Taking global in-house centers to the next level
Connect at the core
Introducing the Global In-house Center (GIC) Capability Maturity Index, featuring the findings of Deloitte’s 2014–2015 Global In-house Center Survey

Over the last few years, more than 750 multinational corporations have established Global In-house Centers (GICs) in India in an effort to leverage the nation’s highly skilled, low-cost talent pool to reduce cost of ownership and to serve fast-growing global and regional markets. Historically, the maturity of these GICs has evolved gradually, taking years to progress from dedicated centers set up for one or two functions to multifunction centers providing value-added services both locally and globally.

Time, however, is running short. The current business environment is global, complex, agile, and influenced by the digital revolution, which means it is accelerating. To keep up, many multinational corporations are seeking to restructure their service delivery models and to integrate GICs in more expansive ways. Accordingly, GICs are being challenged to rapidly evolve their operating models to move up the value chain. As such, they are increasingly transitioning from being pure play cost centers to becoming centers of excellence delivering innovation, quality, and strategic value. Aspiring to higher levels of capability maturity, however, raises a number of questions for GICs and their parent organizations, such as:

- What defines “capability maturity”? And where does our GIC stand now?
- How do we enhance the capability maturity of our GIC?
- How does our organization’s service delivery and shared services strategy compare to others?
- Where should we focus our limited resources? How do we prioritize?
- How do we continue to improve operations and optimize service delivery?
- What are some ways to improve service levels while maintaining the right cost structure?
- How do we incorporate outsourcing as part of the service delivery model?

To address these questions, and others like them, Deloitte in collaboration with the Indian School of Business (ISB) surveyed leaders and decision makers of 27 India-based GICs. To further illuminate improvement and growth opportunities for GICs, the team correlated the findings of the survey with the GIC Capability Maturity Index (CMI). This model, which was jointly developed by Deloitte and the ISB, aims to provide a consistent, robust, industry-wide index that:

- Assesses the capabilities of a GIC in absolute and relative (i.e., peer comparison) terms.
- Identifies specific processes and capabilities in which GICs may need to invest in order to deliver required business outcomes reliably and sustainably.
- Assists in building a credible business case for growth and expansion.
- Helps showcase the value delivered to the parent organization.

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Capability maturity index
The GIC CMI is composed of two parts, a curve that illustrates the progressive capability maturity levels for a GIC (See Figure 1); and, a framework that gauges the maturity of participating GICs across the key areas of strategy, control, coordination, talent, and operational performance (See Figure 2).

In correlating the survey responses with the two components of the CMI, our team found:
• Responding GICs could generally be classified into one of the following three maturity clusters: Resource Centers, Quality Centers, or Innovation Centers.
• No clear concentration of GICs fell within the maturity classifications of Market Expansion Centers and Global Delivery Centers. Nonetheless, several GICs classified as Innovation Centers and Quality Centers could potentially move along the maturity curve to increase their value propositions.

• With respect to capabilities, some companies are outliers within their cluster. These GICs possess the capabilities of Quality Centers but are classified as Resource Centers due to their strategic focus.

Importantly, moving up the curve is not necessary—or even desirable—for every GIC. An organization should consider its strategic goals and its vision for the GIC to determine if it should seek to transition to the next level of maturity or if it should focus on improving performance within the current level.

One size doesn’t fit all. An organization should consider its strategic goals and its vision for the GIC to determine where it wants to be on the maturity curve.

Figure 1: GIC maturity curve

The parent leverages the captive not just for global innovation but also local market expansion and management of strategic local partnerships.

The focus is on innovating for the parent’s business, i.e., the GIC is responsible for conceptualization, design and delivery of new products.

The focus broadens to improving quality of modular products and services through process standardization and optimization.

The primary objective is to reduce cost of ownership of certain business functions and/ or provide resources that help the parent scale its operations.

The parent leverages the captive to manage end-to-end delivery of global products through improved coordination with the parent and other centers.
Figure 2: The GCMI framework

- **Strategy**
  - What is the strategy focus? Which markets need to be served?
  - Product Markets Served
  - Nature of Product Innovation
  - Magnitude of R&D Expenditure
  - Extent of Third-party Outsourcing
  - Size of Product/Service Portfolio
  - Diversity of Product Portfolio

- **Capabilities**
  - What are the decision structures and hierarchies?
  - Extent of Joint Decision-Making
  - Metrics driven
  - Performance Management
  - Nature of Organizational Structure

  - What forms of coordination best execute work?
  - Modularization
  - Information Sharing
  - Tacit Coordination
  - Technology Enablement

  - What are the best practices for talent management?
  - Workforce Composition
  - Access to Rewards and Incentives
  - Formalization of Career Paths
  - Training Expenditure
  - Performance Management

- **Performance**
  - Operating Costs
  - Costs of Ownership
  - Scale of Operations
  - Quality Certifications
  - Number of Patents and New Products
  - Local Revenue Contribution
  - Process Standardization
  - Attrition Rate

- **Maturity/Evolution of GIC**
For more than 80% of the survey respondents, cost savings was an important motivation for setting up India centers. However, it diminishes in importance as GICs mature into Innovation Centers and as other objectives begin to compete for priority.

Survey findings
According to the survey findings, additional objectives for establishing India centers include:

- Access to competencies and scaling operations (i.e., Resource Centers).
- Improving quality of products and services (i.e., Quality Centers).
- Scaling operations, innovating for local and global markets, and accelerating time-to-market (i.e., Innovation Centers).

In addition to providing insight into motivations for establishing GICs, the survey results highlighted some common operating challenges found across maturity levels, along with several opportunities for GICs to improve their performance and reduce operating costs including:

1. Balancing GIC autonomy and coordination
   - The survey findings suggest there is a need to balance GIC autonomy with coordination with the parent company. The challenge is to manage the trade-off: greater GIC independence could yield superior innovation performance, especially in local markets; however, this autonomy usually comes with lower cost savings.
   - As GICs mature from Resource Centers to Innovation Centers, the ability to coordinate their activities with the parent’s core operations becomes more important. This balance can produce both cost savings and innovation while helping the GIC to better integrate with the parent organization and to gain an understanding of global product markets.

2. R&D and innovation
   - When it comes to focusing on innovation, GICs generally give priority to global products/services over local ones.
   - Across maturity levels, GICs are more likely to innovate by leveraging employee ideas or adjusting their procedures, rather than revamping their operating models.
   - As one might expect, more projects are devoted to R&D in Quality and Innovation Centers than in Resource Centers (see Chart 1). Furthermore, the tasks within Quality and Innovation Centers involve far more interdependencies with the parent organization than those in Resource Centers.
   - The survey findings indicate the investments required to manage such interdependencies are nearly 14% greater in Quality and Innovation Centers than in Resource Centers.

**Chart 1: number of R&D projects**

- Projects dedicated to R&D rather than improvement, Adaption & Support
3. Operating costs and attrition

- Even though Resource Centers have cost savings as their primary focus, the survey responses indicate that their operating cost per employee is the highest among the three maturity clusters (i.e., Resource, Quality and Innovation Centers). While the data does not provide direct insight into this anomaly, Resource Centers may employ global talent to a greater extent than other maturity clusters, which could account for the higher comparative operating costs.
- Of the three maturity clusters, Quality Centers have the lowest average rate of attrition (see Chart 2).

Chart 2: Average operating cost per employee and attrition rate

<table>
<thead>
<tr>
<th>GIC Maturity Level</th>
<th>Avg. Op. Cost per Employee (INR Lacs)</th>
<th>% Attrition Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Center</td>
<td>14.9</td>
<td>13.6</td>
</tr>
<tr>
<td>Quality Center</td>
<td>11.6</td>
<td>12.7</td>
</tr>
<tr>
<td>Innovation Center</td>
<td>13.5</td>
<td>12.6</td>
</tr>
</tbody>
</table>

4. Talent gap

- Global experience and managerial talent correlate to greater innovation and lower operating costs in Quality and Innovation Centers; yet, underinvestment in such talent reflects gaps in supply.
- Managerial talent and global experience are invaluable across all maturity levels. A regression analysis based on client experience and the survey findings indicated:
  - A 10% increase in such talent yields nearly 15% more process innovations within Quality Centers.
  - Within Innovation Centers, an equivalent increase yields nearly 25% more strategic innovations (i.e., 80 patents), and operating cost savings of nearly US$7,750 per employee.
- Despite their significant value, managerial talent and global experience are typically difficult to source in Quality and Innovation Centers.
- The survey produced somewhat different findings for technical talent. For instance, while technical talent helps build scale in Resource and Quality Centers, it creates strategic value in Innovation Centers; therefore, it is more costly in the latter.
  - Regression analysis revealed that a 1% increase in technical workforce increased operating costs per employee by US$367 for Innovation Centers, while it reduced these costs by US$5–$60 for Resource and Quality Centers.
5. Improvement opportunities

- The survey findings highlighted several opportunities for GICs to improve performance and reduce operating costs. These opportunities can potentially be realized by focusing on certain attributes, such as degree of GIC autonomy, extent of information sharing, ability to build common ground, and technology-enabled coordination. Regression analysis further defines the potential magnitude of these opportunities as illustrated in Table 1 below.

<table>
<thead>
<tr>
<th>GIC Attributes</th>
<th>Resource Center</th>
<th>Quality Center</th>
<th>Innovation Center</th>
</tr>
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<tbody>
<tr>
<td>Degree of GIC Autonomy</td>
<td>12% increase in HQ participation in decision making (i.e., reduced GIC autonomy) could lead to a decrease of US$350 in operating cost per employee</td>
<td>19% increase in HQ participation in decision making (i.e., reduced GIC autonomy) could lead to a decrease of US$2,133 in operating cost per employee</td>
<td>15% increase in GIC autonomy could result in 233 more patents filed per year</td>
</tr>
<tr>
<td>Information Sharing</td>
<td>24% increase in investments in information sharing could lead to a decrease of US$11,000 in operating cost per employee</td>
<td>40% increase in investments in information sharing could lead to a decrease of US$183 in operating cost per employee</td>
<td>11% increase in investments in information sharing could result in 99 more patents filed per year</td>
</tr>
<tr>
<td>Common Ground</td>
<td>-</td>
<td>33% increase in investments in building common ground could lead to a decrease of US$2,133 in operating cost per employee</td>
<td>8% increase in investments in building common ground could result in 100 more patents filed per year</td>
</tr>
<tr>
<td>Technology-enabled Coordination</td>
<td>-</td>
<td>-</td>
<td>20% increase in investments in technology-enabled coordination could result in 100 more patents filed per year</td>
</tr>
</tbody>
</table>
Conclusion

Most GICs in India continue to evolve in light of changing business priorities. While several have achieved critical scale and have succeeded in delivering significant cost savings, increasing operating costs are making it harder for even the most successful GICs to generate incremental value moving ahead. Therefore, it has become imperative for GICs to reinvent themselves to stay relevant and add demonstrable, sustainable value to their parent organizations. Some may accomplish this, for example, by acting as global centers of excellence, providing large-scale, highly standardized services at reduced costs, enabling regional/local innovation, and driving market expansion opportunities for the parent.

In undertaking such a transformation, GIC leaders should not only seek to understand the maturity level of their current capabilities but should also develop a value proposition that is relevant to the changing marketplace dynamics in which the parent organization operates. The GIC Capability Maturity Model is intended to provide GIC leaders with a structure for thinking about strategic direction, investment priorities, and potential paths to capability maturity on their journey to becoming a best-in-class operation.

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About the Survey
Deloitte, with the Indian School of Business, has completed its first annual GIC Maturity Index survey to provide insights into the current maturity and potential evolutionary paths of GICs in India. The 2014–2015 survey was conducted in the second half of 2014. It is based on responses from key leaders and decision-makers of 27 India-based GICs that cut across industries, represented multiple functions, and have a minimum of 300 employees.

Acknowledgements and Contacts
We would like to thank GIC leaders across India for participating in the inaugural survey and look forward to their continued participation in creating a robust framework designed to provide a strong, on-going industry benchmark for GIC capabilities.

Key Contacts
To explore where your GIC stands in terms of capability maturity or to take a more in-depth look at the survey findings, please contact us.

Report Authors
Deepa Mani
Joint Executive Director of
Sri Ni Raju Centre for IT and
Networked Economy
Indian School of Business
deepa_mani@isb.edu

Amit Desai
Senior Manager
Deloitte Consulting LLP
amitdesai@deloitte.com

Report Sponsors
Parag Saigaonkar
Principal
Deloitte Consulting India Pvt Ltd
psaigaonkar@deloitte.com

Gaurav Gupta
Senior Director
Deloitte Touche Tohmatsu India Pvt Ltd
gugaurav@deloitte.com

Research and Survey Team
Aditya KS
Indian School of Business

Shashank Pandey
Deloitte Consulting India Pvt Ltd

Akshay Sharda
Deloitte Consulting India Pvt Ltd

Priya Agarwal
Indian School of Business

Richa Sonpatki
Deloitte Consulting India Pvt Ltd

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