currently 3,500 billable professionals in this sector in India, of which approximately 1,100 are doing research related to risk management for credit card and capital leasing companies as well as insurance research. The remaining 2,400 billable professionals are involved in helping sell-side and buy-side analysts in bulge bracket banks (for example, Citigroup, Merrill Lynch, Morgan Stanley and J. P. Morgan), mid-tier M&A banks, independent research providers, hedge funds, mutual funds, pension funds and private equity groups. Given the strong M&A activity that is ongoing worldwide, the demand for investment research analysts has been growing at a furious pace and clients in high-wage countries would use an even higher number of high-quality professionals, if low-wage countries like India could train and provide them.

5.13.2 Contract Research Organisations and Bio-Pharmaceutical Services
Given the cost pressures related to research and development of new drugs, biotech and pharmaceutical companies—both large and small—are outsourcing a lot of clinical research trials to countries in Eastern Europe, India and China. In fact, according to a recent study by McKinsey and Company, the clinical trial segment in India is expected to earn US $1.5 billion in revenues by 2010. Furthermore, our forecasts reveal that the Indian Biotech sector is expected to attain $6.6 billion in revenue during 2010-11 and about one-fourth of this revenue will come from biotech services’ exports, particularly in the agricultural biotech and bio-pharmaceutical services areas.
5.13.3 Data Management, Mining, Searching and Analytics
This sector has been growing quite substantially and is likely to grow even faster during the next 3-5 years, especially because it requires mainly quantitative skills and only limited English speaking and writing skills. Within this sector, three verticals—banking, finance, securities and insurance; biotech, pharmaceuticals and healthcare; and wireless, wire-line and cable—are likely to witness massive growth. Indeed, three large data providers in the financial services industry—Thomson Financial, Reuters and Standards & Poor—put together have approximately 8,000 professionals working in India in this sub-sector. Collecting and “scrubbing” data at a fairly low cost and with high quality seems also to be an irresistible proposition for other data providers.

5.13.4 Legal, Paralegal and Intellectual Property Support Services
There are currently more than 60 firms providing legal research and paralegal and intellectual property-related services from India; about 45 percent of these are established law firms who practice in India and have now started providing such additional services. Since the culture in these law firms is substantially different from that of the US, since Indian English is idiomatically different from American and British English and since lawyers are usually risk averse, it is clear that growth in this area will be slow, albeit pronounced (when compared to other sub-sectors within the KPO industry). Also, companies from the Philippines will compete strongly with those from India in providing legal support and paralegal services to the US, because the Philippines was an American colony until 1946 and its laws continue to be similar to those of the United States. Nevertheless, even within this sub-sector, some services, such as those related to intellectual property research, will be offshored more substantially than others, because of the availability of a large technical talent pool within India.
Summary

- A number of industry verticals are introducing the use of externally sourced KPO capabilities in their target operating models which can support fee-earning activities.
- Investment banks were early adopters of new operating models which encompassed the use of externally provided services.
- India’s intellectual potential is the key factor for India being the favoured destination for KPO industry.
- Following the transformation of BPO units into KPO units and setting up of captive centres by global consulting knowledge-based firms in India, several third party KPO units have emerged in India.
- Many knowledge-based firms have evolved out of BPO domain and thus are well aware of the need for data / information security.
- The biggest customers of KPO services would include market research and consulting firms, investment banks and financial service institutions, media and many more.
- Processes executed within the KPO domain require higher quality standards because the stakes for the clients are high.
- As a country, India needs to work much harder for more companies to flow into the KPO pool.
- Enacting stringent data security laws, ensuring high-class transportation, communication and power infrastructure uniformly throughout the country are some of the government initiatives that would aid the growth of this industry.
- The most exciting part of the industry is that the whole range of these high-end services would be provided from a remote location using the power of information technology.
- KPO thus relies on high degree of human capital and IT enablement unlike the low human capital quality and low IT enablement that drove the BPO revolution.
- Emergence of KPO is not purely on cost competitiveness alone, but also on the value of knowledge that increases sustainable competitive advantage.
- India has been the pioneer in providing outsourcing solutions, offering a range of services to companies across the globe.
- A pioneer in outsourcing services, Outsource2india provides technology-driven solutions to more than 5400 customers in over 45 countries.
- Any company that operates in the manufacturing or the services sector, namely, Telecom, Banking, IT and many more, needs to use the services of a KPO.

References

Recommended Reading

Self Assessment

1. _______ activities are increasingly gathering popularity as a promising sector in India that could generate foreign exchange for the country.
   a. BPO
   b. KPO
   c. Financial services
   d. LPO

2. Many knowledge-based firms have evolved out of _______ domain and thus are well aware of the need for data/information security.
   a. KPO
   b. financial
   c. BPO
   d. technical

3. Many firms that have BS 7799-2 standards are moving towards _______ standards.
   a. ISO-2701
   b. ISO-1998
   c. ISO-1990
   d. ISO 27001

4. Even within this sub-sector, some services, such as those related to ________________, will be offshored more substantially than others.
   a. database management
   b. data mining functions
   c. intellectual property research
   d. banking services

5. The key challenge in the KPO industry is the identification of ________________.
   a. performance criteria
   b. maintaining image in the market
   c. making profitable deals
   d. hiring professionals

6. Which of the following statements is false?
   a. The key challenge in the management of a KPO firm as perceived by most leaders in the KPO industry is the identification of performance criteria.
   b. Most KPO projects are smaller by a factor of 2-3 than the corresponding BPO projects.
   c. The biggest customers of KPO services would include market research and consulting firms, investment banks and financial service institutions, media, publishing and database firms and many more.
   d. A number of industry verticals are introducing the use of externally sourced KPO capabilities in their target operating models which can support fee-earning activities.
7. The most exciting part of the industry is that the whole range of these high-end services would be provided from a ______ location using the power of information technology.
   a. service
   b. present
   c. remote
   d. KPO industry

8. Match the following

   |   |   |
---|---|---|
1. KPO | A. Driver for offshoring a knowledge process |
2. Hybrid model | B. Client is involved during the entire execution process |
3. Regulatory framework | C. Client is involved at the end process |
4. BPO | D. Complex model involving both the captive components as well as third party vendor interaction |

   a. 1-C, 2-D, 3-B, 4-A
   b. 1-B, 2-D, 3-A, 4-C
   c. 1-C, 2-B, 3-D, 4-A
   d. 1-D, 2-C, 3-A, 4-B

9. Collecting and _______ data at a fairly low cost and with high quality seems also to be an irresistible proposition for other data providers.
   a. scrubbing
   b. arranging
   c. deleting
   d. maintaining

10. ____________ will be the principal driver for offshoring a knowledge process vertical to another country.
    a. Language
    b. Response time
    c. Regulatory framework
    d. Domain expertise
Chapter VI

Partnering for Performance: Knowledge Process Outsourcing

Aim

The aim of this chapter is to:

- elucidate the market suitable for KPO
- explicate the current and planned KPO structure
- explain the best-in-class pace model

Objectives

The objectives of this chapter are to:

- define the industry average to success
- enlist the benchmarking requirements for success
- explicate the performance management

Learning outcome

At the end of this chapter, you will be able to:

- understand the best in class steps to success
- identify the laggard steps to success
- recognise the recent financial markets
6.1 Introduction

The recent financial markets meltdown and resulting upheaval in the global economic market are driving organisations, now more than ever, to achieve differentiation under tightened economic conditions through more streamlined, cost-effective operations. Additionally, a significantly heightened focus on and demand for fiscal responsibility, juxtaposed against the backdrop of an aggressively competitive vendor landscape, characterised by a highly informed market more concerned with cost reductions than brand cache, are forcing organisations to consistently deliver high levels of customer service. As a result, many organisations are engaging Knowledge Process Outsourcing (KPO) providers to handle a growing variety of important yet contextual business processes and activities; allowing them to focus the maximum amount of resources on core, revenue-growing aspects of their business. Currently, the top two business pressures driving organisations to engage KPO providers are the needs to decrease operating expenses and access professional resources.

![Fig. 6.1 Top pressures driving KPO engagements](Source: http://www.integreon.com/phpapp/wordpress/wp-content/uploads/2010/09/aberdeen-kpo-report-jan2009-compliments-of-integreon.pdf)

To achieve sustainable success in the increasingly competitive and fluid nature of a globalised market requires that companies consistently fine-tune and adjust the processes used to deliver their products and services while keeping costs to a minimum. Seeking the most efficient way to accomplish this without sacrificing delivery capabilities or service quality, while simultaneously searching for ways to focus their internal resources on improving and maximising core competencies, many organisations have begun to outsource a growing array of complex and high-value processes. Aberdeen’s research shows that the demand for KPO services is growing; in fact, many companies are planning to use KPO services for the first time in the next 12 months.
Seeking to achieve competitive differentiation, organisations across industries are now outsourcing high-level consumer, financial, legal, medical and technical processes that used to be held tightly in-house. Analogous Aberdeen Group research from the November 2007 Business Process Outsourcing (BPO) benchmark study, strong SLA management causes increased customer satisfaction, reveals that while 92% of companies outsource some business processes, only the top 20% of companies, the Best-in-Class, utilise key project management capabilities to overcome several common roadblocks on the path to successful outsourcing. Once an organisation has identified a KPO provider with the right skill set, the top performing companies establish proper relationship management structures (55%) and ensure the scope of work that is outsourced is both clearly defined and consistently monitored (54%).

### 6.2 The Maturity Class Framework

The value of engaging in any business relationship, especially one that involves outsourcing complex and important processes and activities, must be directly tied to the quantifiable benefit it delivers to that organisation. Aberdeen used three key performance criteria to distinguish the Best-in-Class from industry average and Laggard organisations. These Key Performance Indicators (KPIs) are the operational metrics most frequently touted as critical factors in determining and measuring the success of an outsourcing engagement:

- The percentage of projects passing quality assurance guidelines
- The time required for product / service to reach the market and
- Customer satisfaction
The table below summarises Aberdeen’s findings and defines Best-in-Class performance.

<table>
<thead>
<tr>
<th>Definition of Maturity Class</th>
<th>Mean Class Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best-in-Class: Top 20% of aggregate performance scorers</td>
<td>• 18% increase in customer satisfaction</td>
</tr>
<tr>
<td></td>
<td>• 5% decrease in time for product / service to reach market</td>
</tr>
<tr>
<td></td>
<td>• 24% increase in percentage of projects passing quality assurance guidelines</td>
</tr>
<tr>
<td>Industry Average: Middle 50% of aggregate performance scorers</td>
<td>• 7% increase in customer satisfaction</td>
</tr>
<tr>
<td></td>
<td>• 7% increase in time for product / service to reach market</td>
</tr>
<tr>
<td></td>
<td>• 9% increase in percentage of projects passing quality assurance guidelines</td>
</tr>
<tr>
<td>Laggard: Bottom 30% of aggregate performance scorers</td>
<td>• 6% increase in customer satisfaction</td>
</tr>
<tr>
<td></td>
<td>• 11% increase in time for product / service to reach market</td>
</tr>
<tr>
<td></td>
<td>• 1% increase in percentage of projects passing quality assurance guidelines</td>
</tr>
</tbody>
</table>

Table 6.1 Top performers earn best-in-class status

6.3 The Best-in-Class Pace Model

Partnering with KPO providers to achieve corporate goals and attain the Best-in-Class performance, indicated in the table, below requires a combination of strategic actions, organisational capabilities and provider-driven enabling technologies and service offerings.

<table>
<thead>
<tr>
<th>Pressures</th>
<th>Actions</th>
<th>Capabilities</th>
<th>Enablers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Decrease operating expenses</td>
<td>• Enact and enforce clearly articulated Service Level Agreements (SLAs)</td>
<td>• Processes to measure KPO compliance with contract objectives</td>
<td>• Ability to provide on-demand services</td>
</tr>
<tr>
<td></td>
<td>• Maintain regular, tactical communication</td>
<td>• Regular, scheduled communications with provider</td>
<td>• Globally distributed delivery network</td>
</tr>
<tr>
<td></td>
<td>• Establish dedicated program management</td>
<td>• Clear, measurable and enforceable SLAs</td>
<td>• Large knowledge repositories</td>
</tr>
<tr>
<td></td>
<td>• Enact and enforce clearly articulated Service Level Agreements (SLAs)</td>
<td>• Procedures to map in-house business processes to KPO delivery centre</td>
<td>• Willingness to sign and enforce Non Disclosure Agreements (NDAs)</td>
</tr>
<tr>
<td></td>
<td>• Maintain regular, tactical communication</td>
<td>• Ability to provide on-demand services</td>
<td>• Demonstrated intellectual property security capabilities</td>
</tr>
<tr>
<td></td>
<td>• Establish dedicated program management</td>
<td>• Globally distributed delivery network</td>
<td>• Secure communications, access, storage and transmission technologies</td>
</tr>
</tbody>
</table>

Table 6.2 The Best-in-Class PACE framework
6.3.1 Best-in-Class Strategies

To overcome the top-of-mind challenges associated with operating expenses and accessible professional resources, the top two strategic actions organisations take to succeed when outsourcing professional processes are to enact and enforce clearly defined Service Level Agreements (SLAs) and establish and maintain regular tactical communication channels and activities with their outsourcing provider.

![Fig. 6.3 Best-in-class strategies to succeed in KPO projects](http://www.integreon.com/phpapp/wordpress/wp-content/uploads/2010/09/aberdeen-kpo-report-jan2009-compliments-of-integreon.pdf)

The importance of both enacting and monitoring adherence to well-defined, clearly articulated SLAs cannot be overemphasised. Best-in-Class companies are realising competitive advantages from their KPO engagements in part because their actions and tactics are geared to achieve the SLA goals they establish. Best-in-Class companies understand that by maintaining regular, tactical communication channels they are able to consistently assess project performance and, on an ongoing basis, make forward-thinking adjustments to proactively address potential problem areas that could hinder the engagement’s overall success.

Also important to note, Best-in-Class companies are more likely to ensure their provider has “skin in the game.” By contractually stipulating, often through Build Operate and Transfer (B.O.T.) frameworks that the KPO provider has a financial incentive to meet or surpass the engagements established goals and ensuring that dedicated program management and tactical communication channels are in place, Best-in-Class companies are reaping the benefits that flow from achieving a greater percentage of their SLA goals. Focusing on strategies that design and operationalise a roadmap to achieving the project goals allowed the best-in-class to realise an 18% increase in customer satisfaction; an average increase more than twice that of all other companies.

6.4 Benchmarking Requirements for Success

The selection of a KPO provider and integration with business intelligence and business process management systems plays a crucial role in the ability to turn these strategies into profit.

**Competitive assessment**

Aberdeen Group analysed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories:

- Process (the approaches they take to execute their daily operations)
- Organisation (corporate focus and collaboration among stakeholders)
- Knowledge management (contextualising data and exposing it to key stakeholders)
- Technology (the selection of appropriate tools and effective deployment of those tools)
- Performance management (the ability of the organisation to measure its results to improve its business).
These characteristics serve as a guideline for best practices and correlate directly with Best-in-Class performance across the key metrics.

<table>
<thead>
<tr>
<th></th>
<th>Best-in-Class</th>
<th>Average</th>
<th>Laggards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Process</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processes to measure KPO provider compliance with contract objectives</td>
<td>83%</td>
<td>60%</td>
<td>59%</td>
</tr>
<tr>
<td><strong>Organisation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establish direct and specific channels to escalate problems to solutions</td>
<td>62%</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td><strong>Knowledge</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal procedures to map in-house business processes to KPO delivery centre</td>
<td>64%</td>
<td>62%</td>
<td>43%</td>
</tr>
<tr>
<td>Communications monitoring metrics</td>
<td>60%</td>
<td>48%</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>KPO capabilities and technologies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 78% on-demand services</td>
<td></td>
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<td></td>
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<tr>
<td>• 73% large knowledge repositories</td>
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<td></td>
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<tr>
<td>• 57% globally distributed delivery network</td>
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<td></td>
<td></td>
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<tr>
<td>• 56% expertise in leading statistical packages</td>
<td></td>
<td></td>
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<tr>
<td>• 43% on-demand services</td>
<td></td>
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</tr>
<tr>
<td>• 51% large knowledge repositories</td>
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<td></td>
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</tr>
<tr>
<td>• 41% globally distributed delivery network</td>
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<tr>
<td>• 33% expertise in leading statistical packages</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>• 42% on-demand services</td>
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</tr>
<tr>
<td>• 49% large knowledge repositories</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>• 20% globally distributed delivery network</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 21% expertise in leading statistical packages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>SLAs currently employed KPO provider</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 80% measure availability of service to end-users</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 70% measure responsiveness to escalation events</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 70% measure throughput rate (volume of work performed during specified time period)</td>
<td></td>
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<td></td>
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<tr>
<td>• 60% measure availability of service to end-users</td>
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<tr>
<td>• 54% measure responsiveness to escalation events</td>
<td></td>
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<td></td>
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<tr>
<td>• 44% measure throughput rate (volume of work performed during specified time period)</td>
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<tr>
<td>• 29% measure availability of service to end-users</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• 29% measure responsiveness to escalation events</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 37% measure throughput rate (volume of work performed during specified time period)</td>
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</tbody>
</table>

Table 6.3 The competitive framework
Capabilities and enablers
Based on the findings of the Competitive Framework and interviews with end users, Aberdeen’s analysis of the Best-in-Class reveals that there are a number of essential ingredients that lead to a successful KPO project. Realising the maximum business benefit from an outsourcing engagement requires the right blend of process, organisational, knowledge management and technology and service offering capabilities, as well as targeted monitoring metrics.

Process
Best-in-Class companies are 41% more likely than Laggards to establish formal procedures to map in-house business processes to the KPO provider’s deliverycentre. Best-in-Class companies realise that the complex, precise and high-value nature of the business processes and activities being outsourced in KPO engagements requires a more preliminary ramp-up than that of the “lift and drop” approach frequently used for BPO projects. To ensure a smooth, efficient process transfer, Best-in-Class companies perform the requisite due diligence beforehand. By understanding the provider’s management structure, staff size, skill sets and specialised areas of expertise, the Best-in-Class are able to proactively address potential limitations or problem areas in process transfer procedures. By specifically incorporating a clear and practical process transfer plan into their pre-emptive risk mitigation strategies, (a tactic the Best-in-Class are 69% more likely than Laggards to embrace) Best-in-Class companies were more than twice as likely as all others to report an increase in the percentage of time their provider meets delivery dates and reduce the time required for their product/service to reach the market by 5%.

Organisation
Best-in-Class companies realise that no project, regardless of the amount of pre-planning effort, will go exactly to plan. By establishing a framework that identifies direct and specific channels to escalate problems to solutions, the Best-in-Class facilitate the transparent and granular stage-by-stage ownership that allows unforeseen glitches to be quickly remediated. Additionally, the Best-in-Class are over 1.4 times as likely as Laggards to stipulate “responsiveness to escalation events” as an SLA in the project contract. Placing a priority on the ability to provide smooth and rapid responses to unexpected process breakdowns from the start of the outsourcing relationship allowed 80% of Best-in-Class companies to report an increase in the completeness of the project deliverable; a rate more than twice that of all others.

Knowledge management
Best-in-Class companies are more than twice as likely as Laggards to effectively structure the scope and expectations of the outsourcing engagement by enacting and enforcing clearly defined, holistically communicated SLAs. Overall, Best-in-Class companies employ a greater number of SLAs and prioritise operational SLAs to drive continuous performance improvements. On average, the Best-in-Class achieve a 32% greater percentage of their SLAs than all other companies. The relationship between achieving a high level of SLAs and enjoying improved levels of customer satisfaction is basically one of interdependence. Although a significant portion of KPO projects are premised on cost reductions, employing the right blend of targeted operational and monitoring capabilities geared towards ensuring compliance with SLAs has the ancillary benefit of keeping the customer happy.

Technology
Best-in-Class companies are 78% more likely than the industry average to partner with KPO providers possessing large knowledge repositories. Additionally, they are 86% more likely to partner with providers offering on-demand services. With the speed of business growing faster every day, the Best-in-Class make it a priority to choose partners with not only superior domain expertise, but also those that offer real or near real-time service capabilities. When augmented by the Best-in-Class preference for partnering with KPO providers able to leverage a globally-distributed delivery network, both speed and quality of deliverable are favourably impacted. As a result, Best-in-Class companies are more than two-times as likely as all other companies to experience an increase in both the percentage of time their provider meets delivery dates and overall completeness of deliverable.
6.5 Performance Management

Best-in-Class companies are able to realise significant business advantages from their KPO engagements not only because they are much more likely to consistently monitor the project’s progression, but, just as important, they focus on monitoring the most business-relevant metrics and how their customers are impacted. Best-in-Class companies are 1.75 times as likely as Laggards to have SLAs in place to monitor availability of service to end-users and twice as likely to measure user satisfaction levels.

![Fig. 6.4 Currently employed SLAs](Source: http://www.integreon.com/phpapp/wordpress/wp-content/uploads/2010/09/aberdeen-kpo-report-jan2009-compliments-of-integreon.pdf)

While possession of SLAs is clearly a prerequisite for successful KPO projects, Best-in-Class companies achieve superior results in their engagements by employing SLAs that significantly hedge against losing control over the level of service their customers will receive. By incorporating metrics that measure the criteria that are ultimately most relevant to the end-user and overall business strategies, Best-in-Class organisations are able to keep a finger on the pulse of the relationship and methodically transfer internal knowledge, IP and process requirements.

6.6 Required Actions

Whether a company is trying to move its performance from Laggard to industry average, or industry average to Best-in-Class, the following actions will help spur the necessary performance improvements:

**Laggard steps to success**

- Establish clearly defined, business-focused SLAs. Although 43% plan on establishing SLAs within the next twelve months, currently only 33% of Laggard companies have clear SLAs in place with their KPO provider. Enacting objective-relevant SLAs serves as the foundation of a business-advancing outsourcing relationship. If the goals, expectations and timelines of the outsourcing relationship are defined from the beginning, the odds of achieving those goals increase exponentially.

- Focus on tactics designed to pre-emptively mitigate outsourcing risks. Proactively identifying and establishing plans to manage the most likely encountered risks is an important component of a comprehensive outsourcing strategy. For key issues like IP and sensitive information exchange, establishing data security agreements that stipulate the use of proven methodologies is a simple step that could save an incalculable amount of money.

- Establish monitoring metrics that accurately measure throughput rate. Currently, only 37% of Laggards measure throughput rate, or the volume of work performed during a specified time period. Either through formalised mechanisms like SLAs, or reoccurring measurement assessments, companies should consistently monitor throughput rate. At first this will help to establish a throughput baseline that companies can use to establish acceptable parameters. As the project progresses, analysis can identify trends that lead to either an increase or decrease in the throughput rate that the provider can use to modify resource allocation to ensure on-time
achievement of critical project milestones.

**Industry Average Steps to Success**

- Develop and employ communication monitoring metrics: Currently, only 46% of industry average companies employ these tools. Establishing and subsequently monitoring frequent and consistent communication with KPO providers allows companies to leverage touch-point agendas with issue-specific items and enables a 360 degree information exchange characterised by more timely identification of potential problem areas that could slow or even halt project progress. If these are mapped back to performance management metrics focused on compliance with contract objectives, companies have the opportunity to generate dashboard views that give key stakeholders an ongoing, up-to-date snapshot of project progress and activities.

- Set up a dedicated KPO project management team: Currently, only half of industry average companies have such a team in place. Having a dedicated project management team in place facilitates a decision-making hierarchy that directly supports project execution by enhancing visibility into mission-critical tasks and helps define and solidify ownership of high-impact processes. From the KPO provider’s perspective, consistently dealing with a set group of individuals helps to construct a stable framework that reduces confusion, redundancy and interruptions while allowing the provider to devote the maximum amount of time to generating operational and process efficiencies.

**Best-in-Class steps to success**

The best-in-class steps to success are as follows:

- Employ SLAs that stipulate qualifications of KPO employees: Although 40% of the Best-in-Class plan to incorporate SLAs pertaining to KPO employee qualifications within the next 12 months, currently only 40% have them in place. Costly delays and outright project failures resulting from employee, manager and developer turnover is simply not acceptable in today’s global economy of tightening margins and increased competition.

- Given the importance of the processes being outsourced, companies should contractually stipulate that their outsourcing partner staff the project with employees of a certain calibre. SLAs of this type grow increasingly important if the length of the outsourcing engagement continues for over a year or when renewing an engagement after the successful completion of a set project. Even the most established outsourcing providers can face difficulties in retaining highly qualified workers with the notoriously high levels of employee turn-over that popular outsourcing destinations, including India, Eastern Europe and Latin America, constantly contend with.
Summary

- To achieve sustainable success in the increasingly competitive and fluid nature of a globalised market requires that companies consistently fine-tune and adjust the processes used to deliver their products and services while keeping costs to a minimum.
- The value of engaging in any business relationship, especially one that involves outsourcing complex and important processes and activities, must be directly tied to the quantifiable benefit it delivers to that organisation.
- Key Performance Indicators (KPIs) are the operational metrics most frequently touted as critical factors in determining and measuring the success of an outsourcing engagement.
- Best-in-Class companies are realising competitive advantages from their KPO engagements in part because their actions and tactics are geared to achieve the SLA goals they establish.
- The selection of a KPO provider and integration with business intelligence and business process management systems plays a crucial role in the ability to turn these strategies into profit.
- To ensure a smooth, efficient process transfer, Best-in-Class companies perform the requisite due diligence beforehand.
- By establishing a framework that identifies direct and specific channels to escalate problems to solutions, the Best-in-Class facilitate the transparent and granular stage-by-stage ownership that allows unforeseen glitches to be quickly remediated.
- Best-in-Class companies employ a greater number of SLAs and prioritise operational SLAs to drive continuous performance improvements.
- Best-in-Class companies achieve superior results in their engagements by employing SLAs that significantly hedge against losing control over the level of service their customers will receive.
- Establishing and subsequently monitoring frequent and consistent communication with KPO providers allows companies to leverage touch-point agendas with issue-specific items.

References


Recommended Reading

Self Assessment

1. Many organisations are engaging ____________ providers to handle a growing variety of important yet contextual business processes and activities.
   a. KPO
   b. business
   c. market
   d. service

2. ______________________ are the operational metrics most frequently touted as critical factors in determining and measuring the success of an outsourcing engagement.
   a. KPIs
   b. Men class performance
   c. Knowledge process outsourcing
   d. Class pace model

3. The selection of a KPO provider and integration with business intelligence and ______________________ systems play a crucial role in the ability to turn these strategies into profit.
   a. competitive assessment
   b. business process management
   c. KPO projects
   d. KPO engagement

4. Which of the following is not one of the categories in which the characteristics of each class are shared?
   a. Process
   b. Organisation
   c. Knowledge management
   d. Operate

5. ______________ companies are able to realise significant business advantages from their KPO engagements not only because they are much more likely to consistently monitor the project’s progression.
   a. Best-in-Class
   b. Best in class pace model
   c. Laggard
   d. Industry

6. Possession of ________ is clearly a prerequisite for successful KPO projects.
   a. KPI
   b. KPO
   c. Best in Class
   d. SLAs

7. ______________ companies achieve superior results in their engagements by employing SLAs.
   a. Laggard
   b. Industry based
   c. Best-in-Class
   d. Competitive framework
8. The ____________ are able to proactively address potential limitations or problem areas in process transfer procedures.
   a. Industry based
   b. Competitive framework
   c. Laggard
   d. Best-in-Class

9. Which of the following statements is false?
   a. Laggard companies realise that no project, regardless of the amount of pre-planning effort, will go exactly to plan.
   b. By specifically incorporating a clear and practical process transfer plan into their pre-emptive risk mitigation strategies
   c. To ensure a smooth, efficient process transfer, Best-in-Class companies perform the requisite due diligence beforehand
   d. The relationship between achieving a high level of SLAs and enjoying improved levels of customer satisfaction is basically one of interdependence.

10. Which of the following is not one of the actions which will help to spur the necessary performance improvements?
   a. Laggard steps to success
   b. User satisfaction to step
   c. Industry average steps to success
   d. Best-in-Class steps to success
Chapter VII
Challenges, Strategies and Trends

Aim
The aim of this chapter is to:

- explain the strategic importance of knowledge process outsourcing
- elucidate the risk and benefits of KPO
- explore the role of the CEO and the C level management in KPO

Objectives
The objectives of this chapter are to:

- define the outsourcing relationships
- explicate the strategies to be used for the KPO
- enlist the challenges and strategies of KPO

Learning outcome
At the end of this chapter, you will be able to:

- define leveraging the strengths of Indian Diaspora
- analyse challenges faced by KPO
- understand future trends of KPO
7.1 Introduction: Strategic Importance of KPO

Both the risks and the benefits show the importance of outsourcing for an organisation’s competitive advantage in modern business life. It can either open new opportunities and lead to success, or end in disaster. One of the principal advantages of outsourcing is that it enables a company to respond quickly to changing market needs. In the same context, a change in the geopolitical climate or in the client’s focus or profitability could necessitate renegotiation or worse, the ending of an outsourcing relationship. In the past most companies considered outsourcing to be primarily a cost-saving strategy. As the industry evolved into more knowledge intensive processes, more and more began to consider outsourcing on a strategic level and not just on an operational level. KPO is more than just cost savings. Firstly, it allows companies to focus on their core abilities such as R&D, Banking Services, Consulting and Marketing. Secondly, as the product life cycles become shorter and shorter, outsourcing can significantly shorten the “Time to Market” and give the necessary flexibility in order to react much faster to market changes.

Talking about costs, it is important to realise that outsourcing is not about firing people in the home country and hiring people in the outsourcing vendor’s country and saving a big part of the labor costs. It is more about reallocating human as well as financial resources. It is about allowing key people to focus on what is really important and not on what is really urgent. It is about using the full range of an engineer’s skills and giving him/her the opportunity to focus on Research and Development and actually inventing something rather than doing extensive secondary research or patent drafting. It is about investment in future markets and products or services.

In other words, outsourcing can help companies to be more efficient, focus on their key success factors and work on their unique capabilities and so actually create new, high-value employment in the home country. In order to reach this efficiency and these advantages it is crucial to have a long-term strategic relationship with the service providers. A large number of companies did not anticipate the complexities of managing outsourced projects and relationships. Instead of working on a holistic approach from the elaboration of the outsourcing idea over its concept and finally to its execution, they started to outsource services on an ad hoc basis. This led to significant performance diffusing throughout the organisation. As a result, organisations began to lack coherent policies and conditions and were unable to leverage the full potential of the benefits of significant outsourcing volume. Multi-year strategic relationships can provide a number of benefits which are normally impossible to cover in the short timeframe of a project. A well-articulated multi-year agreement could provide benefits such as:

- A better assessment of the capabilities needed for an organisation to become world-class in sourcing
- A predictable but flexible way to build these capabilities through strategic level agreements on various parameters
- Year-on-year improvements in many of these strategic agreements in productivity and efficiency, quality and goal orientation, cost savings and reinvestments
- The simplification, standardisation, re-engineering and transformation of processes and activities
- Vendor investments and the sharing of business risks/rewards: Over the years real trust-based partnerships can be developed.

7.2 The Role of the CEO and the C-Level Management

Knowledge Process Outsourcing, if it is done thoroughly, can be really complex and this is why the entire organisation from the strategic decision making unit down to the operational level should be involved in the process. The reason is that it can create profound anxiety across entire organisations. Employees are put in jeopardy of losing their jobs or being transferred to another department or even to an unfamiliar part of the world. Such weighty issues necessitate the attention and full commitment of the senior management or even the CEO who will have to manage the company through any economic, social and political repercussions that can arise from the offshoring initiative. Hence it is important to reinforce and promote entrepreneurial thinking and behavior among the staff of every modern company. This is why it is the task of the C-Level and senior management to overview and control the outsourcing process and to adequately communicate the outsourcing strategy internally to all employees and externally to the public and investors.
7.3 Outsourcing Management Office

Day-to-day outsourcing and especially the outsourcing of high value, knowledge-intensive processes, must have a home within a department in the organisation. This department must oversee all outsourcing efforts at the operational, tactical and strategic levels. The department’s manager must have a direct connection to senior officers in other departments and must present issues at the strategic level. Here are some of the central tasks a strategic outsourcing office has to perform:

- Ensure consistency of outsourcing and business objectives
- Conduct feasibility analyses of outsourcing projects at a global level and determine opportunity costs
- Coordinate efforts among managers and the assignments on their departments to ensure that they are not duplicating or undoing each other’s work and are managing their outsourcing efforts effectively
- Conduct reviews and assessments such as post-mortem analyses, develop “lessons learned and lessons to be learned,” and manage the knowledge base
- Integrate information, that is, provide vital information on outsourcing projects underway at the organisation and exchange knowledge gained from outsourced projects among the relevant departments
- Ensure adherence to standardised outsourcing methodologies and processes
- Routinely evaluate the portfolio of outsourcing endeavours to calculate their business value, avoid redundancies and manage risks and metrics

Most outsourcing offices need only a small group of dedicated personnel to oversee the daily operations. In terms of knowledge intensive processes, this office has the task of overseeing and coordinating the outsourcing activities. It is not its task to lead and manage the projects; this is something that the dedicated experts are responsible for. The team should include both insiders and outsiders, such as outsourcing consultants, in order to anticipate new outsourcing trends and implement them efficiently into the organisation’s operations. However, they must have access to various functional sectors so that they can draw on them as needed.

7.4 Outsourcing Relationships

As you begin to build a lasting relationship with your knowledge process provider, an important thing to remember is that there is no off-the-shelf approach. Establishing a relationship that is geared toward long-term success is as much an art as it is a science. Today, fulfilling outsourcing contracts is just the price of admission to the relationship not the guarantor of value or satisfaction. The trick is communicating properly so that any disagreements become an impetus for moving the relationship and initiative forward. Outsourcing should be considered as a partnership between companies and each has to be diligent about its responsibilities. Experienced outsourcing clients and providers know that the best partners are dependent upon shared expectations, flexibility, collaboration and mutual accountability. The most successful and satisfying outsourcing relationships are built around the concept of value exchange. A value-based relationship framework can serve as the cornerstone for a partnership, beginning at the proposal, to contract, to implementation and renewal.

According to an IBM-Study, a framework for relationship alignment should include:

- Knowledge-Sharing and keeping the lines of communication open
- Creativity, innovation and aligning competing interests
- Building trust and reconciling differences between organisational cultures and operating procedures
- A good governance structure and process that focus on joint decision making, problem- and conflict solving, planning and change management
- Shared measurements and incentives/formal lessons-learned roundtable meeting
- A communications process that facilitates exchange of information and knowledge
- Criteria– jointly developed and agreed upon– to help ensure the continuing health of the relationship
### 7.5 Challenges in Knowledge Process Outsourcing

The main challenges that the KPO industry is now facing are as given below:

**Dependence on core competency**

Outsourcing implies organisations shifting risk to the supplier. This, however, does not eliminate all risk from an organisation. The customer can become dependent on the supplier. The level of dependency or risk incurred by the customer can be assessed by how much the outsourced process impacts other organisational outcomes/processes. This level of dependency can be viewed as the distinction between knowledge partitioning and task partitioning indicated by Takeishi. The partitioning helps clarify the level of ownership retained by the customer and/or the supplier. Example if the outsourcing arrangement is a temporary increase in design capacity, the ownership of the process remains with the customer. However, if component design and manufacturing is outsourced, not only is a greater dependency incurred on the supplier in terms of long-term design innovations, but greater effort is required to obtain and retain the knowledge required to successfully deliver components that seamlessly fit within the overall design.

**Knowledge loss**

All organisations must choose between internal knowledge (IK) and external knowledge (EK) sources to assist in the decision of whether to outsource knowledge. The factors identified as essential in this decision are:

- IK learning curve, holding cost, value deterioration rate, future value and
- EK cost to purchase.

The model focuses on the timely optimal control of the knowledge make-or-buy decision and illustrates the practical dynamics of preserving IK versus knowledge outsourcing.

**Incentive to innovate (for the provider)**

Innovation, specifically R&D activity, is viewed as a significant source of knowledge for an organisation. Outsourcing, especially in terms of proprietary knowledge assets, is not considered a means to innovate because an outside supplier lacks the incentive to innovate for the buying firm. This view is reinforced when an organisation considers that they will receive only the codified results of R&D externalisation and not the accumulated person-embodied skills. However, there are many partnering relationships whose goal is the generation of knowledge and innovation. When organisational goals align, it is recommended to consider:

- asset specificity
- technological uncertainty
- appropriability
- vertical integration
- the amount of tacit knowledge in the process

The relational view posits that much of a firm’s innovation is accomplished in conjunction with outside suppliers. This position is based on the belief that sufficient access to relevant capabilities should encourage innovation in knowledge outsourcing partnerships. To accomplish the encouragement of innovation in knowledge outsourcing, feedback systems should be specified in order to leverage and share knowledge in both directions.

**IP, legal issues and security**

Security and confidentiality of data, customer information and proprietary intellectual property will pose considerable challenges in managing KPO relationships. For example, who will own the outcome of an R&D effort if the process itself is outsourced? When information related to the core competency of an organisation is outsourced, security will be an issue.
**Measurability of outcome**
The outcome of a knowledge process may often be fuzzy. However, much of the success of an outsourcing relationship depends on periodic performance evaluation and provider’s delivering agreed upon level of service. In a KPO, the deliverables being knowledge items, it is often difficult to come up with precise measurable outcomes.

**Integration of knowledge from disparate sources**
For knowledge outsourcing, an emphasis must be placed on knowledge integration with the design to reduce the knowledge loss. Since degree of knowledge dispersion increase with outsourcing arrangements, the uncertainty regarding where the knowledge resides increases. Customers must create conditions to integrate knowledge dispersed across the supply chain.

**Methodology**
A cross-sectional survey methodology is used to investigate the proposed research questions and develop the model for testing the effectiveness of KPO on an organisation. An instrument is in the process of being constructed to measure the level of knowledge process outsourcing that currently exists within an organisation and the knowledge processes that could potentially be considered for outsourcing. The knowledge processes currently identified for measurement would include KPs associated with the generation of new knowledge and KPs associated with the transfer, sharing or use of existing knowledge. KPs associated with the generation of new knowledge would include, but are not limited to, research & development, data mining, biotechnology research and many more. The importance of each of these KPs to the organisations core competencies will be accounted for in the instrument in order to provide a starting point for assessing the potential knowledge loss associated with the outsourcing arrangement. AKP that has been selected for outsourcing which is not central to an organisation’s core competency will have reduced organisational knowledge loss when compared to a KP that is more central to an organisation’s core competency. In addition to the measurement of existing KPs within an organisation, any organisation currently outsourcing any of the identified KPs will be asked to provide an indication of the success of the outsourcing agreement. The success of the outsourcing agreement will be measured in terms of the customer and provider side factors, but from a customer side perspective. The customer side is the perspective of interest since the continued relationship is dependent on the satisfaction of the customer and the customer’s organisational success is dependent on a successful outsourcing arrangement. The evaluation of customer-provider relationship is time dependent.

**Poor infrastructure and raising real estate prices**
Poor infrastructure is posing immense challenges in delivering high quality services to the international clients. Metro cities are slowly getting congested and costs of operations are rising- in such a scenario Tier II cities need to emerge with well-developed infrastructure. Image of Low-Quality Associated with Low-Cost India’s unique positioning as a low cost service provider, at times proves to be a deterrent to its future in the global off-shoring market. Some foreign companies, at time, are wary about India’s capability to provide quality services with low cost operations. Thus, organisations are finding it increasingly difficult to migrate from their cost effective standardised service offerings (which are low in the value chain and also earn lower margins) to a more differentiated high-end service offerings (which can command a premium by virtue of the intellectual value addition and knowledge of industry).

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

**Concerns over data security**
According to industry sources, KPO units are privy to information not otherwise available in public domain. At times, clients hesitate to offshore any sensitive or confidential data to any third-party service provider. A bigger challenge is to convince clients that the quality of off-shoring services provided at low cost is associated with assurances such as confidentiality and nondisclosure.
**Negative public opinion in client countries**
There has been a growing negative public opinion about off-shoring activity in developed countries such as USA and Europe. These are mainly because of perceived job loss in these countries and the risks associated with data security. In addition, it is propagated that companies may lose the knowledge they require to function over a period of time by off-shoring their activities.

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

**Manpower and knowledge issues**
A KPO professional requires possession of right skill-sets and significant amount of domain knowledge. Therefore, access to a large, high-quality skill pool (in diverse fields such as law, patents, economics, management, finance and engineering) is a precondition for successful KPO operations. Monotony is a psychological factor that is also attributing to the increasing attrition rate in KPO units. This is increasingly being observed even in domain areas where highly skilled and qualified professionals are engaged.

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

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

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

### 7.6 Strategies

The strategies of Kpo are as follows:

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

**Strengthening education system**
Quality education is the fundamental enabler of growth in KPO activities. Thus, it is essential to forge consistency between the curriculum taught in the schools and the requirements of the KPO industry. In order to achieve such consistency, it is essential to have an education system that reorients the classroom teaching with learning objectives, starting from primary school. This can be achieved through academic- industry partnerships, while designing the curriculum.
Reforming curriculum and training
India needs to implement measures to improve education standards in various streams (science, technology, law, economics, management, finance) that have potential for outsourcing business. For example, a typical college graduate should be well-versed in various global developments, including cross cultural issues, in order to be eligible for employment in KPO units.

Financial support for professional studies
Providing financial support is another key element to attract and retain professional students. The today is witnessing high mobility of students pursuing not only higher education but also employment. While migration of students to other countries to pursue professional career might lead knowledge circulation and benefit the country in the long run, migration of bright students to nonprofessional streams might weaken the skill base of India. We need to strengthen the education system and provide appropriate compensation to professional students to retain the talents within the country.

7.7 Leveraging the Strengths of Indian Diaspora
It is estimated that more than 20 million Indian Diaspora are settled in over 70 countries across the world, which have been successful in contributing to the development in the fields of engineering, space research, healthcare, information technology, management and entrepreneurship. Leveraging the knowledge gained by the Indian Diaspora in various countries, Indian KPO units could adopt best practices in delivering the services and use the network to build brand India as an off-shoring destination. Creating positive opinion on Offshoring India may endeavour to create positive opinion highlighting the potential benefits of off-shoring. It may be emphasised that there is no loss of jobs in a global village, but it is only a shift of job from one region to another. It may also be emphasised that off-shoring is more about relocating of human as well as financial resources. It is also important for the KPO firms to educate their customers to propagate the benefits of off-shoring to the labour associations and the Government in their respective countries.

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

Firm-level strategies
Proper manpower utilisation with the industry evolving into more knowledge intensive processes, more and more firms began to consider off-shoring on a strategic level and not just on an operational level. It is more about reallocating human as well as financial resources. Thus, it is important for KPO units to utilise manpower properly to provide high quality service.

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

Building relationships with increasing location globalisation and off-shoring activities
Third party KPO units are required to deal with multiple clients. Transnational corporations off-shoring the knowledge process activities are now demanding privileged status from the service providers to get greater attention, increased responsiveness and high service levels.

Expert’s opinion
Expert’s opinion that services offshoring should be considered as a partnership between the two firms and thus both the client and server, should be cautious about the responsibilities they hold. It may be mentioned that both client and server should share the knowledge and help enhance creativity and innovation in products and service delivery. This may be helpful especially with regard to building trust on each other and reconciling the organisational issues and operating procedures.
Protection of private information
It is imperative that KPO units recognise the legal obligations of protecting the private information thoroughly while undertaking offshoring assignments. This requires that outsourcing arrangements are properly structured (legally and process-wise) to assure that the data is properly identified as “private” and processes are put in place to protect it.

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

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

Near shoring as a business strategy
Having gained significant expertise in various knowledge domains and satisfactorily complying with the requirements of transnational corporations, Indian KPO units should also increasingly adopt the strategy of setting up operations outside India to render knowledge based services to the customers. Firms may also adopt the strategy of setting up of delivery centres in other geography to tap the language and cultural skills in addition to time zone advantages.

7.8 KPO Opportunities for Indian Corporate
With the immense increase in KPO sector of India, Indian Firms see wide opportunities. The following are the list of opportunities:
- Off shoring R&D in pharmaceuticals and Biotechnology is another area where there is enormous potential for KPO. Destinations such as India offer significant cost advantages (as much as 40 to 60 per cent) in the areas of contract research and clinical trials. Companies such as AstraZeneca and GlaxoSmithKline have recently set up drug discovery centres at low cost destinations to offshore R&D activities.
- Chip design and embedded systems is another critical area. The main reason why all major integrated design manufacturers such as Motorola, Intel, Analog Devices and National semiconductor, IBM, Cisco, Cypress Semiconductor, Nokia and Philips have set up offshore design centres is simple. The compensation for a chip design engineer with a master’s degree and five years’ experience is about $7,000 a month in the US. An engineer with the same qualification and experience in India gets about $1,200 a month. Naturally, the cost savings in KPO is enormous.
- Drafting and filing of patent applications in the US is quite expensive. A typical application costs about $10,000 to $15,000 to draft and file with the United States Patent and Trademark Office. Cost savings from off shoring even a portion of the patent drafting process can easily save up to 50 per cent of the cost for the end client, according to Alok Aggarwal, chairman of Evalueserve. Quite predictably, law firms such as Patent Metrix, Cantor-Colburn and Schweigman, Lundberg and Woessner & Kluth, have already set up offices in India and quite a few others are joining hands with Indian companies to cash in on the emerging opportunity.
- Data-mining services companies can save as much as 60-70 per cent on analytics and inventory management costs by off-shoring them.

7.9 Government Policies to Aid KPO Industry
The Indian Government has realised that knowledge processes will progress the Indian Economic Development to new heights in the future and has taken remarkable steps towards liberalisation and de-regulation policies. Recent trends have reduced licensing requirements and have made foreign technology accessible and removed various restrictions on investments and made the investment process considerably very easy.
7.9.1 Improvements in Infrastructure
The Indian Government is constantly taking serious steps to improve infrastructure facilities by providing better amenities in the form of better roads, setting up of Technology and Software parks in various parts of the country, Telecom enhancements for wide area connectivity and special considerations on meeting up high end power requirements to facilitate growth in this industry.

7.9.2 Setting up of Knowledge Parks
If we take a look at the progress of the country in terms of Infrastructure, a lot of progress has been done globally in various cities like Noida, Chandigarh, Bangalore, Pune and Hyderabad. Multitenant ‘intelligent’ buildings, built to-suit facilities, sprawling campuses are tailor made to suit customer requirements. International Long Distance, National Long Distance and Basic Telephone services have been opened up for free competition. ISPs have been granted licenses freely to establish their own international gateways and submarine cable landing stations. Internet telephony too has been allowed. Tax holidays and concessions for companies involved in scientific R&D are just some of the steps to create a pro growth environment.

7.10 Future Trends of KPO
After analysing the challenges and the importance of strategic thinking in knowledge-intensive industries and the strategies that need to be implemented, it is now time to show some future trends. Companies are acting in more and more turbulent markets and are forced to react ever faster given the opportunities and risks they face. Global competition is becoming stronger and innovation cycles and product lifecycles are growing ever shorter. At the same time, a greater diversity of products is flooding the market, with much faster delivery times than even two years ago.

Here are some of the major trends that most of the companies will face in the next five to ten years:

• They will have to further cut costs, especially by transforming fixed costs into variable costs through resource reallocation.

• Continuously examine the external environment for new opportunities to grow and develop their business. This can be done through Research & Development and global expansion through mergers and acquisitions.

• They will have to be more reactive and adapt to market changes and this also includes the internal environment. Market challenges require changes and adjustments within the corporate structure. They will have to create smaller entrepreneurial units to increase flexibility and the reaction speed to these.

One of key factors to achieve these goals is the implementation of knowledge outsourcing in the overall corporate strategy. But even the best outsourcing strategy is worthless if it is not communicated to the service vendor adequately. Only if both partners understand the outsourcing of knowledge-intensive processes as a strategic tool can both of them benefit and only then can it provide all of the success factors mentioned above. But even if the executives know about the importance of outsourcing, they might not know how to do it best. According to Corbett, there are some good ways to improve the outsourcing success rate.

Training
It is important to know what, where and how to outsource. This should be the subject of internal and external analysis and training sessions should be conducted with outsourcing experts who have a deep understanding of the industry and who know how to create and manage outsourcing relationships.

Standard certificates
One way to verify the reliability of outsourcing vendors is professional certification based on recognised industry standards. Standards for outsourcing professionals, such as those being developed by the International Association of Outsourcing Professionals (IAOP) and the Outsourcing Standards Board (OSB) will bring better skills and more professionalism to the knowledge outsourcing industry. Standards for security quality, scope definition, financial analysis, contracting, pricing, negotiating, contract management and dispute resolution will help both sides to set up their outsourcing business.
Goal orientation
It is very important to find evaluation criteria in order to be able to improve the outsourcing strategy based on facts and not on opinions. Although it is so important, very little work has been done to establish a benchmarking system for high-performance outsourcing outcomes and to identify the processes that lead to superior results. Here it is up to the partners to find individual criteria to determine the success of the outsourcing process.

Challenge the providers
It is no longer good enough to offer customers a better, faster, cheaper solution for something that they are already doing today. If providers want to convince customers to change their outsourcing strategy (from project-orientated to process-orientated), they must work with their clients to keep developing and implementing new solutions well ahead of their customer’s needs. This implies that the KPO-providers have to develop deep domain expertise and know-how and invest in R&D just like any other industry if they are to continue to out innovate and out-perform their customers.

Technology
Technology helps to improve the flow of information and management’s control. Tools such as knowledge and project management help companies to improve their outsourcing ROI in three different ways:

- They avoid duplication of services and billing errors
- They increase the quality of outsourcing processes
- They reduce the management costs that tend to grow exponentially as the amount of outsourcing activities increases.

Using technology to link all of the company’s internal and external people and processes will enable companies to build and manage the strategic outsourcing partnership much more efficient.

Governance and management
Long-term orientated outsourcing programs require governance and ongoing management to ensure success. Governance ensures that the client and the supplier understand the what, when and how of outsourcing, along with the role each partner plays. One way to solve this conflict is to determine a process framework. On-going Management ensures that return on investment does not just come from labor arbitrage solely, but also from improved productivity. As already suggested, this task can be managed by the outsourcing management office. The most successful outsourcers invest 5-8% of the contract value in governance and on-going management. This investment ensures that the value of costs, productivity, quality and speed are captured now and in the future. As the knowledge process outsourcing industry is in its nascent stages it is very hard to predict how this new trend will evolve. But if this outsourcing discipline is to continue to grow over the next five to ten years as it has over the past five, organisations need to produce better results with greater regularity and at lower costs. To achieve this it will take a stronger consideration of knowledge outsourcing on the strategic level across the global community of outsourcing professionals, customers, providers and advisors alike.

7.11 Government Interface
The Government has an important role to play to make the country an attractive KPO destination. From India’s perspective, the Government has to lay emphasis on:

- Policies: Set policies, guidelines that aid the Industry and to desist from the earlier practice of cumbersome regulations & processes that breed bureaucratic delays. Fortunately the Government has demonstrated strong support for this Industry not just with lip service, but also a lot of ground level action.
- Infrastructure: The weakest link observed by foreign companies regarding India is a very poor infrastructure. While some effort has been initiated by the Government, India still has a very long way to go in a number of fields including Roads, Airports, Power supply and many more.
- Marketing: Jointly with the concerned bodies, Government can play an important role in developing “Brand India” on a global basis.
• Legislation: To address the global concern for information security, the Government has to align its policies on data privacy with Global norms and even more important implement it.

• Education: While, India can boast of its large education base with a lot of emphasis on science and mathematics, there is always a question mark on Quality of a major section of the education process. There are major changes required in the education system to develop educated talent that has relevance to the emerging needs of a knowledge based economy. Better schooling at primary level on a much wider base; increasing the number of the higher quality institutions and keeping check on mushrooming of colleges with weak education standards, will help sustain India’s position as the best talent pool in the world.
Summary

As the industry evolved into more knowledge intensive processes, more and more began to consider outsourcing on a strategic level and not just on an operational level.

Outsourcing can help companies to be more efficient, focus on their key success factors and work on their unique capabilities and so actually create new.

Experienced outsourcing clients and providers know that the best partners are dependent upon shared expectations, flexibility, collaboration and mutual accountability.

The level of dependency or risk incurred by the customer can be assessed by how much the outsourced process impacts other organisational outcomes/processes.

To accomplish the encouragement of innovation in knowledge outsourcing, feedback systems should be specified in order to leverage and share knowledge in both directions.

For knowledge outsourcing, an emphasis must be placed on knowledge integration with the design to reduce the knowledge loss.

Customers must create conditions to integrate knowledge dispersed across the supply chain.

Proper manpower utilisation with the industry evolving into more knowledge intensive processes, more and more firms began to consider off-shoring on a strategic level and not just on an operational level.

India needs to implement measures to improve education standards in various streams (science, technology, law, economics, management, finance) that have potential for outsourcing business.

Building talented manpower human resource is one of the prime attributes of success in KPO units.

A KPO professional requires possession of right skill-sets and significant amount of domain knowledge.

The customer side is the perspective of interest since the continued relationship is dependent on the satisfaction of the customer.

The success of the outsourcing agreement will be measured in terms of the customer and provider side factors, but from a customer side perspective.

A cross-sectional survey methodology is used to investigate the proposed research questions and develop the model for testing the effectiveness of KPO on an organisation.

References

- Kanikajayant, 2008. KPO and India, [Video online] Available at: <http://www.youtube.com/watch?v=JOkjCDC1ygw>[Accessed 18 December 2012].
Recommended Reading

Self Assessment

1. __________, specifically R&D activity, is viewed as a significant source of knowledge for an organisation.
   a. Methodology
   b. Technology
   c. Internal knowledge
   d. Innovation

2. In terms of knowledge intensive processes, the ________________ has the task of overseeing and coordinating the outsourcing activities.
   a. outsourcing management
   b. CEO
   c. C-level office
   d. SEO

3. Off shoring R&D in __________ and technology is another area where there is enormous potential for KPO.
   a. chemicals
   b. pharmaceuticals
   c. infrastructure
   d. inventory

4. When organisational goals align, it is recommended to consider which of the following?
   a. Technological certainty
   b. Finance
   c. Vertical integration
   d. KPO

5. __________ is the fundamental enabler of growth in KPO activities.
   a. Technology
   b. Financial support
   c. Knowledge loss
   d. Quality education

6. Which of the following statements is true?
   a. The level of dependency or risk incurred by the customer cannot be assessed by how much the outsourced process impacts other organisational outcomes/processes at all.
   b. The outsourcing management office conducts the feasibility analyses of outsourcing projects at a global level and determines opportunity costs.
   c. Increasing wages (as also cost of operations) in India is not at all a challenge for the growth of KPO sector in India.
   d. The cost savings in KPO is very less.
7. __________ is posing immense challenges in delivering high quality services to the international clients.
   a. Policy framework
   b. Poor infrastructure
   c. Manpower
   d. Industry

8. Match the following

| 1. Outsourcing management office | A. Depends on periodic performance evaluation |
| 2. C-level and senior management | B. Building trust and reconciling differences between organisational cultures and operating procedures |
| 3. Success of an outsourcing relationship | C. Overview and control the outsourcing process |
| 4. Framework for relationship alignment | D. Routinely evaluate the portfolio of outsourcing endeavours to calculate their business value |

   a. 1-D, 2-A, 3-B, 4-C
   b. 1-A, 2-C, 3-B, 4-D
   c. 1-B, 2-D, 3-A, 4-C
   d. 1-D, 2-C, 3-A, 4-B

9. One of the prima advantages of outsourcing is that it enables a company to respond quickly to changing _______ needs.
   a. market
   b. customer
   c. consumer
   d. technology

10. The success of the outsourcing agreement will be measured in terms of the customer and provider side factors, but from a _______ side perspective.
    a. customer
    b. provider
    c. system
    d. technical
Chapter VIII

Knowledge Process Offshoring

Aim

The aim of this chapter is to:

• explore importance of knowledge process offshoring
• explain the difference between outsourcing and offshoring
• elucidate the importance of offshoring

Objectives

The objectives of this chapter are to:

• explain 4M approach
• explicate the offshore legal processes
• enlist the success factors for offshoring

Learning outcome

At the end of this chapter, you will be able to:

• define offshoring
• understand the advantages of offshoring in various fields
• identify the key conclusion points with regard to offshoring
8.1 Introduction

Difference between outsourcing and offshoring is though outsourcing and offshoring may simultaneously take place, the two differ in terms of location and worker selection. When offshoring occurs, a business moves all or some of its activities to another country. Outsourcing, on the other hand, is the process of utilising third party workers for traditionally in-house business tasks; this may take place either inside or outside the company’s home country. Both are typically done to save business money.

Outsourcing is a common practice that businesses use to cut expenses, gain access to employees with a special skill set and obtain other benefits. Unlike offshoring, outsourcing does not need to take place in a separate country to occur. Businesses that remain in their countries of origin may seek out local third party workers, resulting in outsourcing. Outsourcing can, however, take place outside of the company’s country of origin as well. Offshoring is sometimes referred to as a subset of outsourcing. When the costs of running a company are cheaper in another country, the company may choose to move their activities or offices abroad in order to reduce expenses. If company activities are still handled by in-house employees while this occurs, outsourcing and offshoring are not occurring simultaneously. If the company opts to shift duties to a third party to further reduce costs, however, then the two practices are both being used. Many instances of offshoring do involve outsourcing.

The location of these practices is another difference between outsourcing and offshoring. Outsourcing does not require that the third party being hired to complete a job be from another country. Many instances of outsourcing are done within a country, such as when a printing company may employ a third party shipping business to transport its goods, rather than using its own staff. Outsourcing within a country’s borders can be just as cost effective and popular as doing so internationally. Offshoring, on the other hand, always takes place outside the business’s country of origin. A growing trend in many business industries is to use outsourcing and sometimes offshoring, for call centres. Many businesses outsource their call operations to workers in other areas. Should a business sets up a new call centre in another country, offshoring occurs. Businesses may use both outsourcing and offshoring, individually or simultaneously, for these and other activities.

Many people assume that outsourcing and offshoring are limited to the information technology or IT industry. While offshore IT outsourcing is a frequent practice of many businesses, the activities are not limited to this field. Other common types of outsourcing and offshoring include knowledge process outsourcing, business process outsourcing and offshore software development. Nearly any type of business has the potential for using such strategies.

8.2 The Success of Offshoring

The success of offshoring as a delivery model has been clearly established. The journey commenced with organisations relocating business processes, characterised by high-volumes, labour-intensity and support functionality, to low-cost destinations. In addition to cost reduction, the first wave of offshoring namely Business Process Offshoring (BPO) was also driven by the need of organisations to focus on areas of core competency. Processes that did not significantly impact revenues, were lifted, re-engineered and shifted to offshore centres, where “skilled” graduates delivered service. Success was measured based on pre-defined parameters, which encompassed timeliness, error-rates and productivity for each transaction that was undertaken. In this manner, the entire operation occurred in a controlled environment with no aspect of the process delivery or measurement left to judgment. Following the success of BPO, organisations gradually began to look upon India as more than just a hub for English-speaking warm bodies. India is known to export world-class manpower that has become an integral part of the business fabric in global markets. Further, the resurgence in growth of its domestic economy is being attributed to knowledge sectors such as IT, pharma and many more. Clearly, India is a gold mine for higher levels of skill, knowledge and experience extending across varied functions and industries. On the basis of these competitive advantages, supported by cost-arbitrage opportunities, India gradually began to emerge as an offshore hub for knowledge services. Knowledge Process Offshoring (KPO) was on its way in. A key driver on the demand side is the changing demographics. A key concern in Western Countries is the ageing population. By contrast, the median age in India is 24 years.
KPO is not a mere extension of BPO. Its philosophy, objective and service delivery mechanism sets it apart significantly. The core essence of KPO, we believe is not about delegating or sending away processes in order to focus on core competencies. In fact, the premise of KPO is to include into a global delivery team, the required skills that support and guide strategies for an organisation’s core processes. Therefore, where BPO seeks to exclude processes (that is, send them away), KPO seeks to include talent. The “inclusive” philosophy of KPO is driven by the global availability of skills and the simultaneous diffusion and aggregation of knowledge across multiple geographies. Cost-reduction is an additional benefit that organisations happen to derive from including talented people from lower cost geographies. Access to domain knowledge is undoubtedly the key driver for KPO.

In a KPO context, the emphasis will be far more on talent than on physical infrastructure. Therefore, it will be more knowledge centric rather than capital centric. This in turn, will reflect in the ownership structures that KPO professionals would be happy with in their work context, which in turn will have a bearing on the leadership, independence, development and professional challenge-based environment that a KPO professional would seek. KPO professionals would seek more direct participation in the equity structures, as well as seek to participate in the wealth created by the KPO organisation—simply because it is knowledge centric rather than capital centric.

Identification and mitigation of risks in a KPO environment will be far more complex than in a BPO environment. Process risks will not be easily mitigated by automated controls and “maker-checker” controls—because it will not be about repetitive transactions, but about judgment. Controls would therefore be around attracting the right professionals with the right technical competencies and finding ways of keeping them motivated as well as continuing to develop their competencies. A critical risk would therefore be cultural commitment and differentiating values practiced by the KPO organisation. And of course the willingness of the organisation to share the wealth with those who create it.

### 8.3 The Offshoring Process: The 4M Approach

The offshoring process follows the 4M approach namely, making, mapping, managing and measuring explained as follows

#### Making: The offshoring policy
- Identify business potential business activities for offshoring
- Integrate offshoring in strategic planning
- Map potential advantages and disadvantages in order to determine added value of offshoring
- Design score cards and processes to report, measure and monitor offshoring activities
- Take go/no-go decision

#### Mapping: An offshoring profile
- Discuss and decide on value chain and/or business activities to be offshored
- Discuss and decide on offshoring location
- Discuss and decide on type of offshoring
- Analyse, discuss and mobilise commitment internal and external stakeholders
- Take go/no-go decision

#### Managing: The roll out of the offshoring profile
- Implement offshoring decisions by committing necessary resources and involving all relevant stakeholders
- Check on regular and systematic basis the link between motives behind offshoring and offshoring and corporate goals achieved
- Identify and anticipate barriers and critical success factors especially related to managing offshoring process
Measuring: The results of the offshoring process

- Measure results of offshoring process
- Compare offshoring results to overall corporate goals
- Identify necessary adjustments for current and future offshoring ambitions
- Identify necessary adjustments in mapping, management, monitoring and evaluation
- Take go/no-go decision regarding future offshoring plans or withdrawal of already offshored business and/or value chain activities

### 8.4 Legal Services

India’s emerging prominence in the Legal Process Outsourcing (LPO) segment is being widely acknowledged in global markets. It is being perceived as one of the high-growth knowledge service sectors in India, despite the unavailability of clear traces of its emergence, current revenues, employee base and nature of activities. The relatively under-researched status of the LPO sector may be attributed not only to the complexity in measurement of knowledge as an activity, but also due to the political sensitivity of offshoring legal services.

Our research reveals that corporations are believed to be the vanguard of the movement of legal work overseas. GE laid the foundation for the emergence of structured LPO in 2001, when it became the first foreign conglomerate to offshore its in house legal work to India. The GE Plastics Gurgaon unit employed lawyers to write and review contracts with vendors. The India team is estimated to have saved the GE unit, USD 500,000 in its very first year of operation. The success story was widely promoted in the organisation, resulting in other GE units also adopting a similar “offshore” approach. Today, GE operates through a subsidiary in India comprising 30 lawyers, who support all critical legal services of GE’s units worldwide.

### 8.5 Offshore Legal Services

Then:
- Memo writing
- Word processing
- Document review
- Patent and trademark filing documentation
- Scanning, coding, indexing and abstracting

Now:
- Legal research (including IP research)
- Reviewing transactional and litigation documents
- Drafting contracts, research memoranda and due diligence reports
- Prosecuting patents
- Negotiations

Since 2001, India has witnessed a steady growth of organisations leveraging the country’s competitive advantages in the sector. It has become the source of several streams of legal service, which commenced with relatively simple processes such as memo writing and litigation support (scanning, coding, indexing and abstracting). Recently, more knowledge intensive and sophisticated processes such as legal research (including intellectual property research), drafting contracts and making determinations regarding responsiveness of the documents and privilege are also being offshored to India. The gradual shift in complexity of legal processes warrants incisive use of judgment and proficiency in legal application, reasoning and research. An emerging trend in the industry has been the offshoring of legal services by foreign law firms establishing units (typically captive units) in India. This segment also includes domestic LPO organisations that offer outsourcing services to other domestic law firms in the capacity of intermediaries. For instance, Atlas Legal Research, a US-based LPO is believed to have pioneered the approach of intermediaries sourcing their manpower requirements from offshore destinations such as India.
Indian offices in Bangalore and Chennai, allow Atlas to price its services at approximately 60% lower (USD 60 per hour as compared to USD 350 per hour at the typical US scale) than competing law firms in the US. Atlas’ lawyers in India study legal precedents in state laws to craft arguments in a trial brief, made possible due to the online availability of the US law and relevant exposure during their education. Employees are carefully recruited and trained, with legal briefs being screened and edited by US counterparts to ensure quality. In addition to low costs, Atlas believes that a significant advantage of offshore lawyers is also due to their fresh perspective of jurisdiction, with a number of innovative solutions emerging from the India centres.

Legal publishing organisations are also becoming an increasingly critical consumer segment of offshore legal services from India. West, one of the best known names in legal publishing (a unit of Canada’s publishing behemoth – The Thomson Corporation) has established a pilot unit in Mumbai where a team of Indian lawyers prepare summaries of unpublished US court decisions. The team in India supports the 100-man team of legal editors in the US who review and prepare summaries of major points of law for use by lawyers doing legal research. Work produced by the India centre in the initial stages was reviewed by peers in the US, which even resulted in situations of increased costs and inefficiencies. However, with prolonged experience and exposure, on-the-job training from West instructors in India and a strong system of supervision and feedback from US counterparts, West envisages the offshoring initiative as a significant cost-saving opportunity for the organisation and its clients.

Several different operating models are emerging to service the demand from customer segments identified above. Captive units are the preferred mode of offshoring for organisations offshoring high end critical work, as in the case of GE. In addition, most foreign law firms in India operate through this structure, for want of greater control on areas related to their core competence and business. Issues relating to client confidentiality and risks of unauthorised practice of law are also some of the key reasons for operating through the captive mode.

However, outsourcing to third-party service providers is also a popular mode of offshoring, in light of the advantages of greater flexibility, scale and range of expertise available. These service- providers may be arms of law firms (domestic or foreign) providing offshore legal services, pure-play offshore legal service providers such as IP-Pro, Intellvate and many more or BPO third parties who also provide legal services such as EvaluateServe and OfficeTiger. While most service-providers have established their presence in the recent past to cater specifically to the offshore market, some well-established domestic legal firms in India have created separate “offshore” divisions to tap the burgeoning growth of the LPO market.

For instance, the Mumbai-based law firm Nishith Desai Associates recently incubated IP Pro, an offshoring service supplementing its core business of advising U.S. clients on India’s legal system. Its staff of eight paralegals in India drafts U.S. patent claims, which are checked for quality by a domestic law firm. Delhi-headquartered Kochhar & Co. is also believed to have created specialised outsourcing departments.

### 8.6 Market Research, Consulting Research and Advertising

With burgeoning competition, increases in cost pressures and a growing number of brand-switching customers, organisations are realising that market research is an integral part of a successful business. The markets no longer give second chances- so making sure that the right raw material is being sourced to produce the right product, sold to the right customer in the right way is more important than ever before. Market Research (MR) has always been an approach adopted for collecting information on customers, competition, suppliers and many more. Retained in-house, most organisations relied on voluntary customer feedback and reports submitted by sales personnel to gauge market situations. Only in specific instances of release of a new product, would third party MR firms be employed, primarily for collecting realms of data. However in an era of information overload and short product life cycles, organisations realised that it was risky to rely on sporadic in-house feedback or spend excessive time in analysing data, a large share of which may in fact, be irrelevant. The key issue facing organisations therefore was gaining the right insights, at the least costs and at the right time to ensure that strategies adopted were in line with market conditions.
It is in this context, that the business case for both outsourcing and offshoring market research to India became compelling. The source of competitive advantage was the sheer volume and cost-competitiveness of requisite skills, with over 2 million English speaking graduates and approximately 70,000 management graduates. To experiment with the concept of offshore MR, the journey commenced with only data collection and data cleaning processes where secondary sources of information and organisation specific knowledge-bases were reviewed, databanks were put together, abstract and summaries created. It was realised that offshoring was generating multiple sources of value, including reduced costs and rapid turnaround times. The success story allowed organisations to further expand on the scope of offshore MR activities- which led to migration to higher end, more knowledge intensive activities, including analytical services. The nature of activities therefore came to include a wide range of consumer and industrial surveys, data analysis through statistical tools and techniques, report presentations and many more. The essence of MR was shifting from information capture to its transformation into knowledge.

8.7 Data Analytics

Every organisation, irrespective of size, industry and level of maturity requires managing data. And with the amount of information in the world doubling every 20 months, effective and fast usage of data is now a critical success factor. Data analytics enables organisations to make effective use of data that it has access to, to reveal hidden trends and capture key insights to further be incorporated into and strategic plans and operational policies. Data analytics is a prime example of how a knowledge process is amenable to offshoring. Review and analysis of large volumes of data is time and labour intensive. However in light of the tight linkage of data analytics with future strategies and operations, this knowledge service is often perceived to be a source of competitive advantage- and therefore preferred to be retained in-house. Nonetheless, by predefining specific parameters for analysis, the level of risk in offshoring data analysis is minimised tremendously.

The only core task left for organisations therefore is to formulate appropriate policies around the insights revealed. The advantages of overall time savings and cost minimisation accruing through offshoring are compelling- paving the way for a high-growth future for data analytics. The banking and financial services sector is one of the major users of analytics. One of the areas in which they have made substantial gains is credit scoring. Statistical credit scorecards serve as a better alternative to the traditional judgmental methods of appraising risk for sanctioning loans or credit cards. Equations can be generated to distinguish between high and low risk customers and use them as automated screeners for new applicants, resulting in faster and more objective processing. Customer analytics are used heavily by credit card companies at every stage of the customer life cycle, including detecting patterns of fraudulent credit card usage, cross selling of products and more efficient marketing models. Insurance and healthcare are other areas where analytical techniques are used- for claims analysis, identifying potential customers, analysing behavior patterns of risky or fraudulent customers and even for predicting the effectiveness of medications.

Manufacturing and logistics firms are the major users of supply chain analytics for optimising stock points and stocking levels starting from raw material in a warehouse to finished goods at a retail store. The retail sector also uses data analytics extensively to understand the in-store purchase behavior of shoppers and to influence them through store layouts and product promotions. To leverage the tremendous availability of skilled manpower in India, companies such as American Express, Citibank, Prudential Insurance, Accenture and Honeywell outsource a part of their analytics work to their captive centres in India. GECIS (now a third party service-provider) was one of the first multinational entrants in the analytics domain in India. It started operations in 1997, at a time when the US capital businesses were under pressure to handle the explosion in applications due to the refinance boom.

The processing centre was initially given simple processes, such as requests for address changes. The efficiency of the operations and the cost savings, 50% reduction in cost and 90% reduction in errors created the base for GECIS to move up the value chain. GECIS now undertakes complex analytics processes such as credit scoring, credit-card approvals and the treasury functions of GE’s European and Asian operations. The analytics Centre of Excellence of GE today has a team of 700 statisticians, MBAs and PhDs.
8.8 Finance and Accounting

The finance function worldwide is witnessing a revolutionary shift. From being perceived as a mere book-keeper, today’s fast-paced business environment has placed the CFO and the Finance Function under increased pressure to demonstrate the value it adds to business. The focus is therefore not only on “value for money” functions such as transaction processing, budgeting and reporting but is moving up the “value creation” chain to functions such as planning and decision support. As the Board is responsible for overseeing the organisation, it needs to find the right level of involvement and approach in defining the company’s strategic direction and fostering long-term shareholder value. In addition, the risks associated with globalisation and evolving information technologies, are all propelling the Board to be more accountable, informed and pro-active. For many Boards, the Finance Function is a good starting point. The concept of outsourcing and offshoring has allowed such a change in focus to originate and sustain itself. The traditional back-room functions have been hived off to “specialists” in low cost destinations, who are able to leverage volumes and generate cost saving opportunities. In addition, this approach produces significant advantages, which include, freeing up of skilled in-house resources for higher value finance function and improvement in internal customer satisfaction due to the establishment of SLA’s. Further, in-house process flows have been observed to become more streamlined to enhance efficiencies in the outsourced/offshored processes.

![Diagram of Accounting and finance functions](http://www.pwc.in/en_IN/in/assets/pdfs/global-integration-through-kpo.pdf)

8.9 KPO is Different and will Evolve Differently

Because of the distinct nature of knowledge work, KPO and the dynamics of offshoring knowledge processes are different from the IT/BP type of sourcing seen so far. Knowledge process offshoring is about getting high-end, value-added work done by resources whose co-location with the end client is not necessary, where the effort is people-intensive and the end product is arrived at through rigorous methodologies. Because this type of work requires a high level of judgment, subjective analysis and interpretation, the end results can vary from practitioner to practitioner. The nature of knowledge work is sophisticated and offshoring such work will require a significant degree of partnership and collaboration beyond the process standardisation and compliance seen in the initial waves of IT outsourcing (ITO) and business process outsourcing (BPO) thus far.

8.10 Critical Success Factors in Offshoring Knowledge Work

As organisations determine which of their critical, high-end and strategic functions can be performed in an offshore environment, a number of factors will influence their experience with KPO.

**Availability of skills**

It is not just the availability of skills at the macroeconomic level but also the availability of differentiated skills in a specific location that is important. Hence, determining the availability (and subsequently locating) specific mathematical modeling skills or radiologists is more complex than the ITO/BPO practice of estimating the talent pool based on the number of Engineering or English-speaking graduates. Additionally, as potential “destination” economies also grow, a number of industries will compete for the same talent to cater to their own domestic markets.
Potential for economies of scale
A small section of the organisational pyramid performs high-end critical knowledge work and, because of this, KPO generally does not achieve the economies of scale of ITO and BPO in an offshored or outsourced environment.

Legal and licensing issues
Traditional barriers to entry employed by professions such as medicine, law and accounting will limit the extent of services that can be offshored. The litigious environment that surrounds these professions further limits the risk appetite for using blended global delivery. In some cases, there could even be licensing implications to processes being offshored.

Protecting intellectual property rights (IPR)
Many functions and processes, such as certain strategic marketing ideas or financial functions, are core to the organisation. For example, some proprietary databases, models and algorithms in equity research would be critical to an organisation. Similarly, the databases and findings of a clinical trial from a pharmaceutical company would need to be protected. Therefore, protecting IPR would be one of the key considerations in offshoring knowledge functions.

8.11 Key Conclusions on KPO Growth
The following are the key conclusions on the growth of KPO that is taking place now as well as in the near future.

Challenges in reaching some predictions
Current market estimates from various industry research organisations as well as some service providers indicate that the KPO industry will grow at or higher than the BPO growth rates to reach US $10–15 billion by 2010. Furthermore, given the complexity and the high level of service fragmentation within the category of KPO, this growth will be limited.

The rise of the captive
For functions closer to the enterprise’s core activity, the tendency will be to keep in-house activities that involve intellectual property and sensitive data though notable exceptions exist. In an offshore model, they are more likely to use their own subsidiary (or captive) than rely on third-party outsourcers for high-end processes. Therefore, the significance of the captive, or an in-house offshore development centre of the company becomes greater.

Sustained steady demand
While we assert that the rapid growth estimates should be tempered, we are seeing significant client interest in outsourcing knowledge services and anticipate sustained demand. The sector is both viable and vibrant and we predict it will grow steadily. Based on our sourcing advisory experience as the market leader, we believe that the demand growth path for KPO services will be similar to that of ITO and BPO. It will be fuelled by the large firms, such as the Fortune 2000 firms that form the bulk of offshoring buyers in the IT or business process space. Although there will be small and medium-sized enterprises that will join the KPO bandwagon, we feel that this growth will be limited, given the smaller base which this segment has so far demonstrated.
Summary

- Outsourcing is a common practice that businesses use to cut expenses, gain access to employees with a special skill set and obtain other benefits.
- Offshoring is sometimes referred to as a subset of outsourcing.
- Businesses may use both outsourcing and offshoring, individually or simultaneously, for these and other activities.
- In addition to cost reduction, the first wave of offshoring namely Business Process Offshoring (BPO) was also driven by the need of organisations to focus on areas of core competency.
- A key driver on the demand side is the changing demographics.
- Process risks will not be easily mitigated by automated controls and “maker-checker” controls because it will not be about repetitive transactions, but about judgment.
- The gradual shift in complexity of legal processes warrants incisive use of judgment and proficiency in legal application, reasoning and research.
- Legal publishing organisations are also becoming an increasingly critical consumer segment of offshore legal services from India.
- Captive units are the preferred mode of offshoring for organisations offshoring high end critical work, as in the case of GE.
- Outsourcing to third-party service providers is also a popular mode of offshoring, in light of the advantages of greater flexibility, scale and range of expertise available.
- Organisations are realising that market research is an integral part of a successful business.
- The advantages of overall time savings and cost minimisation accruing through offshoring are compelling—paving the way for a high-growth future for data analytics.
- The banking and financial services sector is one of the major users of analytics.
- The concept of outsourcing and offshoring has allowed such a change in focus to originate and sustain itself.
- Knowledge process offshoring is about getting high-end, value-added work done by resources whose co-location with the end client is not necessary, where the effort is people-intensive and the end product is arrived at through rigorous methodologies.
- Many functions and processes, such as certain strategic marketing ideas or financial functions, are core to the organisation.

References

- Outsourcing and Offshoring Sectors: Challenges and Opportunities, [Video online] Available at: <http://www.youtube.com/watch?v=H7x9nIFEyO4>[Accessed 11 January 2013].

Recommended Reading

Self Assessment

1. The premise of KPO is to include into a ________________, the required skills that support and guide strategies for an organisation’s core processes.
   a. project team
   b. finance team
   c. support team
   d. global delivery team

2. Access to ___________________ is undoubtedly the key driver for KPO.
   a. finance and accounting
   b. resources
   c. domain knowledge
   d. customer analytics

3. _______________ is an additional benefit that organisations happen to derive from including talented people from lower cost geographies.
   a. Cost-reduction
   b. Availability of skills
   c. Legal services
   d. Customer analytics

4. An emerging trend in the industry has been the offshoring of ______________ by foreign law firms establishing units (typically captive units) in India.
   a. data analytics
   b. advertising
   c. market research
   d. legal services

5. ___________ the offshoring policy integrates offshoring in strategic planning.
   a. Managing
   b. Making
   c. Measuring
   d. Mapping

6. Which of the following statements is false?
   a. Since 2001, India has witnessed a steady growth of organisations leveraging the country’s competitive advantages in the sector.
   b. Businesses that remain in their countries of origin may seek out local third party workers, resulting in offshoring.
   c. Many functions and processes, such as certain strategic marketing ideas or financial functions, are core to the organisation.
   d. Review and analysis of large volumes of data is time and labour intensive.
7. ___________ has always been an approach adopted for collecting information on customers, competition, suppliers and many more.
   a. Market research
   b. Data analytics
   c. Advertising
   d. Consulting research

8. Match the following

| 1. Measuring the results of the offshoring process | A. Discuss and decide on the type of offshoring |
| 2. Offshoring | B. Utilises third party workers |
| 3. Outsourcing | C. Business moves its activities to other countries |
| 4. Mapping an offshoring profile | D. Identify necessary adjustments for current and future offshoring ambitions |

a. 1-D, 2-C, 3-B, 4-A
b. 1-B, 2-A, 3-D, 4-C
c. 1-C, 2-A, 3-D, 4-B
d. 1-B, 2-C, 3-A, 4-D

9. ___________ to third-party service providers is also a popular mode of offshoring.
   a. Mapping
   b. Providing service
   c. Outsourcing
   d. Offshoring

10. Identification and mitigation of risks in a KPO environment will be far more complex than in a ______ environment.
    a. user-friendly
    b. LPO
    c. KPO
    d. BPO
Sapience – A Case Study at a Fast Growing KPO

Sapience is a leading research and analytics KPO outsourcing firm which provides a range of services to financial services companies, market research companies and business research firms. Its customised solutions for data management, investment research, equity research, data processing, business research and business analytics can help both large and small organisations to manage their costs and workflow, thus enabling Sapience KPOs to focus on their core business.

The challenges faced by company were as follows:

- A perception that the actual productive work done by employees was quite low relative to actual hours in the office.
- Output appeared to be lower than expected, resulting in long working hours for the employees to complete company deliverables.
- There was no visibility into the effort being put in by employees on different work related activities and hence it was difficult to put in place any specific improvement program.

Sapience KPO had the following additional inputs:

- Based on swipe card information, employees spent about 9-10 hours in office daily.
- Besides ‘On PC’ work, this included ‘Away from the PC’ time on official meetings, lunch, tea/coffee breaks, non-work discussions, etc.
- While the expectation was that no more than one hour should be on non-work breaks, it seemed that it was much higher.

Post Sapience deployment, all the statistics moved upwards.

![Average Daily Productive Hours](http://www.sapience.net/sites/default/files/Case%20study%20-%20Research%20and%20Analytics%20KPO.pdf)

**Fig. 1 Average daily productive hours**

(Source: http://www.sapience.net/sites/default/files/Case%20study%20-%20Research%20and%20Analytics%20KPO.pdf)
• 13.3% gain in Daily Total Time in office: from 9 hrs to 10.2 hrs
• 30% gain in Daily Productive Time: from 7 hrs to 9.1 hrs
• 33% gain in Daily Online Productive time: 5.4 hrs to 7.2 hrs
• Within a short period of 30-40 days, 30% gain at work was achieved. The next step is to improve efficiency by optimising the Activity Mix (ensuring adequate time on key activities).


Questions
1. What were the challenges that the company faced?
   **Answer**
   The challenges faced by the company are given as follows:
   • A perception that the actual productive work done by employees was quite low relative to actual hours in the office.
   • Output appeared to be lower than expected, resulting in long working hours for the employees to complete client deliverables.
   • There was no visibility into the effort being put in by employees on different work related activities and hence it was difficult to put in place any specific improvement program.

2. What services does the company provide?
   **Answer**
   Sapience is a leading research and analytics KPO outsourcing firm which provides a range of services to financial services companies, market research companies and business research firms.

3. What were the additional inputs of the company?
   **Answer**
   The below given are additional inputs of the company:
   • Based on swipe card information, employees spent about 9-10 hours in office daily.
   • Besides ‘On PC’ work, this included ‘Away from the PC’ time on official meetings, lunch, tea/coffee breaks, non-work discussions etc.
   • While the expectation was that no more than one hour should be on non-work breaks, it seemed that it was much higher.
Knowledge Process Outsourcing

Case Study II

Complete F&A Outsourcing

Company profile
A captive unit of a USA-based KPO providing insurance related services, funded by a leading USA-based private equity firm, 250 employees, applicability of several statutory compliances, turnover INR 150 million. BC was among a handful of top CA firms and few companies with whom the KPO explored the possibility of outsourc ing the complete finance and accounts system. The management of this KPO held long discussions and deliberations with us and explored our ability to design and manage the complete F&A function. The major reasons that they selected BC were our focus on F&A outsourcing service, our unique onsite model and positive client feedback. These points addressed all concerns that the KPO’s management team had expressed.

Earlier, BC had no experience in designing a complete F&A system for an ITES company from scratch. However, considering our expertise and knowledge pool, we were confident of putting an F&A system in place within 2 months. We had conference calls with the CFO of the parent company in USA to thoroughly understand their requirements, expectations and various formats in which they would like to receive periodical information. We prepared an Empowerment of Associate (EOA) document stating various signing and approval powers for the Indian management of the company. This deals with exceptional situations very categorically. This document received huge appreciation from the CEO of the parent company. We helped the management to implement a tax-friendly and performance-driven compensation structure for its employees. The MIS and other reports were developed as per the requirements of the CFO of the parent company. An annual calendar of Statutory Compliances was prepared and a monthly task list was designed enlisting all the activities of F&A system during each month. Earlier, the Indian management of this KPO wanted to hire a CFO to monitor our performance and co-ordinate with its counterpart in CFO. On seeing our capability and bandwidth, they dropped this idea and treated BC as their final destination for all F&A related issues. We designed and implemented the complete F&A system in 2 months flat, (in fact, 3 working days before the target date!)

Challenge
Earlier the US-based parent company had outsourced its back office operations to a third party vendor in India, but was not satisfied with the service delivery. Accordingly, they set up a 100% subsidiary as a captive KPO. The immediate challenge before the company was to mobilise its management and operations team along with support functions such as HR, Finance & Accounts and Administration. The CEO of the parent company also a Director in the captive unit, was in favor of outsourcing the F&A function to a service provider. They would need to find a company with the following criteria:

- Service attitude (as against the typical Auditor’s attitude)
- Accountability
- Willingness to understand the Client’s business first and then to customise the solution
- Process oriented approach
Current status
The current status of the company is:

- The company has grown by almost 200% since BC took over F&A.
- It is now set to leapfrog to the next level. Out sourcing freed up management, allowing it to grow by focusing on core business.
- BC takes care of the complete Finance & Accounts function, providing the management with key financial inputs & advice.
- By leveraging the extensive experience of BC, the company reduced its overall cost in the F&A function by not having a CFO and Legal & professional consultants on monthly retainer ship basis, as the same is provided by BC as an add on to its services.


Questions
1. What services does the company provide?
2. What were the challenges faced by the company?
3. What is the current status of the company?)
Case Study III

About Visaya KPO
Visaya Knowledge Process Outsourcing Corporation is a relatively young company in the Philippines, established to cater to the business process and contact centre needs of small and medium-sized companies. Visaya KPO supports their customers with inbound and outbound services billed by the hour to allow for the clearly defined cost controls that small companies need.

The challenge
In the two years it had been in operation, Visaya KPO used a hosted contact centre solution provided by Five9 Inc, initially, opting for a hosted solution made sound business sense as this growing company did not yet have the volume of calls to justify a premise-based solution. The limited-features solution they leased worked fine for small contact centres with simple calling needs. “By 2008, our name made its mark and Visaya KPO started experiencing rapid growth. We added several new accounts to our portfolio and it soon became apparent that the money we were spending on our hosted solution could, in a few months, pay for a premise-based solution, which would also give us flexibility in how we serve our clients,” Cesar E. Valenzuela, President of Visaya KPO said. “With this realisation, we began looking for a call centre solution that would meet our needs of simplified management, ease of use and flexible operations, such as creation and execution of new campaigns.” Visaya KPO considered offerings from traditional switch manufacturers like Avaya, Cisco and the all-in-one, IP-based contact centre suite offered by Interactive Intelligence, Inc.

The solution
In November 2008, Visaya KPO chose to deploy the Interactive Intelligence Customer Interaction Centre, the all-in-one IP-based contact centre automation software suite, to handle both inbound and outbound contact centre requirements. Visaya KPO’s customers from the US and Europe had very high expectations and needed a platform that was able to handle dynamic campaign changes and dial plans while at the same time able to scale easily to handle growth. Customers also required the company to handle blended calls, which CIC supports. Visaya KPO added Interaction Recorder® to CIC to handle all their call recordings and with it, the company is ready to implement screen recording whenever their customers need it. Furthermore, with CIC, Visaya KPO can perform much of the system administration and changes to dial plans and outbound campaigns for their customers on the fly thanks to the extensive user training provided to them by Nexus Technologies, the IT systems integrator on this project and a long-standing partner of Interactive Intelligence in the Philippines. “Using CIC’s Interaction Designer®, we are able to roll our new campaigns for our customers in just a matter of days and we can track the effectiveness of all these campaigns, regardless of the type of media used, through CIC’s single interface,” Valenzuela said. “This has allowed us to significantly advance the breadth and depth of services we can deliver to our customers and this is creating new revenue opportunities for us.”

The benefits
“The deployment of CIC has met our goal to spend less than we would have on a hosted solution. For a young company in these challenging times it is critical that we manage costs and Interactive Intelligence has given us a winning solution that comprehensively addresses this need”, Valenzuela said. Visaya KPO has further found that through CIC the company can provide their customers with customised solutions that deliver exactly what the customer wants, whereas before there were the constraints and inflexibility inherent in the hosted solution to reckon with. CIC’s automated outing, supervisory alerts and other management features allow the company to manage calls more effectively. This has a direct impact on sales and customer satisfaction as wait time was reduced from minutes to seconds. Visaya KPO further found that the “single-box” architecture of CIC required significantly less maintenance than competing “multi-box” solutions and it allowed them to reduce the number of personnel that had to be assigned to perform maintenance and deliver support. With fewer individual components, CIC has proven to be an extremely reliable, high availability solution. By using CIC as a premise-based solution, Visaya KPO has also improved the level of confidentiality it offers its customers since its clients’ information always remains within the company’s direct control. Visaya KPO is most satisfied that CIC:
• Is highly flexible and able to handle changes to customers requirements
• Is highly adaptable and easy to use with its single point of administration, reporting and GUI-based development tool
• Is highly scalable as it is software-based so adding seats is easy and the company can add new functionality like multimedia queues, quality monitoring and even WFM without having to add new hardware or cope with difficult software integration.


**Questions**
1. What are the benefits of the company?
2. Give some solutions to the company?
3. What does the company deal with?
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Knowledge Process Outsourcing


Recommended Reading

Self Assessment Answers

Chapter I
1. a
2. c
3. b
4. b
5. a
6. b
7. c
8. a
9. d
10. b

Chapter II
1. b
2. c
3. a
4. b
5. c
6. a
7. a
8. d
9. d
10. a

Chapter III
1. a
2. c
3. a
4. d
5. c
6. d
7. a
8. b
9. d
10. c

Chapter IV
1. a
2. a
3. c
4. b
5. d
6. a
7. c
8. c
9. a
10. d
Chapter V
1. b
2. c
3. d
4. c
5. a
6. b
7. c
8. b
9. a
10. d

Chapter VI
1. a
2. a
3. b
4. d
5. a
6. d
7. c
8. c
9. a
10. b

Chapter VII
1. d
2. a
3. b
4. c
5. d
6. b
7. b
8. d
9. a
10. a

Chapter VIII
1. d
2. c
3. a
4. d
5. b
6. b
7. a
8. a
9. c
10. d