

GCCs: Dinosaurs or Unicorns?

Cost to value: GCCs finding their place in the Sun, finally?

Extinguish vs fictitious. Scary vs cute. Jurassic Park vs The Last Unicorn. Black, dark, and ominous vs white, furry, and cuddly. Or in the “analogous corporate world” – large, slow, dying, and in the sell portfolio of investors vs small, agile, growing, and in the buy portfolio of PE/VCs.

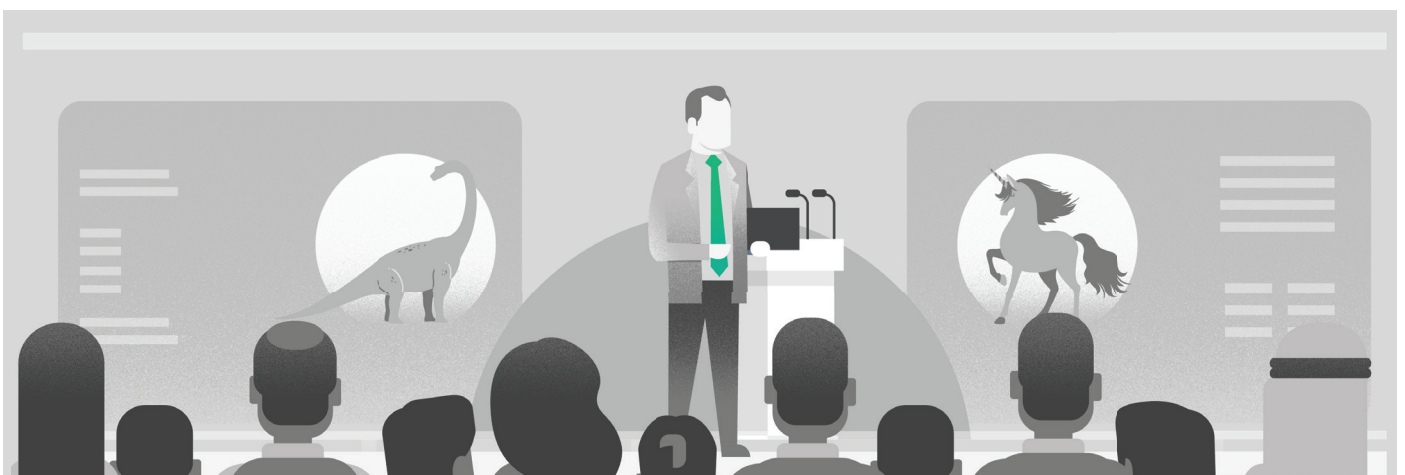
In this continuum, if we think of Global Capability Centers (GCCs) as a sector, and if each GCC were a standalone company, where would they lie? (No points for the consultant’s favorite response, i.e., “Somewhere in between”). Are they akin to too-large-to-fail but slow-moving dinosaurs? Or are they closer to the rapidly innovating and adopting, driving great valuation unicorns?

When it comes to GCCs, be it their leaders in India or their corporate sponsors at HQ, they will invariably tout the success of the initiative and the collateral impact it has had on the parent organization, on its clients and customers, its employees, and society at large. But other stakeholders may argue otherwise and there are some quintessential elephants in the room – neither extinct nor fictitious. Some such controversial and contrarian themes that emerge (a few louder than others) regularly are:

- GCCs are ultimately about driving costs down; everything else (capability, resilience, talent) is secondary and at best, nice to have.
- GCCs talk about talent augmentation and up-skilling, but the rhetoric in the industry is actually all about FTEs and scale; it is not really a talent magnet.
- GCCs, despite owning a large part of an organization’s operations and technology, have done little to drive innovation.

One can argue that these themes are overly simplistic, almost bordering on the naïve; or contrarily, that they are the reality which many leaders, due to their own self-investments, are reluctant to voice. We were not afraid to not only voice, but also actively debate these questions in the company of eight luminaries in a closed-door discussion at the ET GBS event on 18th Feb 2023. Our participants spanned GCCs and providers; financial services and non-financial services; decade-long GCCs as well as relatively new entrants. And we decided to double click on these questions, not with homilies but with a nuanced point of view and specific examples and exemplars.

Exhibit 1 - Perspectives gathered during an ET leadership summit



The C-Word: Vital ‘Seed Capital’ during setup, table stakes thereafter

According to Krishna Pera, a Consultant, who had set-up and scaled multiple GCCs in the past,

Cost savings & overheads is always a trigger for conceiving a GBS initiative,

a thought echoed by Priyaranjan Jha, Head of Global GBS operations, PepsiCo who shared that it is almost a given in most cases.

Prateek Aggarwal, Chief Financial Officer, HCL Technologies further added that one could argue that we have not seen a GBS initiative (in-house or outsourced) gain muster from an organization’s leadership team or board if it did not have a positive business case. Further exemplifying this thought Aditi Shukla, Head of India Shared Services and Country Head India, AXA XL shared,

In a corporate re-insurance organization, which is highly technical, it was used to gain sponsorship at the first instance.

Hence, there is merit in thinking that cost is a necessary but not sufficient condition while setting up GCCs. Prateek further added,

The Quality, Quantity/Scale, Cost (QCC) frame can be a good way of conceptualizing the cost parameter as one important factor, but not the only one.

It is equally important to underscore that most leadership teams are trying to optimize the QQC and GCCs, and like many other initiatives, it could fall squarely in between. Succinctly summing it up Diwakar Singhal, Global Business Leader Genpact said,

Costs, operational efficiencies, speed, scale of technology deployment and automation are all crucial to the success of the GCC initiative.”

To complement this thinking and argue that cost is not the primary driver Punit Sood, Chair - GCC Council, NASSCOM shared that some organizations are even looking to pay higher in the offshore GCC than in the onshore HQ thereby, disparaging the idea that cost could be really that important. Senior-most leadership teams (CEOs and CXOs) have indeed moved on from the C-agenda and all reviews of GCCs are likely to be focused on talent, agility, and other variables that are considered important to the senior management. If anything, the narrative sometimes does focus on the value-add (more than cost). According to Giridhar Rajagopal, President, First American Indian,

An organization would find it much easier to find, say, a \$5M investment on an AI solution in a GCC offshore than a similar investment for the regular maintenance of a technology enabler.

Additionally, as per Sudish Panicker, Managing Director & Head, BNY Mellon India,

Being able to drive great value through a GCC in India at a right cost is a source of pride for many firms. It is the responsibility of each GCC to position itself as a talent hub to the rest of the world.



The summary seemed to be: Cost could be a necessary criterion as the seed capital to get going, beyond which it ceases to be that crucial.

Scale is a by-product of GCC success and not the ultimate outcome metric

There are a few symptoms that lend credence to such beliefs. First of all, the industry of offshore service delivery for corporate HQ functions (GCC, GBS, outsourced providers) has often been labeled as an industry of accidents. It would be rare (although there is no data to substantiate it one way or the other) for an undergraduate student in India to express a desire to work in this industry. According to Aditi,

Historically, Indians have treated this as a launch pad into a global organization with the possibility of gaining overseas experience.

Separately, in several forums, when GCC leaders (say, in India) or their sponsors (e.g., CFOs or CIOs at HQ) introduce themselves, it is not uncommon to have that suffixed with how many FTEs they have, in which country, and for what function, almost making size and scale a proxy for achievement. However, there is a counterbalance to this argument. Scale, number of FTEs, number of locations, etc., could well be one of the several outcome metrics much like SLAs, NPS scores, and other parameters.

In fact, in most normal parlance, growth is an indicator of success and Indian GCCs have benefited from that surrogate of success,

shared Punit. Further, according to Aditi,

It could be argued that the degree of penetration of a given function or utility and the right-shifting of processes is far more important with scale being the recipient of that focus.

Indian GCCs are indeed seen as talent hubs for functions-at-scale that would be very difficult to execute in several other large Western economies. Further exemplifying, Priyaranjan said,

The CFO of a large aeronautics company struggled to scale a center in the USA with analytics and machine learning and data science experts; and eventually turned to India and was able to scale such experts in an incredibly short period of time.

According to Punit,

There are enough examples where, once process transformation and automation had happened, and the scale of human operations had actually come down, the process was reverse shored because it was no longer sensible to do it out of a GCC in India.

Sudish further added that despite aligning to the USA time zone, it did not make sense to work on activities asynchronously (e.g., in mutual fund valuations). Then too, the GCC in India was quick to suggest that operating leverage and value to business would be higher by being onshore than in a GCC in India.

Zoomers, by and large, do not want to do this job and managing the gap between their expectations and the role at hand is a good exercise in enabling 'learning by eminence' as well as focusing on 'talent fit-for-purpose' more than scale by any means.

In summary, a GCC in India is synonymous with scale but that does not mean 'number of FTEs' is the objective function; rather the type of work coupled with some of the strengths of the Indian populace, and the kind of talent available in India and other countries, is a greater driving function.

Increasingly, a GCC in India is the hub with several spokes globally (often termed as near-shore or onshore centers),

shared Prateek.



**The India experience
has indeed catapulted
several GCC leaders to
become global leaders of
operations & technology
because of the breadth &
depth of experience they
bring to the fore.**

GCCs spur distinctly-Indian frugal innovation and a focus on outcomes

Data suggests that the number of patents (a surrogate measure of independent and new thinking) in the field of technology and operations has been far and few in between from India, leave alone GCCs in India.

Perception suggests that when one talks of innovation, one thinks of Silicon Valley or even Germany, Israel, China, and increasingly Indian startups as well – but hardly emanating out of GCCs or ex-GCC leaders.

However, there are other aspects to innovation that do not lend themselves to only patents or startup ideas. And while they may not be the center of the media (or the intellectual) hype, but in their own ways, steadily and quietly contribute significantly to raising the overall DNA of various industries and how they serve their clients or enable their workforce.

Some great examples of innovation were discussed even within the small ecosystem of our panelists: Punit shared the example of a cross-business SaaS platform that has changed how the parent organization thinks of lead management for customers; while Priyaranjan shared how new product innovation actually contributed to the launch of adjacencies in the market. Exemplifying further, Aditi shared how enhanced cyber skills and framework can enable the right data collation and synthesis across all businesses globally and Diwakar said that data-to-insights as a theme can serve multiple customers and become the data custodians and engine room globally. In fact, according to Krishna,

Innovation beyond software and data but more engineering led R&D, infrastructure management, and platform development” and “R&D in pharma with core competencies and leveraging ETL processes (extract-transform-load),

respectively are all examples where GCCs are pushing the boundaries of innovation but in a cultural way that is akin to Indian innovation and distinct from several conventional global definitions. Krishna further adds.

Actually, scale enables innovation. Centralization of processes under a GCC makes it an ideal setting for innovation initiatives to be undertaken & create sizable business value.

Recently, at another forum in Japan, some of the eminent industrialists and economists bemoaned Japan’s sluggishness in adopting the digital pace of change, citing allegiance to the much-touted Japanese process way of thinking. They actually appreciated the Indian frugal innovation (jugaad) mindset and seemed to suggest that a combination of Japanese processes with Indian outcome-focused innovative methods could be the way forward for a proud country like them. As Covid-19 gripped the world, one concern that plagued many large corporations was the impact it would have on their GCCs (and equivalent) in India due to their high dependence. Three years later, Indian GCCs have emerged from that risk perception only stronger, having dealt with that crisis through several innovative methods and demonstrated an anti-fragile (as highlighted by Prime Minister Modi in his inaugural speech at the ET GBS event the previous day) and resilient set up that does not warrant patents or startups to justify its innovative contribution.

The debate can continue on: Are GCCs akin to dinosaurs or unicorns?

Jack Welch, often seen as the pioneer of offshoring and one who set up the first offshore service center in Gurgaon, had said in 1998, “Ideally you would have every plant you own on a barge to move with currencies and changes in the economy.”

The fact is that, by any conventional definition of business success, GCCs have been and continue to succeed. Growth (as a surrogate of doing something right) continues unabated; value can be measured tangibly back to the bottom line; and intangibly through solutions, products, and service examples; access to talent remains very high with the government and the private sector, through their skilling programs, driving new age technologies even faster; and policies and regulations continue to favor this industry as a key vehicle of India’s success.

There are indeed issues: Inflation, attrition, timezones, perception of resilience, etc. But the industry now has more than one simple bullet of wage arbitrage to combat these, and emerge successful.



**Indeed one may wonder -
What if GCCs were
independent companies
& valued? How many
more unicorns would
India contribute to?**

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Acknowledgments

The authors would like to thank Aditi Shukla, Head of India Shared Services and Country Head India at AXA XL, Diwakar Singhal, Global Business Leader at Genpact, Giridhar Rajagopal, President at First American (India), Krishna Pera, Managing Partner at Proyojana Ascendant Solutions, Prateek Aggarwal, Chief Financial Officer at HCL Technologies, Priyaranjan Jha, Head of Global GBS operations at PepsiCo, Punit Sood, Head of International Hubs, NatWest Group and Chair-GCC Council at NASSCOM and Sudish Panicker, Managing Director & Head at BNY Mellon India.

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