

SETTING UP A GLOBAL IN-HOUSE CENTRE (GIC) IN INDIA



In current times, GICs have gained strategic importance and drive immense business value for their parent organizations. They are no longer being seen merely as a cost cutting measure, but as an important way to access skills around the world, especially in the lower cost and demographically “younger” geographies.

Creating and managing a GIC in India can be a demanding ask for any organization. A strong understanding of the legal, business and cultural environments is required to create and run a GIC effectively. Finding the right partner who can help you at every step of building and running an efficient GIC is highly recommended.

Detailed below are few important pointers that can help in developing a strong understanding about the various aspects involved in setting up a GIC in India.



1. BUSINESS CASE CREATION

1.1 Identifying business objectives

Successful GICs in India have been created by global companies, primarily, for three reasons:

1. Cost arbitrage: Getting cost advantage over traditional IT service providers, without compromising on (or even improving) the quality of work and service
2. Talent availability: Obtaining access to high quality talent available in India. This is primarily done by product companies
3. Flexibility: Attaining flexibility in operations, which companies are unable to get from traditional IT providers. This includes getting extensive work done without having to go through SOWs and price negotiations. The GICs can also act as a springboard to penetrate Indian market.

1.2 Assessing feasibility

Having an offshore GIC is a long term commitment and benefits are realized over a period of time. However, there are situations where building your own GIC may not be feasible or may not make sense. The feasibility analysis is done, primarily, around the following parameters:

1. Critical mass / headcount
2. Talent availability
3. Cultural readiness at head office
4. Leadership accessibility at offshore location

1.3 Exploring use cases

Once a consensus is reached about the business objectives / feasibility, it is recommended that teams should visit similar companies in India to understand the lifecycle of a successful GIC. Having first-hand information helps the leadership team take informed decisions about this strategic initiative.

A use case of one's own requirements is generally made in the form of a financial statement and the benefits that a company may get by having its own GIC. This statement also provides time bound commitments and investments needed to get the desired benefits.

This is the most critical stage and should be normally done by those who have lead such initiatives.

1.4 Value proposition

Analyzing the value proposition helps companies uncover benefits beyond financial numbers. This value proposition may be in the form of vendor consolidation, better insight of Indian market, capability for high value work, IP protection and much more. It is a proven fact that India opens up huge opportunities for high value work at lower costs. Many large corporations like Amazon, Google, Oracle and Microsoft have already tapped these opportunities. However, lower value work like typical BPO operations also resonate with global companies, with great options of locations and talent available at optimal costs.

1.5 Operating model creation

Every company that plans to setup their own GIC has their existing operating model. Outsourcing decisions, third party providers, and work done at head office are all part of this operating model. However, with your own GIC, the operating model can be revisited. For example, the outsourcing needs can be redrawn, and work that was not being done by vendors due to the fear of IP loss fear or loss of control can be considered to be done using the GIC. Such a study helps companies create their change management strategy and execute the change effectively.

1.6 Stakeholder buy-in

It is imperative that a strategic decision like setting up a GIC at an offshore location is properly evaluated, and commitment to this initiative comes from the highest levels in the organization. It must be a decision coming from top management with buy-in from all critical stakeholders like Finance, HR, Legal, IT and businesses to get best results. Normally all such stakeholders put their teams in the GIC and reap the benefits as an organization together.



2. SETUP PRIMER

2.1 Location evaluation

India is a vast country with several locational choices to setup a GIC. State governments are going out of their way to create IT hubs by providing a host of incentives to attract companies to their respective cities. Even though Bangalore, Pune, Hyderabad, Chennai and Delhi are the leading locations for GIC set-up, smaller hubs like Kolkata, Indore, and Jaipur are also coming up fast – thanks to the availability of talent and better cost advantage in the smaller cities. Another upcoming location in India for setting up IT operations is Surat, owing to the business friendly policies and the increasing focus of Gujarat government to develop the city as an IT hub. This city has been rated as the city having the best quality of life in India for the last few years.

A comprehensive evaluation of location can be done by competent consultants to give the best choices. The study is primarily based on a variety of parameters like the core business objectives, business environment & state level policies, leadership & talent availability, and connectivity.

2.2 Talent & Value analysis

Talent availability varies a lot across locations in India. While the cream of talent is available in the Silicon Valley of India Bangalore, the cost of setting up a GIC here can be high as the city is one of the most expensive cities in India. Cities like Chennai, Hyderabad are relatively low cost destinations but have lower level of talent. Pune scores in between with cost structure lower than Bangalore and decent availability of talent.

2.3 Risk Management

A detailed assessment of risks that might impact the GIC business is of utmost importance and involves parameters like talent availability, political & infrastructure stability, law & order situation, exposure to natural calamities, and connectivity. Such a study helps companies come up with better strategies around hiring, retention, management style, change management and ensuring business continuity.

2.4 Change Management

Another important element in this whole exercise is the Change Management piece. Setting up own GIC at an offshore location is a big decision and leads to a lot of strategic and operational changes inside the organization. These changes need to be managed appropriately to ensure that the whole team remains focused on the final business goals. Setting up the team at head office & offshore and using the right consulting help for the period of transition proves to be very helpful in achieving the planned benefits. Good project and program management models ensure regular reporting, collaboration and keeps things on track.

2.5 Leadership identification & onboarding

Right leadership is key to success for any GIC. There are many decisions associated with identifying the right leaders. For example, decision to shift someone from head office or hire locally is one of the key decisions. Attracting the right leaders to the new company requires articulation of a clear vision and direction. Partnering with a consultant at this stage, who can help in putting together a vision document and bring in the right leadership contacts is important.

2.6 Legal & Regulatory Compliances

India is an easy place to do business when it comes to IT offshoring. The automated approval routes ensure that regulations do not bog down companies interested in setting up their offshore centers. However, a competent advisor in this domain is a must to identify and avoid any pitfalls well in advance.

2.7 Organization Structure & Governance

Productivity of a GIC is dependent on the agreed upon operating model. The operating model ranges from absolute offshore control to absolute on-shore control and a host of other intermediate org structures. Experienced consultants can help in creating an organization model that can evolve as the GIC matures. Governance is key to make the GIC productive. Implementing automation and extending head office systems at the earliest is always recommended.

2.8 SLA & KPI definitions

Just like any business function, good governance in GIC must be driven through pre-defined KPIs. Business leaders collectively work to achieve these KPIs. Some of the key areas include cost per hour target, hiring time, attrition levels, work transition time, and financial benefits.



3. LEGAL & COMPLIANCE

3.1 Legal entity setup

The process starts with company formation. Hiring a competent agency that is not only well aware of legal angles, but also has done similar work earlier is highly recommended. India is undergoing lots of changes to make the business environment more investor-friendly. Much of the registrations and related work happens online now. However, setting companies with directors who have not done business in India earlier can be time consuming as it requires significant paperwork. The process however is well defined, transparent and without any interference.

3.2 Financial structuring

Most of the GICs need to invest a substantial amount to enable their offshore entity develop the required infrastructure before they can start. This amount varies based on the size and location of the GIC. The investment primarily goes in startup costs and capital investments for office and IT infrastructure. Planning this investment is essential before the company is started.

Some partners help companies in converting this upfront capital investment requirement into operational expenses by providing them with end-to-end infrastructure and support needed to operate their offices. Such companies help in getting faster RoI, make the companies productive faster and reduce the learning curve for companies in areas that are not core to them.

Most essential part of financial structuring comes with markup study that sets the basis for the amount of profit the GIC would make. This study should be done using a tax consultant who can help arrive at the right “Cost Plus” model, or can be pegged at 20% as per Indian government notification.

3.3 Regulatory compliance setup

Setting up a company may be an easy task, but the list of activities that need to be taken care of on a regular basis to be compliant with all regulations is a task in itself. Most of the compliances and regulations fall in categories of Finance, HR and Administration areas. Competent consultants can provide end-to-end support so as to ensure that all regulations are adhered to at all times.

3.4 Tax planning

All IT companies in India get indirect tax benefit till now. However direct tax benefit

is available only to companies that are based out of designated Special Economic Zones (SEZ). Setting up operations in an SEZ has its merits and demerits and must be chosen with care as exit and re-entry are highly prohibitive.

The SEZ benefits are given to investing companies only when 100% of the business is done for earning foreign exchange. The income tax stands at 34% (30% plus surcharges) on profits made by doing business in India. The law provides a tax free window for first 5 years of operations. The next five years this benefit is reduced to 50% and for the subsequent five years, this benefit remains at 50%, but the tax benefits must be shown to have been reinvested in increasing Indian operations.

However, every company based out of SEZ must pay another tax called MAT (Minimum Alternate Tax). The MAT rate currently stands at 18% and is a dampener in realizing the true potential of the total tax benefits as per SEZ rules. SEZ also restricts the ability of companies to operate with flexibility in operations. Work from home for employees and use of vendors who do work from outside SEZ is not permitted without permission from the authorities. This adds to overheads that may not be worthwhile the benefit.

However SEZ remains popular with a lot of companies and detailed analysis can be done to suggest the best option.



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