

## KPO — An Emerging Opportunity For CAs

**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. Knowledge Process Outsourcing (KPO) is a new phenomenon that is picking up pace in India. As per NASSCOM estimates, the KPO industry is expected to grow by 45 per cent by 2010. Out of the \$16 billion, which the KPO industry is estimated to earn, around \$12 billion would be outsourced from India. As such, it offers excellent opportunities for Chartered Accountants.**

**W**hat is a KPO? A typing error or a glorified abbreviation to replace BPO?

Knowledge Process Outsourcing, a new high growth industry is growing at a rapid pace India. Simply put, it is the upward shift of the BPO industry in the value chain.

The concept of outsourcing started with Ross Perot when he founded Electronic Data Systems (EDS) in 1962. EDS would tell a prospective client: "You are familiar with designing, manufacturing and selling furniture, but we're familiar with managing information technology. We can sell you the information technology you need, and you pay us monthly for the service with a minimum commitment of two to ten years."

Outsourcing entails the transferring of an organisation's repeated non-core and core business processes to an outside provider to achieve cost reductions while improving service quality. Outsourcing can take place anywhere and locations are no constraints; hence the KPO practices can work for the client within the same city, state of the same country or in another country.

When outsourcing takes place across borders, it is termed as offshore outsourcing. Modern telecommunications and Internet technologies allow outsourcing to another

country with lower costs. Offshore outsourcing takes advantage of the difference in time zones and arbitrage that exists in labour costs across countries. Outsourced services are produced in the country with lower costs and transported digitally to the customer or organisation based in a country with higher labour costs.

The offshore outsourcing industry in India has grown rapidly each year over the past decade and has provided employment to hundreds of thousands of young men and women.

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KPO is a new industry with a high growth rate in India. Older BPO companies that provided basic back-end or customer care support are moving up this value chain. Unlike conventional BPO where the focus is on process expertise, in KPO, the focus is on knowledge expertise.

KPO involves business processes requiring domain expertise and high-end qualifications such as the MBA and/or the engineering, medical, law, accountant degree or other highly skilled professional qualifications. KPO requires moving away from the simple execution of standardised processes to the implementation of processes that demand advanced analytical and technical skills together with some decision-making. India, China, Russia, Canada, Israel and the Philippines are some of the major KPO service providers today.

**- CA. Pawan Kumar Sharma**

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Clients of KPO services include market research and consulting firms, investment banks and financial services institutions, patent-filing companies, legal and insurance claims processing and corporate planning departments of large Fortune 500 companies. As these services are project-based, small and medium sized enterprises can also avail KPO services.

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### Opportunities for CAs in KPO

The work to be performed in the KPO industry is of a specialised nature. Chartered Accountants with considerable exposure to trade and industry together with accounting and auditing hold an advantage over professionals from different backgrounds. Finance related work in the KPO industry might involve equity research, business valuations, investment avenues and market analysis. People with in-depth market knowledge will be better able to serve KPO clients. KPO is management consultancy; a field where CAs have strong and established expertise.

The ideal KPO employee should possess good computer skills, be domain specialists, possess a high level of conceptualisation, have the aptitude to manage different database systems and be research-oriented. Additionally, the employee should be consistent with good English language and writing skills and must hold a professional degree. Chartered Accountants

possess these qualities and together with their natural flair for mathematics and research, they are ideal candidates to be a vital part of the KPO boom in India.

TYPES OF KPO SERVICES PROVIDED BY CAs	
1.	Business and Technical Analysis
2.	Legal Services
3.	Preparation and filing various forms with legal authorities
4.	Preparing Accounting Manuals
5.	Continuous business improvement in business cycles
6.	Assets Record keeping & verification
7.	Taxation Consultancy
8.	Credit appraisal of customers
9.	Business & Market Research
10.	Evaluation of supply chain
11.	Writing & Content Development
12.	Intellectual Property (IP) Research
13.	Data Analytics
14.	Analysis of Management Information System
15.	Network Management
16.	Training & Consultancy
17.	Research & Development

### Difference between KPO & BPO

1. **Process:** It is not a simple case of the 'K' replacing the 'B'. KPO involves high-end processes like valuation and investment research, patent filing, legal and insurance claims processing, amongst others.
2. **Focus:** Unlike conventional BPO where the focus is on process expertise, in KPO, the focus is on knowledge expertise.
3. **Specialisation:** The difference lies in domain specialisation. BPO employees do not generally require specialised knowledge. Customer care executives at a BPO require good knowledge of the English language, the ability to be articulate and possess basic computer skills. On the other hand, a KPO organisation specialising in

equity or financial analysis for example, can employ highly qualified professionals who possess high-end knowledge of accounts and finance. S/he should hold a MBA or a CA qualification.

4. **Driving Force:** While KPO organisations are knowledge-driven, BPOs are process-driven.
5. **Activities:** KPO involves off shoring of knowledge intensive business processes that demand specialised expertise. This delivers high value to organisations by providing much required business expertise. A few examples of KPO businesses are online teaching, patent filing, legal and insurance claims processing, valuation research, investment research and media content supply. BPO on the other hand, involves a pre-defined way of handling a business process, which is taught to agents or employees. BPO services normally include transaction processing, setting up a bank account, selling of insurance policies, technical support and voice and email-based support.
6. **Contact with clients:** Unlike BPOs, KPO employees tend to have greater direct contact both with international clients and with their teams overseas, once again underscoring the need for specialised skills. This could mean establishing direct channels of communication with a team member overseas to seek clarifications in the midst of completing work. If the work involved is complicated, direct communication with the client may also be needed, as seen in several cases of filing tax returns.

When comparisons are drawn between BPOs and KPOs, some experts mention that KPOs are no different from BPOs; that they are only a variant of BPOs. Broadly speaking, KPO is a division of BPO. While occupying the higher end of the BPO spectrum, KPOs owe their existence to BPOs. KPOs are a natural progression from BPOs.

### Advantages of KPO

1. By outsourcing work to low cost countries, firms in developed nations can save on costs that amount to anywhere between 40-70 per cent.
2. Revenue from KPOs is at least twice that of BPOs — \$22 to \$24 per hour offered by KPOs compared to \$8 to \$11 per hour offered by BPOs - while the capital expenditure per seat is about the same at \$6,000 to \$8,000.
3. KPO is a large and exciting opportunity for developing countries, which not only generates revenue for them, but also significantly increases the country's profile in the global high-value added services markets.
4. KPO has the potential of becoming a showcase of human capabilities beyond IT and BPO, offering the perspective of a sustainable and defensible presence in an increasingly competitive global services market place.
5. KPO services help improve the time-to-market and speed factors and access to special skills. Additionally they provide peak load absorption by reducing complexities, while at the same time increasing flexibility, thus enhancing organisational productivity. Consistent quality is what really drives buying decisions.
6. KPO services can enable enterprises to reduce design-to-market lead times, manage critical hardware efficiently, provide research on markets, competitions, products and services and enhance organisation effectiveness in business administration; all of which help in dealing with rapidly evolving business scenarios.
7. KPO agents earn 46 per cent more than BPO executives. A BPO executive in a developing nation earns about \$6,000 a year whereas his KPO counterpart can earn over \$8,800 annually— a huge 46 per cent difference. Evalueserve released these figures in a

recent survey on the KPO sector.

8. The salary gap is not limited to BPO versus KPO. Whereas, a fresh MBBS or law graduate earns Rs 1.5 lakh annually in a developing country, a KPO alternative can offer up to a 500 per cent increase!

### Current Outsourcing Trends Worldwide

There is a rapid growth in outsourcing traditional functions like customer care, financial services, manufacturing, IT and ITES. Today, MNCs continue to invest in captive BPO units across supplier countries to reduce risk and improve control quality. With customers demanding business process excellence, rapid access to markets, an improvement in quality and adhering to world-class standards, the outsourcing industry is more sophisticated today than ever. Today, CEOs actively partake in business dealings to ensure the long-term success of strategic offshore decisions. On their part, suppliers understand that as they compete globally, outsourcing plays a greater transformational and strategic role for the client. There is increasing global competition and pressure on margins from emerging lower-cost outsourcing destinations. The outsourcing of business processes is vulnerable to threats from terrorism and war, disaster and disease, which necessitate contingency plans.

### Future Outsourcing Trends Worldwide

In times to come, more and more countries will outsource to low cost countries. Following the lead of the U.S. and U.K. While Japan will increasingly look to China for its needs, the European Union markets too will expand off-shoring programmes to other nations. Companies will now pressurise governments to avoid political stand offs that may lead to war like situations as outsourcing has led to the inter-linking of supply chains. Instability in one country can adversely affect economic fortunes of companies based in another country. The ongoing rise in oil prices has put an

increasing pressure on companies for optimal use of their resources in terms of technology and outsourcing to maximise profits. India can demonstrate excellence in services that require advanced English language skills like Knowledge Process Outsourcing (KPO), content management and medical assistance. In time, a paradigm shift in technological power from west to east will take place as India and China emerge as big players in the global outsourcing market. In the coming year, there will be a flood of companies targeting niche services.

### Challenges Before KPO

Even though points mentioned above make KPO businesses a lucrative option for qualified personnel to work in, there are many grey patches that recruiters have to go through.

As KPOs deliver high value services to organisations by providing domain-based processes and business expertise, it is not easy to become a strong KPO power. There are many risk factors that KPO organisations face.

These processes demand that prospective KPO employees have advanced analytical and specialised skills together with domain experience. Therefore, outsourcing of knowledge processes poses greater challenges than outsourcing business processes.

The nature of KPO businesses necessitates greater infrastructure investments than their BPO counterparts. They also have to adhere to higher quality standards. Some of the other challenges facing KPOs are the lack of a talent pool and confidentiality issues.

Effective execution of KPO projects is a difficult proposition; one that requires a 'professional services culture' rather than a BPO culture. Processes executed within the KPO domain require higher quality standards because the stakes for the clients are high.

Another challenge in the management of a KPO is the identification of performance

criteria – setting the right expectations with the end-client as well as the professionals they hire. continuous assessment and monitoring, constructive feedback, appropriate coaching and mentoring and identification of right career paths for their professionals.

Attrition would be one of the biggest problems facing KPOs. It is not easy for companies to attract and retain the right kind of employees. Most qualified professionals perceive it to be low-grade work. Besides, popular perceptions about BPOs and pressures of 24x7 environments also refrain professionals from opting to work in KPO companies as a career.

In the case of BPO, the only prerequisite to get the job is knowledge and ability to speak fluent English, while also having basic computer

skills. However, in KPO the companies look for individuals who have homogenous mix of knowledge, English speaking skills, attitude and prior work experience. Challenges before the KPO can be summarised as follows:

1. They require higher quality standards.
2. KPOs are more advanced and have costly infrastructure.
3. They are likely to require higher amounts of capital.
4. They face lack of a good talent pool.
5. They require a higher level of control, confidentiality and enhanced risk management. □