India’s Ascent to a Global Leadership: KPO as a Case in Point

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ABSTRACT
Knowledge Process Outsourcing is the more complex arm of Business process outsourcing. This research examines the existence and evolution of KPO’s in India. It also studies the driving factors, such as cost advantages, operational efficiencies, etc., behind the urge to set up a KPO by developed nations in India and the subsequent challenges faced by these nations in outsourcing their knowledge work. The paper identifies strategies that can be adopted by service providers in India to mitigate the various risks and challenges faced by the KPO sector and attract more business in India. The scope of this research has been widened to identify what makes India a global leader in the KPO space, and it also elaborated the necessity for further research required for additional steps which India can establish to maintain this competitive advantage over other countries. The research has found that India is currently leading the KPO sector to retain that spot; the study recommends some strategies and scope of further research.

KEYWORDS
KPO, India Knowledge process outsourcing

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1. Introduction
Around the world, developed countries have been finding ways to be able to cope with the increase in demand for products and services of their own nations. With the purchasing power of people increasing, the demand for products and services is also increasing, but it has not been easy for developed nations to increase the supply in the same ratio because of many limiting factors. For instance, the fresh requirement of new accounting/finance staff by businesses in developed nations has surpassed the actual number of accounting and finance graduates graduating each year. Some of this deficit is taken care of by the people who migrate into the country; however, there is still a void where there is a requirement for knowledge staff which is not available locally. To find ways to cater to this increase in demand, many developed nations started outsourcing many of their business processes, and this was known as Business Process Outsourcing (BPO). The success of BPOs led to the creation of another service industry that was much more complex and offered greater value creation to the client and the service provider, both known as Knowledge process outsourcing. It is imperative to understand the driving factors of these industries to be able to incubate them into mature industries. Initially, it was assumed that cost advantage is the only biggest driving factor in this industry. No doubt, it is one of the factors, but it is not the only factor. This research will shed some light on other factors as well as what are the pain points from the client end and from the service provider end, which limits the growth in this industry. India has been a global leader in both the BPO and the KPO industry; however, what brings India to this position and what India has to do to sustain this position are some points which need more research considering the fast-paced competition coming up from other countries. This research will enlighten some of these factors and strategies for India to be able to maintain its competitive advantage globally.
2. Review of Literature

Business Process Outsourcing (BPO) has been a very established and matured sector for the past 25 years. The advanced version of a BPO is known as Knowledge Process Outsourcing (KPO) which involves more uncertainty and personal judgment as compared to BPO’s where the inputs and outputs are defined. KPO’s stand at the top most place on the value creation ladder (Pattanayak & Chadha, 2019). KPO is still an emerging sector in various industries. KPO in the finance sector, specifically, is at an immature stage. KPO was witnessing the fastest growth rate at 45% as against 23% percent in BPO. (Currie, Michell, & Abanishe, 2008) The study described various driving factors of a KPO, which included cost reduction, access to knowledge, skills and talent, flexibility, and strategic impact. Some other driving factors were added, like Peak Load absorption, complexity reduction, and accelerated process cycle (Agrawal, Goswami, & Chatterjee, 2010). These same driving factors were classified into different theories like core competency theory, transaction cost view theory, resource-based theory, etc. (Agrawal, Goswami, & Chatterjee, 2010). Studies laid down the risk for a KPO, which included Confidentiality risk, Operational risk, reputational risk, regulatory risk, and inhibitors for KPO which included Local v/s remote location and the lack of an internal career path (Currie, Michell, & Abanishe, 2008). It was explained why developed nations would have an increasing demand for KPO services and studied India’s suitability as a destination for KPO because of factors like English language education, favorable demography of young age v/s other destinations like the Philippines, Ireland, and Israel are limited with smaller talent pool and China and Russia being limited by non-English speaking population (Agarwal & Nisa, 2009). The study highlighted statistics in terms of percentage as to how much value proposition is there for a client who opts for a KPO. The statistics said there is a value creation of up to 32% for a client of a KPO firm which gives them a competitive edge. The study also elaborated on the deteriorating share of BPO because of the increase in salaries in India and decreasing value creation for a client in BPO services from 40% to 25%. However, other studies placed emphasis on the fact that measuring value is complicated because of the lack of reliable company level data and trade statistics for services (Pattanayak & Chadha, 2019). The study suggested that the value chain can be related to skill levels and work experience. There were few other studies that stated different correlations for value creation which included a positive significant correlation between human capital and services exports (Saez and Goswami, 2010) which was seconded by Nyahoho in the study in 2010. Studies state that about 70% of global KPO business is outsourced to India, and India is capable of handling any kind of KPO services (Daru, 2015). A study suggested some short term and long term strategies for being successful in the KPO industry (Daru, 2015). The short term strategies included Attracting the best talent, retaining the existing talent pool, encouraging domain expertise, etc., and the long term strategies included improving support infrastructure, building the talent pool by increasing the quality of education, controlling brain drain, etc. (Srivinasa & L., 2021) concluded by saying that India has a bright future in the KPO segment and India should not risk the competitive edge as other countries can develop their skills.

3. An introduction to KPO’s: Driving factors and challenges

Business Process Outsourcing (BPO) has been a very popular term in the last 25 years, where companies from developed nations outsource a process to an outsider; India has been at the forefront of being the top service provider for BPO services. Knowledge Process Outsourcing (KPO) is the advanced version of BPO, which is different from a traditional BPO in many aspects. The term KPO is often misleading. Unlike a BPO which deals with low end predefined processes, knowledge creation and codification cannot be turned into a process and subsequently outsourced. In the case of KPO, there is never a pre-defined process or a structured, rules-based manner to reach a conclusion or solve a problem (Rao & Rao, 2011).

KPO has been defined by various researchers in various manners. Michell defined KPO as “a sequence of intellectual activities involving analysis, pattern recognition, design, and judgment, which converts unstructured and poorly defined inputs into a well defined, often original output” (Michell, 2005), whereas Skyes defined KPO as “an arrangement where one company provides services to another company that would otherwise have been implemented in-house” (Skyes 2004). So there is no universally accepted definition of a KPO; one can understand a KPO as a service that involves outsourcing (to an outsider) or insourcing (to another branch or subsidiary of their own company) of knowledge intensive work with no predefined structure or processes to offshore or inshore service providers.

KPO’s can provide a pool of different services across various industries like Data search, integration and management in the technology industry, market research and business intelligence in the management industry, engineering design, animation, simulation, and e-learning in the engineering industry, biotech, pharmaceuticals, Research and development in the medical industry and Fund management, equity analysis, transaction services valuation in the finance Industry. This study is going to restrict its research to the financial vertical of the KPO sector.

Below is a chart (figure 1) that shows how the financial services sector in the KPO industry stands at the highest level of the value chain for the KPOs. There are various services covered in a BPO or KPO company. Figure 1 shows how those various services are put together in a structured manner on the basis of the Intellectual component involved in that service. Starting from the left, where the intellectual component involved is the least, includes data entry jobs, and the services with the highest intellectual
One would think, why would a company outsource its knowledge intensive processes to an outsider? There are multiple driving factors to outsourcing knowledge intensive work to an outsider, which include:

1. **Being able to focus on main business**: KPO’s allow the business to focus on their core business departments, saving them from wasting their resources, time, and energy on non-core business processes. Outsourcing allows a company to focus on its core business by having operational non-core functions assumed by an outside expert. Freed from devoting energy to these non-core areas, the company can focus its resources on meeting its customers’ needs. (Daru, 2015)

2. **Cost Reduction and Value Creation**: Companies outsourcing some services tend to save about 40 to 70 percent in total labor costs (Agrawal, Goswami, & Chatterjee, 2010), which helps them in obtaining a competitive edge against their competitors. Companies that attempt to do everything themselves generally incur higher research, development, marketing, and deployment expenses, and all of these are passed on to the customer, putting them in an expensive spot as compared to others who outsource (Daru, 2015).

3. **Operational expertise and better quality of output**: the function which is non-core for the client will be core for the KPO provider. One can take advantage of the learning curve the KPO’s obtain after doing similar services for various clients, as it would take them lesser time and resources to obtain similar or even better output than if the service was done in-house by the client. Good and competent providers make extensive investments in technology, people, and methodologies. (Daru, 2015).

4. **Sourcing Flexibility and Peak load balancing**: Performing a non-core process in-house involves large fixed cost commitment as they have to make sure they are able to process the business requirements at the minimum load and maximum load levels. This creates a wasteful investment of resources during a time when the assets are underutilized. KPO setup helps the client to eliminate this non-value adding investment by allowing them to use the service only on a pay-per-use model.

5. **Access to Global Reach**: Globalization involves companies extending from their local boundaries to offshore local presence. This can involve extensive investment in infrastructure, technology, and human resources with the uncertainty of business flourishing or not. This can be mitigated by a KPO setup as they can take care of these needs with their existing resources.

It is also not so easy to go ahead with a KPO setup as there are many hurdles and risks involved in a KPO setup that need to be dealt with very carefully while engaging in the KPO setup. These challenges can be looked upon from two ends, the challenge at the client’s end and the challenge at the service provider’s end.

Challenges at the customer end involve problems such as Confidentiality Risk. The information shared by the clients to outside KPO service providers is knowledge intensive and could be abused by them. Even though they would enter into non-disclosure agreements between themselves, this could involve a risk of information negatively impacting the client. This risk is particularly relevant for financial service institutions, where they operate in a highly competitive marketplace and hold confidential and sensitive data and information about their clients and suppliers (Currie, Michell, & Abanishe, 2008). Secondly, customers also face...
a Reputational Risk; often, outsourcing of services does not look good in the eye of a customer, and this could negatively deroute the customers from the client to other competitors just because of the fact that they are outsourcing a part of their services to an outsider. This risk can be viewed in two ways: 1) the risk to the client that their reputation will be undermined following the signing of a KPO contract and 2) the loss of reputation if the client’s business processes and systems are disrupted as a result of KPO. (Currie, Michell, & Abanishe, 2008). Lastly, the focus is required on Compliance and Regulatory Risk. Compliance and regulatory risk are where an outsourcing contract inhibits the client from complying with a compliance or regulatory framework. All countries have various different compliance requirements, which could be missed and go non complied with because of a lack of knowledge of those compliance requirements on the client’s end. This will involve the client hiring another local legal expert to certify they are meeting all compliance requirements decreasing their arbitrage value creation.

The bigger picture here is to see the challenges faced by the service provider in setting up a KPO facility which includes challenges broadly divided into internal and external challenges. Some of the internal challenges faced by the KPO industry in India are explained in brief here. High Attrition rates are one of the biggest problems faced by the KPO industry. In the KPO industry, employee attrition rates are very high as they see a lack of an internal career path and the urge to move to a bigger player in the KPO industry for accelerated growth. Another problem is the Lack of Global domain expertise; success in this activity requires significant offshore experience and the deployment of rigorous methodologies (Agrawal, Goswami, & Chatterjee, 2010). Though India’s education system is very well structured, the lack of global perception of specific domains gives rise to extra training for staff after hiring, which involves huge costs without the certainty of employees staying with the company. (Agarwal & Nisa, 2009). Shortage of Highly skilled labor is another hurdle for the KPO service provider as it is difficult to find talented workers with MBAs, CA’s, PhDs, and Doctors. To maintain a continuous supply of knowledge workers, more education institutes are required. However, opening up new institutes of higher learning is accompanied by a set of problems (Agarwal & Nisa, 2009). The most important problem amongst this set of problems has good quality faculty to teach the students in the education institute. The disparity between the pay in teaching and working in an industry pushes quality teachers to drop teaching and start working in the industry. Coming on to some of the external challenges faced by the KPO industry include a lack of Information Infrastructure. KPOs need a 24/7 Internet connection to collect data, perform secondary research and transmit data back and forth, either nationally or internationally. According to the Telecom Regulatory Authority of India (TRAI), internet bandwidth prices account for almost 40 percent of a KPO’s total costs, thus being a critical differentiator between its success and failure. (Rao & Rao, 2011). KPO’s also face Competitor Challenges; with the perspective of setting up a new KPO facility in India, firstly, one would compete with the big existing players in the industry to set up a presence in the market. If somehow one is able to do that, then the next challenge of procuring business in India comes into the picture. India has comfortably placed in the Location /People attractive metrics, while other countries like China are fast catching up (Rao & Rao, 2011). Lastly, KPOs have this Low cost Low, Quality Image. Throughout the world, this is a predetermined taboo that low cost means lower quality. KPO’s since they involve low costs, is often compared to having the inferior quality of service. It is difficult to tap into those customers who have never worked with the KPO setup before. India’s unique positioning as a low cost, low down the value chain service provider in the form of its BPO operations has turned out to be a double edged sword – It is a cash cow for Indian firms, but when it comes to the choice of processes outsourced to India, Indians cannot seem to shed their ‘Cost Effective Service Provider’ image (Rao & Rao, 2011). A new customer, as a last resort, would start with an inferior BPO process to check the quality of work and, after gaining confidence, would jump onto a KPO service. This transition could take up to years to happen.

4. Evolution of KPO services in India
The KPO industry overall is expected to grow to USD 124.29 billion by 2025. As listed above KPO industry covers a lot of industries, but this research is focused only on the Financial sector; this enables us to get a deeper outlook into that industry

The advancements in technology have allowed the KPO industry to take up more and more tasks that were historically kept in house by the clients. However, the advancement has also led to the automation of many tasks bringing the KPO industry down.

Initially, when KPO was new to the world, clients were hesitant to pass on their knowledge intensive tasks to outsiders, and they typically started with outsourcing simple well, defined tasks for ‘proof of concept’ for initial contracts ranging from 1–3 months (Currie, Michell, & Abanishe, 2008). The performance in these tasks helped them to leverage the service provider in outsourcing their complex tasks with undefined outputs. as part of KPO in financial service industries, ranges from underwriting, actuarial analytics, and asset management in the insurance sector to credit/equity research, portfolio valuation and hedge funds support work in the securities sector. The increasing wave of consolidations and acquisitions, brought about by tightening of legislative restrictions and a generally volatile economy, has increased the need for data and research activities in corporate finance departments, and this is another situation that has created a market for KPO firms, i.e., in M&A research and support work (Currie, Michell, & Abanishe, 2008).
4.1 KPO explored at a Customer and Vendor end

A KPO setup has 2 main aspects to it: the customer side and the vendor side. The basis of a successful KPO setup lies in good vendor customer relationships. In financial services, where change is very frequent, it is very important for the customer to be communicative about these facts and consider the time and efforts taken to give effect to such a change if required. The service providers need to be mindful and accommodative with the constant iterations received from the customer. These can be laid down and agreed upon via a service level agreement.

4.1.1 KPO looked upon from a customer point of view:

The customers are at the highest level of the value creation chain, as shown in the breakup ahead. Before outsourcing, the cost breakup of a typical financial and consultancy firm looks like 20% fixed cost, 60% variable costs, and 20% profit margins. After outsourcing, the cost breakup looks somewhat like this 20% fixed cost, 30% variable costs, and 50% profit margins; this really gives a competitive edge to the firm. Being in different time zones, the customers have a workforce that is typically working around the clock as their local employees work during the normal working hours of the company, and the third party employees are working outside their local office hours, allowing them to speed up their work.

4.1.2 KPO looked upon from a vendor point of view:

The vendors of the KPO service providers are also at an advantage because they are able to harness global projects and create employment opportunities in India. As per the Teamlease employment outlook report, the KPO industry has been the leader in percentage increase of employment as compared to other industries like E-commerce, media, retail, real estate, etc. The survey report identifies KPO’s intent to hire has increased by 66% in the quarter Apr 2022 to June 2022. However, the attrition rates are the biggest hindrance for KPO service providers. In India, the attrition rate for KPO’s is around 10%.

4.2 How can the problems be tackled / risks mitigated?

After a discussion about the driving factors, the challenges, and the evolution of the KPO sector, it is important to throw some light on what can be done to mitigate some of those risks and leverage the most out of the KPO setup. To overcome the challenge of having a shortage of highly skilled labor, one can focus on hiring the best talent from around the country by conducting company events and inviting skilled professionals to showcase the company. Often KPO’s are misunderstood to be BPO’s and the skilled laborers do not want to join a BPO company because of a lack of growth opportunities in that company. The issue here is the lack of knowledge by the skilled labor of what exactly the KPO firm does if they are able to convey what they exactly do in consensus to the targeted employees. This would be helpful. To overcome the challenge of not having global domain experts, one should encourage domain expertise (Daru, 2015) within their teams; they should structure their teams in a way to allow each individual to try various domains in the 1st couple of years of their employment with the company and then choose a particular domain for them to stick which they like themselves and would like to become an expert in that domain. This would be a win-win situation for both the employee by getting a taste of various domains in the company and for the service provider by adding a willing employee as a domain expert. As discussed earlier, one main internal challenge faced by KPOs is high attrition rates. To overcome this challenge, it is important for the KPO to understand why is the attrition rates high in their company which can be obtained by conducting detailed exit interviews as a starting point and to see if there is a pattern in this. The major asset a company loses when an employee leave is the tacit knowledge that the employee has gained over the period. This tacit knowledge is not easily transferable. The next step to beat the attrition rates is trying to align the employee’s personal career growth with the company's growth, often employees change the company because they don't feel they are going to have any growth in the company, but if the company takes additional steps to make sure the employee’s personal career growth is taken care of here they would rethink before switching companies. One idea can be to assign a Career Advisor to each employee who has much more experience in the field in which the employee is working; the goal of the career advisor would be to periodically meet the employee, maybe twice a year or any other frequency what the company feels best and help the employee think about their personal career goals, talk to them about are their short and long term goals, what did they achieve since the last time they both met, what are the challenges they are facing in this company, what more the company can do for the employee to make their work environment better and these conversations require a personal touch between the 2 people involved leaving aside the company’s goals for that conversation. It is the duty of the career advisor to understand the employee's mindset so that if they think they aren’t happy, things can be changed for the employee before he resigns. Making sure that the company’s compensation is in line with what the market offers is also an important factor in retaining employees.

5. India's rise as a global leader through KPO.

India has been dominating the BPO and KPO sector for the last two decades in terms of market share, quality of service, and employment generated locally. To understand what gave rise to India’s emergence as a global leader in the KPO industry, we can piggyback on the Heckscher Ohlin Theory. The study is about international trade, which states what are the reasons for a country to export or imports any particular item. It explains every country has an inherent abundance of certain resources and a shortage of other resources. The country should export those resources which are in abundance for them to leverage this excess of supply.
and import those resources which are scarce for that country. This exchange of resources will help countries across the globe to fill the gaps between the demand and supply of various resources. Different countries have different factor endowments that stem from their historical, geographical, and cultural heritage. It is upon the country to identify these resources (Agarwal & Nisa, 2009). For a Knowledge based industry to flourish, the main resource required is skilled manpower in abundance. India is a country that houses about 1/6th of the world’s population (United States Census Bureau, 2022) and has labor as its naturally abundant resource. India has been able to create a strong education system over the years so that this abundance can be put to use.

India is now standing at the leading position for the KPO industry; however, other countries like China, the Philippines, and Chile are fast pacing up. Despite India’s factor abundance, India has not been able to use its resources at its full capacity because of multiple reasons, internal and external. To maintain this position as a global leader, India should work on the pain points for the KPO providers and come up with the strategic short term and long term strategies to tackle each pain point. The major internal problem why skilled labor does not want to join this industry is a lack of knowledge about the industry’s work. India should work on conducting awareness camps with the help of big players in the KPO market to educate the skilled labor on what this industry does and give them more insights about the growth prospects in this industry and why India is a Global leader. The lack of global domain expertise and the shortage of highly skilled labor can be tackled by entering into partnerships with big KPO players wherein educational institutes could promise to set up a specially designed course for a particular KPO domain against job placement security given by the KPO players to the learners. This will be to the advantage of both sides as it will save time, effort, and money for the KPO player, which would have invested in training the staff and would give job security to the student who would be investing his time in studying that course. Another issue about rising real estate value in the Tier-I cities in India has caused serious damage to the profit margins for the KPOs; despite phenomenal growth, they are facing serious difficulties in surviving in Tier-I cities. Tier-II cities are now becoming the next favorite for KPO business owners to set up their offices to be still able to give a competitive advantage to their clients while also not eating up on their own margins. China and Russia, who have also been KPO service providing countries, were behind in the race because of a lack of English speaking skilled labor, but they are also fast pacing up by teaching English to their people. They would soon be able to beat India at a cost advantage considering their low cost reputation throughout the world. However, India is still a global leader and can stay this way if strategic decisions in this space are taken up jointly by the stakeholders of this industry. A lot of international giants have set up captive centers in India which are becoming tough to maintain efficiently because of many factors like lack of management support, rising expenses, Labor attrition, lack of flexibility, etc. Soon these captive centers might become difficult to operate, and outsourcing the same work to an outsourced KPO provider who has expertise in the same field would become more efficient and profitable. This also creates another opportunity for the Indian KPO players to tap into new businesses.

6. Conclusion

The objectives of this research were to examine the existence of KPO’s in India and identify the key driving factors of the KPO industry in India. Hecker Ohlin’s theory illustrated how many countries have adapted to the factor abundance of their own country by means of outsourcing their work. This gave them various advantages like cost effectiveness, operational expertise, sourcing flexibility, etc. India has proven itself to be the global leader in the BPO and KPO industry time over time by providing these advantages to clients from other countries without compromising on quality. However, as the other countries are fast pacing up, India needs to come up with new strategies to maintain a competitive edge over the other countries. One means of overcoming this hurdle is for India to identify the various problems being faced by KPO’s, some of which were listed above, like the high attrition rates, shortage of highly skilled labor, lack of strong infrastructure, etc., and subsequently, works on tackling these problems at a large level. Rather than letting the KPO deal with the problem themselves at a personal level, since India already holds the majority of the world’s KPO business and they have a large volume, they can work on these strategies at higher levels and offer solutions to attract new KPO business and retain existing KPO business. The study has listed strategies that can be adopted by Indian service providers to maintain this competitive advantage and scale this industry to greater heights. This study offers service providers a roadmap for tackling any pain points in this industry. It has also identified broad and high-level strategies for adoption and does not go deep into industry specifics within KPO. A reader is expected to consider these strategies as a reference to build up their own industry specific strategy and not follow these strategies as is. India surely has an advantage for being a labor-intensive country; India should not let this advantage go down the drain but rather should work towards utilizing it to its full potential. If done so, India will have a bright future as a knowledge leader. KPO’s in IT has flourished and matured, but the KPOs in the finance sector in India is still at a very seed level stage and have an enormous scope of growth if the correct strategies are laid upon. This study highlights the need for further detailed research in the field of strategy implementation for the KPO business to grow.

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