Challenges for Indian Companies in the Financial Services KPO Business

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ABSTRACT *KPO (Knowledge Process Outsourcing) implies outsourcing of knowledge intensive business processes that require specialized domain expertise. Unlike BPO (Business Process Outsourcing), which follows pre defined and structured processes that can be performed by virtually anybody, these processes demand advanced analytical and specialized skill of knowledge workers who have specific domain proficiency. Therefore, outsourcing of knowledge processes face more challenges than BPO.*

INTRODUCTION
Financial Services KPO Business in India
The evolution of the Indian Business Process Outsourcing (BPO) sector has given birth to a new trend in the global outsourcing scene: KPO or Knowledge Process Outsourcing. In BPO, clients provide the business process requirements and the outsourcing service provider in India follows the needs of the client. KPO is significantly higher on the value chain and involves processes that demand advanced information search, analytical, interpretation and technical skills as well as some judgment and decision making. For example, Financial Services KPO usually deals with areas such as insurance underwriting, fund management, risk assessment and actuarial analytics, debt collection and recovery, equity research, financial data mining, corporate & market research. Cost savings, operational efficiencies, access to a highly talented workforce and improved quality are the major drivers behind knowledge process outsourcing to India.

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 knowledge, there is never a pre-defined process or a structured, rules-based manner to reach a conclusion or solve a problem. Instead the term KPO can be interpreted to mean outsourcing of knowledge intensive business processes that require specialized domain expertise.

A few of the prominent Indian players in the financial services KPO domain are Office Tiger, Smart Analyst, The Smart Cube. In addition to these, a number of MNC KPOs such as Evalue Serve, GE Capital as well as captive arms of global firms such as JP Morgan, HSBC, Reuters, Fidelity, Morgan Stanley and Citigroup also operate in India.

Objectives
The three fundamental objectives of the research paper are:
- To identify the key challenges faced by Indian financial services KPOs companies
- To identify the factors behind each challenge
- A possible strategic and operational action plan that can ease the way ahead
- To HR challenges.
- To analyze other related challenges.

Challenges of KPO Business
INTERNAL CHALLENGE
KPO services in India are set to touch the $17 billion mark by 2010 (CII). To grab a sizable market share in the KPO sector, Indian companies will need to recruit a significant number of highly qualified employees with very strong academic backgrounds. Unlike a BPO where fluency in English is all you need to get in, the work in financial services KPO requires expertise in specific domains such as financial analysis and equity research. Access to a large, high-quality skill pool is a precondition for successful KPO operations. But the requisite skill pool is not easy to get. Reasons being:

- High competition for access to a limited superior - quality pool - Few of the graduates and MBAs India produces every year actually possess the high quality and functional competency that is essential in a knowledge intensive project - primarily due to ineffective government monitoring of the quality of colleges.
- Successful players attract better people - Global MNCs like E value serve and GE manage to attract better talent than Indian players in the financial KPO domain because of better brand name and pay
- High attrition rates – This occurs as a result of poaching by competitors and frequent job hopping by young employees looking for better job opportunities
- Lack of domain expertise - Graduates in India may not be aware of the client's business environment E.g. US system of accounting (US GAAP)
- Incorrect perception of the KPO profession as low grade – Qualified professionals mistake a KPO job to involve low level work and a 24x7 pressure environment similar to that of a BPO and refrain from undertaking it.

CUSTOMER CHALLENGES
Demand for Quality
In BPOs, there is a pre-defined way to solve a problem which the employees can be trained to learn. Clients have an OLA (Operation Level Agreement) or SLA (Service Level Agreement) with the Outsourcing Company where both parties decide on certain metrics for quality adherence – for example, a customer service call pick up time should be less than ten seconds. In contrast, KPOs require keen understanding of how a client works and what his exact needs are for each assignment. No pre-defined process can be created and replicated each time there is an assignment since every project is unique. As a result of this, *defining an ideal metrics to measure the quality of work can be quite a difficult task*. For example, an analyst may target twenty factors of importance for a market research study whereas another analyst may shortlist just five. The client may be pleased with the preciseness of the latter though the number of factors seem inadequate compared to the former. Thus, the difficulty lies

in accurately determining whether you met client expectations or not. Ultimately, the client in a KPO will not look at dollar figures but will be mainly concerned with quality of services. That is where Indian companies may fail.

Concern over Data Security and Client Confidentiality

In an opinion poll Conducted by NASSCOM and the Information Technology Association of America (ITAA) in 2004, greater than 75 percent of respondents agreed that offering sophisticated information security provisions and practices provide a competitive advantage because security has become a critical selling point. According to Ernst & Young's 2004 Global Information Security Survey, companies have identified major viruses, spam and employee misconduct as the key concerns in India. The data and information a KPO business works with is extremely sensitive. Clients such as banks, insurance companies and corporations trust KPO providers with company financial data, treasury and cash management functions and investment portfolio decisions. Thus, KPOs are privy to information not otherwise public knowledge. Thus, *clients often hesitate to offshore research and processing of sensitive financial data and information involving strategic decisions*.

COMPETITOR CHALLENGES
Competition from Other Countries

Countries such as China, Philippines, Mexico, and Ireland are fast emerging as alternative KPO Services destinations. Although, according to McKinsey analysis, India is comfortably placed in the Location /People attractive metrics, other countries like China are fast catching up. A *positive foreign investment climate, favourable government policies and an educated, yet low cost workforce* are encouraging foreign financial firms to offshore their KPO needs to these countries.

INDUSTRY CHALLENGES
Information Infrastructure

KPOs need 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 per cent of a KPO's total costs, thus being a critical differentiator between its success and failure. Although, major reforms have been undertaken by the government to spur the growth of IT infrastructure, there are a few significant roadblocks, such as:

*   **India's high international bandwidth prices** - Leased line is the most preferred mode of internet connectivity due to its permanent "Always on" connectivity, reliability and speed. Unfortunately, India's international bandwidth prices are the highest in the world, the main reason being market control by an oligopoly of few players such as VSNL, Reliance, Bharti. In contrast, in highly competitive Western and East Asian markets (e.g. 14 in Korea and 32 in Germany and U.S.), a large number of players force prices down and keep bandwidth charges minimal.
*   **High entry fee for Internet Service providers (ISP) who provide Virtual Private Network services (VPN)** – which is a viable alternative to leased line connectivity. The entry fee for the cash strapped ISPs is around Rs. 10 crore for an all-India license, apart from an annual revenue-share license fee of 8 per cent.

Low Cost -Low Quality Image

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. Foreign companies also worry about the quality of work that a low wage country like India can deliver.

HR Challenges
Converting service level agreement into KRA/KPI:

KPO organization are committed to delivering work with utmost quality, and within tight deadlines, and considerable challenge HR face is how to convert the service level agreement in to KRA/KPI, the situation also aggregates when each individual is working for multiple clients across industry verticals, and the challenge HR faces is how employees performance can be assessed scientifically with no subjectivity involved.

Talent Nurturing :

Trainings are focused mainly on improving the Quality of workforce since the contribution of each employee reflects in the final product. Training programme like English Writing, Email Writing and Telephone etiquette, Introductory programme in cultural sensitivity is the norm for many of the KPO's, apart from this management some time sponsor or encourage employees to take higher educational certifications like e-MBA, Chartered Financial Analyst (CFA) and Association of Investment Management Research (AIMR) programmes are encouraged for high potential employees.

Challenge for HR is to design the customized training modules and the challenge is when training programme has to designed for specific projects like if any financial project for a particular country is taken then employee needs to know the laws of that country.

Knowledge Management:

Employees are intellectual assets of any KPO. When employees exit, intellectual asset of the organization diminishes causing high intellectual drainage, now the Challenge of HR is how the tacit knowledge of the employee is captured and creating infrastructure for capturing the tacit knowledge.

Managing Stress of Workforce:

Stress of the workforce is something, which cannot be ignored by the HR, and today it is rampant in any industry, and KPO is not left out from that, today employees has to deal it with effectively but stress arising from monotonous and repetitive nature of job is a challenge not only for HR but employee itself. This can be addressed by initiating HR programmes like mediation/Yoga course from Art of living, arranging recreational activities periodically.

Working in Different Time Zones:

Employees need to work on different time Zone, and these sometime impacts their health, and over all well-being of the employee. This situation put HR in the challenging task of ensuring the security and safe being of female employees.

Instilling Integrity as Value System in Employees:

KPO requires a higher level of data confidentiality and data security; the challenge of HR is not policing the employee but having a watchful eye and challenge of bringing relevant HR policies and periodically sensitizing employees and project invisibly integrity as a value system.

Maintaining Internal Parity in Compensation:

In KPO there is crunch for talent and most of the time its war for the talent, KPO is a specialized field, and requirements will also be typical, now the biggest challenge is getting the right talent and paying him, but maintaining pay parity is a challenge since every year the cost of talent available in the open market is increasing. Maintaining pay parity is critical in KPO since employee morale has to be maintained.

Talent Acquisition and HR Brand Equity

India is the second largest pool of English proficient resources in Information Technology Engineers, doctors, Managers but still we face the talent crunch since many of the qualified candidates have reservations about considering KPO as a career. India is a diverse country and talent is widespread across the country, and many of time after many rounds of interviews and offer negotiations candidates backup at the last moment, citing relocation issues since India is a coun-

try where we would like to be near with family and friends. The Talent is not uniformly distributed across; sometimes it becomes a challenge for HR to scout talent. Unlike other industries in KPO recruitment is complex focused on multiple round of interviews focusing on a different aspect of evaluation like domain expertise, analytical and data mining skillset, conceptual knowledge, verbal and written communication skills in alignment towards domain expertise and evaluating on softer skill set like working in the Team and working under pressure, Challenge for HR is to balance – a) Aspiration of candidate, organization and cultural fitment. For maintaining this HR need to act as a consultative needs analyst for the candidate and organizations rather than acting like a sales person who sells the Job description to the gullible candidates.

Instantaneous Nature of Employees

KPO employees are knowledge workers, so they expect a quick response to their queries and issues, and sometimes it becomes a challenge for HR since many of the time request comes regarding infrastructure and new policy related which immediate response HR might not be able to give. The HR challenge also lies in creating HR Brand equity and improving employee's perception of HR as a credible business partner.

Retention Management:

Attrition is another challenge faced by HR professionals. Attrition kills the productivity and at the same time destroys the morale of the employees. Challenge for HR is to control the attrition of high performance employees who are rated at 4 and 5 in the appraisal cycle and identifying high potential employees who are rated at 3 in appraisal cycle. Grooming them through assigning a suitable mentor and implementing succession management with clear differentiating with replacement management, in succession management employees should let know whom he or she will be replacing, and a coach/mentor should be assigned, and a periodic evaluation and assessment to be done.

SUGGESTIONS

India may start to lose its low-cost advantage in future. Low-end services may move to even cheaper destinations. For India to stay ahead in the global outsourcing market it will have to develop its indigenous KPO industry and maintain its leading edge. Few ways of overcoming the several challenges ahead of the financial service KPO industry would be:

Steps at the Operational Level

- **Skill Upgrade -** More focus on training, constructive feedback, appropriate coaching, mentoring and building domain expertise
- **Staff Retention -** Identifying right career paths for their professionals - the central theme being nurturing professionals, not poaching
- **Better Security -** Need to invest heavily to adopt and enforce best practices in information and data security - Measures may include biometric security, and employee background checks

- **Better Control Mechanisms -** Organize methodical status reporting for outsourced processes, ensure continuous evolution of the control structure, and review of the defined contract specifications, in order to maintain quality of KPO deliverables.
- **Improve SLAs (Service level Agreements) to Improve Quality -** Need to utilize comprehensive, continuously updated service level agreements to quantify and effectively measure the quality of services provided. Outsourced processes should be better defined and documented – leading to greater clarity.

Steps at the Strategic Level –
Attract Better Quality Professionals By

- o **Involving Government to Enlarge the Pool -** Keeping in view the tremendous need for academically qualified personnel in the KPO sector, the Indian education system needs to be given a major face-lift. The government needs to invest more in education, allow more private sector participation and monitor the quality of colleges more diligently.
- o **Creating More Awareness About the Nature of Work KPO Involves –** There is a need to create awareness that KPO is different from BPO and involves high end knowledge intensive work.

Bring in More Capital By

- o **Entering into Partnerships with Big Financial Service Organizations –** This step can help in two ways - provide much needed cash to Indian financial services KPO's and also impart the requisite domain expertise
- o **Getting more Venture Capital –** Another viable option to gather funds for cash strapped Indian KPO units

Form an Effective Industry Association to

- o **Lobby with the Government to bring on**
- - Better regulations in the form of more stringent IT acts
- - Better enforcement of laws by creating regional regulatory bodies to help in diligent monitoring
- - Improving the information infrastructure by taking adequate steps to reduce prevailing bandwidth prices. Ref (1)
- o **Build Brand India –** There is a need to lobby for and increase the value of 'Brand India' as a potential high end financial services outsourcing destination. Selling KPO services abroad and helping it scale up to a global size would require significant branding efforts in the medium-term.
- o **Collaborate with Institutes like Carnegie Melon or Other Financial Services Accreditation Organizations –** In order to develop process or quality standards for the KPO industry, similar to the creation of CMM standards for the software industry. This would not only help KPOs gain credibility with their clients but also fight multinationals entering this domain.

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