

## IT AND BPO CAPTIVES IN INDIA – MANAGING OPERATIONAL CHALLENGES

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### ***Abstract***

Offshoring of IT services to low cost destinations is now well established as a competitive advantage in this age of globalization [1]. Organizations looking beyond just cost savings from their offshoring opt for the do-it-yourself approach of establishing fully owned captive centres, also known as In-sourcing [2]. These organizations consider their captive centre investments as part of their long term business strategy and expect their offshore captive centres to create value for the parent organizations in the long term.

Captives provide complete management and operational control and greater integration with the parent organization along with other benefits of offshoring, but these added benefits are accompanied by higher risk and bigger responsibilities. Captives are also unique in terms of their similarities with outsourcing, their global delivery models, their multiple stakeholders and the greater salience of political and cultural factors in their functioning. Such complex dynamics along with huge expectations and a high risk scenario requires intelligent application of industry best practices and local knowledge for successfully running captive operations.

Based on a study involving more than 200 captive centre operations spread across various locations in India, this paper presents a framework for successfully managing captive operations - to assess and analyse current scenario and to set out an approach to address existing challenges. The recommended approach is

based on the authors' experience and knowledge of successfully establishing and operating captive centres for over a decade.

### ***Introduction***

Possible rewards of offshoring to places like India are compelling - a mature and well-established offshoring market, with projected onshore vs. offshore cost efficiency of 1:3 such as can put any organization at the fore-front of competition in today's flat world. In-shoring or captives can extend this list of potential benefits to include availability of a talented resource pool, protection of intellectual property, greater security of business data, continuity of resources, knowledge management etc. India is home to more than 500 captive operations and this list includes many Fortune 500 companies across all industries - Texas Instruments, Intel, Cisco, Qualcomm, Microsoft, Sun Microsystems, Dell, Adobe, J P Morgan Chase, MasterCard, HSBC, Ford, Daimler Chrysler, Target, Tesco and so on.

Based on our study involving more than 200 captive centres across the domains of industry and technology with inclusion of elements such as employee strength and maturity level, following issues were found to figure prominently in relation to most captive centres:

- Higher than anticipated cost
- High attrition rate
- Lack of management continuity
- Lack of control and visibility
- Failure/delays in delivery
- Quality of work
- Low utilization and productivity
- Frequent changes in approach to management

Most of these issues can be classified as symptoms of underlying problems arising out of mismatch of expectations, lack of planning, absence of processes

and differences in work-cultures. Solving these problems requires knowledge and experience of offshoring industry and application of its best practices. Captive centres, therefore, should follow a phase-wise systematic approach with the following steps:

1. As-is-analysis
  - a. Fact gathering and problem identification
  - b. Understanding stakeholders' expectations
  - c. Validation of issues
  - d. Root cause analysis
2. Definition of solution
3. Road map for solution
4. Implementation of solution
5. Definition of performance metrics
6. Monitoring and control

### ***As-is-analysis***

#### ***Fact gathering and complete problem identification***

Captive centres should start with a formal over-all assessment of the current scenario. A fact gathering exercise with a checklist will provide complete assessment of the current scenario and help in identifying underlying problems.

#### ***Checklist:***

- Understanding of current state model
  - Project portfolio analysis –
    - Captive vs. outsourcing
    - Development life cycle
    - Engagement model
    - Billing models

- Domain application
- Technology stack
- Processes
  - Onsite to offshore transition process
  - Offshore project initiation process
  - Software development process
  - Communication, conflict resolution and escalation process
  - Project management practice
    - Governance Model
    - Estimation, allocation, monitoring, control and reporting mechanism/process
    - Quality assurance and control
- Vendor engagement
  - Vendor engagement process
  - Vendor relationship management
  - Vendor performance evaluation/audits
  - Vendor's view of current state model
- Resource profile
  - Resources (role-wise)

### ***Stakeholders' Expectations***

Understanding of stakeholders' expectations will help in identifying gaps between desired and actual results.

### ***Stakeholders' questionnaire:***

- Critical success factors for the captive centre
- Critical success factors for vendor engagement
- Success stories
- Biggest challenges

- Priorities
- Most important factors for improvement

### ***Validation of issues***

In a dispersed environment where teams work in different geographical locations and time-zones, effective communication is required to compensate for these differences. Lack of proper and timely information flows can create different information-sets with distributed teams and, in a worse case scenario, ultimately lead to creation of perception-issues – that is, an issue may not exist at all but it is widely considered to be a problem.

Captive centres are also accompanied by politically sensitive issues. In such a scenario it becomes highly imperative to conduct a proper validation of collected information.

### ***Root Cause Analysis (RCA)***

Root cause analysis can be conducted by selecting a sample of projects representing

- Large and critical projects
- Successful and not so successful projects
- Different application domains
- Different technology stacks
- Different development life-cycles
- Different vendors

### ***Re-establish Offshoring strategy and captive's objectives***

After successful completion of As-is-analysis, next phase is to re-iterate the organization's offshoring strategy and objectives. This is a decision making process and it requires management's commitment to the captive centre. First and foremost, a leadership team should be identified and entrusted with the objective of making the captive centre a value generating proposition for the

organization. Desired end state along with its challenges and trade-offs should be clearly defined and its critical success factors and critical processes should be established.

### ***Solution Road Map***

The next step is to define a road-map for implementation of solution :

- Implementation approach
- Execution Plan
  - Solution framework
  - Milestones
  - Measurable performance targets
  - Associated risks
- Management team and its roles and responsibilities

### ***Solution definition and deployment [14][15][16][17][18]***

This part of the process involves selection of best available options in the context of existing organizational scenario and its challenges. Deployment of solution brings out the significance of political and cultural factors in a captive environment so these aspects should be carefully considered during the solution definition exercise. Governance policies and processes in a classical IT environment do not normally consider political and cultural aspects as having any significant influence. Adopting a similar approach is not suitable in the context of a captive centre as it would fail to address its requirements and challenges.

Another aspect of a captive to be carefully considered is its similarity with outsourcing. Confusing a captive centre as an outsourcing engagement leads to complications across the board. As a captive is an in-sourcing engagement, it should be approached as a centre that is part of the parent organization working in a global delivery mode.

Solution definition should include process or guidelines or model definition in the following areas:

- Governance model
- Organizational structure
- Processes
- Vendor engagement model
- Human resource management
- Billing model
- Maturity model
- Intellectual capital retention
- Security model

### ***Monitor and control***

The last stage is monitoring and control of the outcome of solution implementation. Some of the activities at this stage are recursive, so the idea is rather to actively monitor the progress against the identified objectives. Feedback from the actors of solution deployment always produces facts and suggestions for tailoring and improving part of the implemented solution. There should be revisions to the solution based on suggestions and feedback to keep the solution up to date and relevant to in the context of evolving captive dynamics.

- Establish Project Management Office
- Establish measurements
  - Result and performance based metrics
  - Quality assurance
- Define operational metrics
- Regular audits
- Dashboard performance measurement tools

### ***Conclusions***

Most of the issues prevalent in a captive centre exist in other organizations too. Presence of perceptual issues more the actual issues, confusion of captives

as outsourcing engagements and the significant influence of political and cultural issues – these challenges in captive operations require a different approach. The organization should firmly establish the captive centre as an integral part of itself and clear all misconceptions around the captive as an outsourcing engagement. Management of the captive as a globally dispersed team is the key to successfully running a captive. Managing the cultural gap, understanding the role of communication as the single most important factor for success and an excellent transition process are some of the important aspects of managing a globally distributed team.

Successful management of a captive centre requires active involvement from the management team that should comprise industry practitioners and experts who can bring in best practices and local knowledge; provide objective assessment and feedback on the captive centre's maturity and success to the senior leadership and become champions of the organization's long term offshoring objectives without becoming part of its corporate power games.

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