Rewriting India’s Shared Services Playbook

Shared services have helped 85 percent of Fortune 100 companies cut costs and expand their reach. Indian companies are now poised to adopt shared services and capture significant benefits.
Foreword

India has become a global hub for shared services, serving many global companies in search of lower costs, more efficient processes, and more recently business transformation. Indian companies, however, have not emphasized shared services, preferring to focus primarily on top-line growth. This, however, is beginning to change as Indian companies realize that shared services can play an important role in enabling growth and innovation and driving efficiency. Some companies are already moving beyond their traditional boundaries to create innovative shared services models.

What will spur the next wave of growth for shared services in India? As the public and private sectors address the growing demand for products and services, managed and shared services will be leveraged to effectively deliver offerings. The classic scope of services delivered by shared services will need to change as organizations increasingly demand a shared services model, even for core activities. This trend will require new business models, stronger provider-user relationships, and transformational contracts.

There will be a number of challenges in achieving this transformation in the role of shared services in India. This will require greater collaborative effort by Shared Service customers, service providers, and the government.

Within this context, the Confederation of Indian Industry (CII) and A.T. Kearney paper on “Rewriting India’s shared services Playbook” provides a perspective on the current state of shared services in India, highlights the benefits, identifies drivers for growth, and pinpoints the imperatives for key stakeholders, including shared services users, providers, and government. We hope this paper encourages a deeper discussion about the role that shared services can play in the next chapter of India’s growth story.

Several insights in this paper are from discussions with industry leaders across various Indian companies that are either users or providers of managed and shared services. We gratefully acknowledge their valuable inputs. We would also like to acknowledge information and data sources, including industry reports and publications, databases, and company websites that have been used for the purpose of this paper. We also appreciate the efforts of A.T. Kearney team members Vivek Dua, Namit Garg, Ajay Gupta, Gaurav Gupta, Deepak Maloo, and Mohit Rana who were instrumental in producing this report.

Pramod Bhasin, chairman, Services Council
Confederation of Indian Industry
Executive Summary

The shared services concept has grown globally over the past three decades, with 85 percent of Fortune 100 companies capturing a variety of benefits from cost reduction and capability enhancement to global delivery and business transformation. India, however, has been less aggressive in adopting shared services. The domestic business process outsourcing (BPO) market contributes 0.16 percent of India’s GDP, compared to global BPO revenues that are 0.26 percent of global GDP. This is the result of four factors:

**Lack of scope and size.** Indian companies beyond the top 100 have annual revenues of less than $2 billion and have had a dominant share of business in India.

**Focus on growth.** Indian companies have been growing rapidly and have had to evolve their business models. Executives thus believed that keeping activities within their business units would allow for better responsiveness to markets.

**Low priority for service providers.** Service providers were focused on international business and did not see the domestic market as a priority, especially in a talent-constrained environment.

**Unclear value proposition.** The traditional value proposition for offshored shared services, such as labor arbitrage or access to differentiated talent, was weak in India.

Going forward, shared services can become a significant force in India, led by a variety of factors across two areas:

**Greater adoption of the traditional shared services model**

Shared services are still emerging among Indian companies. While many large companies have begun to implement programs, coverage remains limited. This should change as companies build a greater global presence and a new generation of Indian conglomerates emerges.

Proven proof-of-concept and an aggressive focus by mature service providers can trigger a much wider adoption of shared services.

**Leveraging emerging, India-specific opportunities**

New business models and transformational contracts are emerging as organizations in a high-growth competitive market look to focus on their core business.

Public services are showing signs of increased adoption of shared services in their efforts to deliver quality services in the face of cost and talent challenges. As organizations target rural markets for the next wave of growth, shared services can increase reach and help build capabilities, for example, by aggregating services across companies.

Growth of new industries, including retail, and regulatory changes, such as for insurance, will drive greater adoption of shared services in select verticals.

Finally, some industries are likely to witness shared utilities created by companies to increase scale and accelerate go-to-market, similar to capital market participants using a common clearing corporation.
The opportunities for shared services are significant. Enterprise customers and service providers have some choices to make, and the government has a vital role in driving the growth of shared services as a user and enabler.

Enterprise customers face clear choices, depending on their risk appetite and external requirements, and can choose the extent of adoption. Although some will continue adopting shared services on a piecemeal basis, proactive businesses will take the lead by adopting new business models and borrowing rather than building non-core and select core capabilities.

Service providers will succeed only if they take a proactive role in building the domestic market by developing low-cost delivery models, solving problems more collaboratively, and using outcome-focused models more extensively.

Government can spur the growth of shared services by adopting an innovative approach while addressing citizen service and talent availability challenges. It will also need to play an important enabling role in areas such as talent development and in establishing more favorable regulations for shared services and Managed Services.
Charting a Different Course

Shared services are playing a big role globally, but adoption in India has been low. Going forward, shared services can become a significant force in India, as value propositions become compelling and India-specific models evolve.

Global shared services: from efficiency enabler to transformation partner

The concept of shared services, whether captive or outsourced, started gaining credibility in the 1980s as a way for companies to optimize costs and improve quality of support functions. The growth of multinational corporations and rapid technological advances allowed companies to pull together business processes across global organizations. This led to the emergence of several capable service providers, first onshore and then offshore, and gave companies the ability to outsource an array of functions. Over the last decade, more complex activities such as analytics, pricing, and legal support began to be outsourced, requiring more collaboration between service users and providers. Moreover, with technology developments such as cloud computing, new trends have started gaining acceptance, including software as a service (SaaS), business process as a service (BPaaS), and platform-driven solutions.

Today, shared services have become a key part of operating models for many companies, with more and more organizations recognizing the need for standardizing, consolidating, and potentially outsourcing business processes. For example, about 85 percent of Fortune 100 companies globally have shared services centers.¹

Simultaneously, service providers are enhancing the scale and scope of their services to give their clients more value. They have focused on driving lean operations through process excellence and accelerating revenue contributions through new value propositions. As a result, service providers have become indispensable partners for many of their clients.

Indian shared services: approaching a turning point

India has been the destination of choice for offshored services for close to a decade. According to the A.T. Kearney Global Services Location Index 2011, India is the top pick based on three parameters: financial attractiveness, people skills and availability, and business environment.

However, the traditional, western concept of shared services and Managed Services has had lower adoption in India. The domestic BPO market as a proportion of GDP is still lower than the global average (see figure 1 on page 6).² India’s ratio of domestic BPO revenue to IT revenue is less than half of the world average.³ This domestic BPO market has significant untapped potential.

Five factors have contributed to this slow adoption of shared services:

Most Indian organizations did not have the scale or diverse geographical presence to capture adequate benefits from shared services. Even today, Indian companies beyond the top 100 have annual revenue of under $2 billion, whereas the corresponding figure for the United States is about $30 billion.⁴ An Indian firm with less than $2 billion in revenues would generally have limited staff across a range of G&A functions, not creating enough scale for

¹ Corporate Executive Board, 2012
² NASSCOM, Gartner; 2012 figures are as per estimates.
³ NASSCOM, Gartner; for India, the ratio of domestic BPO revenue to IT revenue is 0.25, the world average being 0.58.
⁴ ET Top 500 List 2012, Fortune 500 List 2012, Assumption: USD 1 = INR 50
services to be shared. This is particularly true of non-service sectors such as automotive and energy. As Indian companies gain scale and start expanding their global footprint, the shared services concept will gain traction.

**The traditional value proposition of shared services has been weak in India because labor arbitrage is not relevant.** The western shared services concept focused on cost reduction was accelerated by the offshore proposition of arbitrage and access to a differentiated talent pool. Gradually, as the shared services model matures, Indian businesses and service providers are focusing on other benefits, including efficiencies, process excellence, and faster time to market—factors that are more relevant in India. Figure 2 above illustrates how drivers for shared services are different in India compared to western markets.\(^5\)

---

\(^5\) A.T. Kearney analysis
Some verticals in India have lower adoption rates of shared services compared to global averages. For example, Indian manufacturing and retail have had much lower uptake, driven by various factors, including higher proportion of unorganized players, lack of process evolution, and higher cost of technology (see figure 3). As these factors change, these verticals will lean toward adopting shared services. For example, organized retail, which currently contributes to 5 percent of the overall retail market, is projected to grow to 17 percent by 2020.

In a rapidly growing economy, companies have had to continually respond to market changes and revamp their business models. Over the past 20 years, the average GDP growth rate was 7 percent, compared to 4 percent over the previous 20 years. To maintain control and responsiveness in this environment, most activities were kept within business units. In addition, limited stability and process maturity have restricted the extent to which they can be shared. The lack of process maturity is evidenced by the fact that India trails in adopting standards and tools such as an Information Technology Infrastructure Library (ITIL), Capability Maturity Model (CMM), and Six Sigma. For example, India’s ITIL adoption rate is 0.1 percent, compared to 40.9 percent in the United Kingdom and 19.7 percent in the United States.

Many India-based service providers did not focus on the domestic market because they were achieving high growth and margins through exports. When global growth started showing signs of waning, they shifted their focus to Indian companies. For example, a large service provider for banking, financial services, and insurance (BFSI) gained its first Indian client in 2008 despite being present in India for almost 10 years.

---

6 NASSCOM, 2011; data as of 2010
7 FICCI-TCS report, 2012
8 World Bank, 2012
9 Forrester, 2011
India is the managed services provider to the world. Domestic companies can leverage the competencies built by these service providers to create more effective, efficient operations. This will require a change in mindset to enhance the scale and scope of shared services along with greater collaboration with service providers, which must enhance their domestic focus and drive innovation to develop relevant local solutions.

Shared Services: A Game-Changer for the Indian Economy

The adoption of shared services in India has increased steadily and in the recent years at a faster rate than the export shared services (see figure 4). This demand for shared services in India was traditionally driven by the needs of large conglomerates and select verticals, including BFSI and telecom.

Figure 4
Export versus domestic BPO revenues in India

However, with the Indian economy poised for the next round of growth, adoption of shared services will be more secular. Wider adoption by large enterprises and newer verticals will continue to be a large contributor to the demand, which will also be bolstered greatly by a large and aspiring segment of small and medium-sized businesses, government initiatives, and rising expectations of urban and rural consumers.

A vibrant ecosystem exists to support this growth. Mature and focused suppliers, world-class ICT infrastructure, disruptive technologies and alternative business models, and regulatory changes will all enable realization of a higher growth trajectory for shared services.

Growth of traditional shared services constructs

Early adoption of shared services has started taking place in India, but the market has potential for wider off-take across new processes, companies, and verticals. The higher adoption of shared services is expected to be driven by multiple factors on the user and service provider side.

NASSCOM, 2011; the figures are only for external shared services and do not include captives.
Many Indian companies that were early adopters of shared services have already reaped benefits. For example, 15 of the top 20 Indian companies (by revenue) deploy internal or external shared services for at least a few functions. In addition, companies also have the advantage of higher process maturity through the use of ERP systems and the experience of managing processes driven by service-level agreements (SLA). These companies will be more amenable to broaden the scope of coverage of shared services.

At the same time, the service provider landscape has matured over the years. Service providers today can help organizations establish world-class process based on their experience with global customers, thus reducing the learning curve.

The next few years will also witness new companies adopting shared services models. Many companies in emerging verticals, such as retail, will enter a more stable growth phase. Companies in these industries will shift their focus from business growth to higher efficiency and are likely to explore shared services for enterprise processes. Also, as Indian companies across verticals continue to gain scale and geographical diversity, they will also achieve critical size in various G&A functions. This will trigger higher adoption of shared service centers—captive or outsourced. For example, the average revenue of 10 leading Indian organizations (with current revenues in the range of $4 billion to 10 billion) doubled over the past 5 years. A company with revenues of $2 billion now has revenues of more than $4 billion, thereby providing critical size for shared services operations (see figure 5).

**Figure 5**

*Average revenue growth of large to mid-size companies in India*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Base = 100</td>
</tr>
<tr>
<td>2012</td>
<td>2x revenue growth</td>
</tr>
</tbody>
</table>

Given these market changes, the traditional shared services adoption is likely to grow at a far higher level than was seen over the past decade.

**Indian shared services: five drivers for future growth**

The definition of shared and managed services is fast changing in India, to include new engagement models that go beyond the scope of traditional BPO.

The need for low-cost, infrastructure constraints, and nascent evolution of multiple value chain components means that companies have to make considerable investments in developing...
these ecosystem elements. This is leading to the evolution of India-specific shared services models where companies from within or across sectors are coming together. There are five key trends that will determine the pace and scope of the India-specific evolution of the shared services space. As organizations endeavor to expand the addressable market for their products and services through wider reach, they could collaborate with companies (including those from other sectors) that have an existing supply chain and sales and service networks.

**Adoption of new business models**
The business drivers for Indian companies are different from their global peers, partly due to rapid growth and the difference in market and competitive dynamics. Indian companies are redefining their core competencies and go-to-market models—and in effect—sharing and outsourcing activities that in the past were considered to be strategic differentiators. For example, telecom sector has been witnessing intense competition and margin pressure for the past few years. In response to these challenges, the Telecom companies (incumbents and new entrants) responded by aggressively outsourcing and pushing the envelope on what was once considered core. The outsourcing scope today includes IT, customer service, G&A, NW services, billing and in some cases even product management (see figure 6).

**Figure 6**
**Case study: Telecom companies are re-defining business model by outsourcing key activities**

**Traditional Telecom Value Chain**

<table>
<thead>
<tr>
<th>NW development</th>
<th>NW mgmt.</th>
<th>Platform-development and Ops</th>
<th>Marketing and product development</th>
<th>Sales</th>
<th>Service delivery</th>
<th>Billing and collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer care and support functions (HR, IT, finance etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Emerging Telecom Business Model in India**

<table>
<thead>
<tr>
<th>NW development</th>
<th>NW mgmt.</th>
<th>Platform-development and Ops</th>
<th>Marketing and product development</th>
<th>Sales</th>
<th>Service delivery</th>
<th>Billing and collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer care and support functions (HR, IT, finance etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Impact**
- Reduced upfront investment in network by variablizing costs
- Ensured linkage of capacity build-up with network utilization
- Allowed the telecom companies to focus on core business areas, such as marketing and distribution

**Note:** Outbound calling in sales is also generally outsourced.

**E-enabling public services**
The government is increasingly recognizing the need to elevate the quality of service provided to its citizens. With rising affluence, limitations on time, and global exposure, more Indians are expecting timely, reliable, and transparent service from government departments. Given the fiscal pressures, limited ability to attract quality talent, and a lack of access to best practices, government is increasingly demonstrating openness to engage the private sectors as an enabler to implement shared and managed services.
There have been several large-scale public projects such as UIDAI and e-governance projects in the recent past where external service providers have been involved in providing a significantly large scope of services. This trend is only likely to increase, with several components of the provisioning and tracking of public services becoming candidates for outsourcing. This can help bridge some of the gaps in the quantity and quality of teachers, doctors, and police personnel required to meet the needs of more than a billion people. For example, as per the UN, the number of police per 100,000 people in India is only 130, as opposed to a worldwide average of 350. To address gaps, the government would increasingly use technology such as GPS and support services such as call centers to improve their effectiveness. Adoption will be driven significantly by shared services.

Case studies demonstrate the increasing adoption of shared services by the Indian public sector (see figure 7 and figure 8 on page 11).

**Figure 7**

**Case study: Ministry of External Affairs outsourced key front-end processes for passport issuance**

In 2009, the Ministry of External Affairs tied up with service provider to streamline the process of passport issue:

(.project size: $200 million over six years)

<table>
<thead>
<tr>
<th>Application</th>
<th>Verification and final decision</th>
<th>Disbursal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bio-metric fingerprint, electronic photograph, and electronic data entry</td>
<td>Online transfer of application form and documents to concerned police district</td>
<td>Passport disbursal (in case of approval)</td>
</tr>
<tr>
<td>Submission of application (post verification of completeness of application form and documents by passport official)</td>
<td>Verification and related background checks</td>
<td>Communication of reasons for rejection (in case of rejection)</td>
</tr>
<tr>
<td></td>
<td>Online transfer of police verification report to passport authorities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Approval or rejection decision</td>
<td></td>
</tr>
</tbody>
</table>

**Impact**

- Reduction in issuance time from more than 30 days to three days
- Reduced intervention of agents
- Higher reliability as applicants can track the status of their applications in real time

**Maintenance of facilities and record keeping**

- Outsourced activity
- Retained activity

**Leveraging the growth potential of rural India**

The next wave of growth for the Indian economy is widely expected to come from its rural areas. Today, the consumption in rural India is growing at a faster pace than urban India. This growth is fuelled by a rise in household incomes due to greater non-farm job opportunities and government-initiated employment generation schemes. Moreover, the nature of rural consumption has shifted from necessities to discretionary goods.

However, the breadth of rural India creates challenges in servicing this segment viably and independently. As more organizations look to fulfill the increased demand for products and services.

---

11 United Nations Office on Drugs and Crime data, 2010
12 Crisil, 2012; rural consumption per person grew at 19 percent annually between 2009-10 and 2011-12—two percentage points higher than its urban counterpart.
services in rural areas, shared services will play a key role as enabler. Companies will need to collaborate within and across industries to consolidate resources.

This model has been successfully implemented in the insurance space, demonstrating the success of shared distribution channels. Several insurance companies have partnered with oil and gas and retail companies to expand rural reach. Another example is of an insurance player that has collaborated with a service provider to make its products available at remote locations in India. The provider will use mobile devices for on-the-spot issuance of insurance policies. The range of services covered by the service provider include insurance policy system administration, policy setup, new business processing, customer care, and claims processing.

Another area of growth would be the rapid adoption of mobile banking. Currently, 55 percent of India’s population has access to a bank account, while only 13 percent has debit cards and 2 percent has credit cards. By enabling mobile banking services, more consumers can carry out bill payments and merchant transactions given high mobile penetration of 75 percent. However, this will require multiple mobile operators and financial services providers to come together to develop the mobile money market. Shared platform vendors can play a vital role in enabling services such as deployment of mobile banking platform, service provisioning, transaction clearance and reporting, and support activities through a shared services model. The success of mobile money is already an established fact in African countries, including Kenya, where more than 80 percent of those with a cell phone use mobile money.

The government is also taking steps to drive greater inclusion of the rural population. For example, through the National Optic Fiber Network (NOFN), it plans to connect 2.5 lakh gram panchayats, with the aim of fostering e-services in these panchayats. Service providers can potentially participate in this opportunity by offering IT services, including hardware maintenance and support and application development and maintenance.

---

13 RBI, 2012  
14 TRAI, 2012  
Opportunity to create industry utilities

The presence of a relatively larger number of SMBs and a need for faster ramp-up to cater to a growing market will create the need for industry utilities. Such an entity would allow companies to manage fixed costs, create economies of scale, and focus on vital areas.

There are several examples in the Indian telecom industry where telecom operators pooled their resources to setup tower companies. These tower companies provide passive infrastructure services to the telecom operators, allowing them to focus on core activities, such as customer acquisition and product development.

In a similar manner, Shared Service organizations can build a strong value proposition around handling processes for several companies within an industry, leveraging expertise and scale benefits. For example, there could be opportunities for order and inventory management solutions across businesses such as restaurants and logistics solutions across e-retailers (see figure 9).

Figure 9
E-commerce provides shared services to its competitors

<table>
<thead>
<tr>
<th>Main focus for business</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Company is a fashion and lifestyle e-commerce portal</td>
</tr>
<tr>
<td>• Initial model was a pure play online consumer retailer (B2C)</td>
</tr>
<tr>
<td>• Developed logistics capabilities to service their main line of business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Launched service offering for providing logistics services targeted at other e-commerce companies</td>
</tr>
<tr>
<td>• Logistics solution covers end-mile delivery, reverse logistics and warehousing services in more than 40 cities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Created new business model based on in-house capabilities</td>
</tr>
<tr>
<td>• Addressed supply chain challenges of smaller players—operational capabilities, financial limitations, and skills shortage</td>
</tr>
</tbody>
</table>

Growth in emerging segments

The emergence of large sectors such as healthcare and education in India provides an opportunity for service providers. These sectors will drive significant demand and will need scale and reach to fulfill this demand. As companies try to address the specific challenges in the core functions, shared services will play an instrumental role in the delivery of services.

Healthcare, for example, faces challenges on the supply side. According to the World Health Organization, the number of hospital beds (includes inpatient and maternity beds) per 10,000 people in India is as low as nine, versus a world average of 30.\textsuperscript{16} Moreover, the quality of healthcare remains an issue. While this presents a challenge for healthcare companies, it also indicates significant opportunity for players that can create innovative business models to serve healthcare providers. Figure 10 on page 14 is an example of a shared services provider that caters to the need for faster rollout of medical facilities.

\textsuperscript{16} WHO, 2011
Rewriting India's Shared Services Playbook

The Indian service provider landscape has evolved significantly over the last three decades, delivering against the changing needs of global clients. This has created a mature and credible supplier base that has increased in size and number. These service providers are now increasingly competing with each other and looking to continuously evolve their business models to pursue new avenues for growth.

Over the past few years as the growth from global offshoring slowed, the domestic market in India provided new opportunity for growth. Cultural affinity, geographical proximity, and commonality of the business environment made the domestic opportunity attractive for the service providers. However, the domestic opportunity required overcoming a number of challenges, mainly to develop a compelling value proposition for the cost-conscious Indian client.

Service providers have stepped up to address the challenge—by creating new business models (for example, converting capex to opex), developing India focused processes (standardization with Indian context), demonstrating value beyond cost (business outcome-based contracts), and deploying innovative technology solutions.

Key Imperatives for Stakeholders

While the potential is promising, many Indian organizations have been slow to adopt shared services, primarily for three reasons: It is a low priority, there is a lack of awareness, and there are concerns about the business case and process maturity (see figure 11 on page 15). Organizations are at different stages of adopting shared services, and there are concerns—both real and perceived—about the value proposition. Key stakeholders, including shared services users, service providers, and the government, will have to work together to clear these hurdles. This could mean different choices for enterprise customers and service providers while they seek to drive models for shared services.

---

17 RvaluE Consulting, 2012

---

Figure 10
Case study: Hospitals are leveraging shared services to reduce setup costs, improve speed of roll-out of new centers, and gain access to talent

<table>
<thead>
<tr>
<th>Increasing scope of shared services</th>
<th>HR/ Payroll</th>
<th>IT</th>
<th>Record keeping</th>
<th>Billing</th>
<th>Diagnostics</th>
<th>Training of staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of technology enablers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hospital management system and other IT platforms to be hosted on the cloud—a scalable and agile solution that reduces capital expenditure for the hospitals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Impact
- Adopting cloud saved a niche hospital $4 million to $5 million in capex costs (5% of annual revenue for the company)

Traditionally outsourced activity Emerging area for outsourcing

Service providers: responding to the needs

Hospital management system and other IT platforms to be hosted on the cloud—a scalable and agile solution that reduces capital expenditure for the hospitals.

Impact
- Adopting cloud saved a niche hospital $4 million to $5 million in capex costs (5% of annual revenue for the company)
Choices for enterprise customers

The market presents a significant opportunity for higher scope of services and new models; organizations will need to choose the most suitable path based on their risk appetite.

These choices represent an evolutionary path for some companies, but many others may choose to adopt a more aggressive shared services model (see figure 12).

**Continue with piecemeal out-tasking and focus on process discipline**

Enterprises that have not yet achieved critical mass for broad adoption of shared services would be wise to wait and watch, continuing with the piecemeal approach to out-tasking with a focus on establishing mature processes through continual review of activities and practices. Companies will need to invest in enterprise IT systems such as ERP to drive standardized processes and measurable productivity metrics and service levels.

---

**Figure 11**

**Top five reasons for not implementing shared services**

(proportion of respondents)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not a priority for the organization</td>
<td>60%</td>
</tr>
<tr>
<td>Lack of awareness</td>
<td>53%</td>
</tr>
<tr>
<td>Lack of strong business case</td>
<td>40%</td>
</tr>
<tr>
<td>Lack of metrics for staff functions</td>
<td>20%</td>
</tr>
<tr>
<td>Lack of critical mass</td>
<td>20%</td>
</tr>
</tbody>
</table>

---

**Figure 12**

**Choices for enterprise customers**
Incrementally leverage shared services for new business and global footprints
For companies that have already implemented shared services, the next stage is leveraging the shared services concept for business diversification and geographic expansion. This provides significant benefits through higher scale of operations and integrated functions. For example, with the same finance and accounting (F&A) team managing processes across businesses and geographies, companies can benefit through higher standardization and cross-pollination of best practices. For new businesses, using existing shared services provides easy scaling-up of support services.

With enhanced scope and complexity, businesses can mitigate operational integration and change management risks. The diversity of operating models or cross-border businesses can further increase these risks. Managing these risks will require collaborating across businesses and with service providers.

Use shared services comprehensively across processes
The most aggressive and potentially rewarding option is to comprehensively adopt shared services across the enterprise. In this scenario, shared services encompass a broad range of activities, including those closer to the core.

In India, few organizations have taken this approach, except for new-generation companies in verticals such as telecom and infrastructure that have been open to outsource traditionally core processes. This model may not be feasible for many organizations for legacy reasons. Those that opt for this level of adoption will need to establish strategic relationships with service providers and develop robust integration capabilities to manage processes across internal and external service providers.

Choices for service providers
Service providers also face a variety of choices as they look to drive higher market growth. Each choice demands more customization in the go-to-market approach (see figure 13).

Figure 13
Choices for domestic service providers

A Offer a scale-driven, cost-focused play
B Adopt a collaborative, problem-solving approach
C Engage outcome outcome-focused, risk-taking models
Offer a scale-driven, cost-focused play
Service providers would need to effectively manage the cost of service for the Indian market, which is characterized by lower price points than western markets (sometimes up to one fifth lower). This would require clean-slate thinking on the models required for the Indian market. Service providers can drive this by using technology such as cloud computing and unified communication to create a low-cost distributed service delivery network. At the same time, more aggressive use of rural BPOs can help reduce delivery costs and provide local language capabilities.

Adopt a collaborative problem-solving approach
Because Indian customers have limited experience with shared services, providers will need to invest in developing this market. A consulting-led approach may be essential to help first-time customers understand the value proposition beyond cost reduction. In addition, many enterprise customers with limited experience of shared services would like to maintain control over their processes. Service providers will need to engage flexible models such as build-operate-transfer (BOT) to make their customers more comfortable before the shared services concept is fully understood and adopted.

Engage outcome-focused, risk-taking models
A more aggressive go-to-market approach can be built around offering customers outcome-based models. While these models create more risk for service providers, they also provide the opportunity to open up new customer accounts and increase the potential upside for providers. Service providers would need a strong understanding of their customers’ businesses to be truly successful.

Imperatives for the government

Driving Shared Service in public projects
The government continues to be one of the largest spenders in the country for its routine work and for specific projects that require a large amount of manpower. A shared services model can provide flexibility in scaling up resources while improving costs and service levels. The government is using shared services in many large-scale public projects, but there is significant potential for more participation in many ongoing activities where the government faces manpower constraints. This will require identifying new segments where shared services can be leveraged based on either the experience of leading state governments or other countries.

Developing the talent pool
India’s available talent is limited, which can hinder the growth of shared services. The National Association of Software and Service Companies (NASSCOM) lists low employability of graduates in India as a cause for concern for the shared services industry. The 2011 Manpower Survey places India second worldwide in talent shortage, citing lack of experience as the main problem mentioned by employers. This lack of talent is a challenge for India-focused service providers because of the low price points of domestic business. To cater to these requirements, the government will need to play a larger role in creating a wider talent base across tier 2 and tier 3 towns and in rural India.
Relaxing regulatory constraints on shared services
The government needs to explore easing regulations that may hinder the penetration of shared services in some verticals while maintaining the required checks and balances. Regulations constrict the extent of services that service providers can offer and the mechanism for service delivery. For example, insurance norms for outsourcing were tightened in 2011. Functions such as product design, claims, and policy servicing cannot be outsourced. Only non-core functions such as website management, internal audit, payroll management, HR services, and data entry can be outsourced. This has had an impact on the scope of insurance outsourcing and is limiting the benefits of cost efficiency and process excellence through outsourced shared services.

The Path Forward
The growth story for shared services in India is poised to become stronger with increasing support from public and private organizations, as it is becoming an integral part of the business model instead of just an efficiency enabler. However, to sustain this growth, organizations will need a higher level of flexibility to adopt India-specific business models and drive maturity of the overall ecosystem.
About A.T. Kearney

A.T. Kearney is a global management consulting firm that uses strategic insight, tailored solutions, and a collaborative working style to help clients achieve sustainable results. Since 1926, we have been trusted advisors on CEO-agenda issues to the world’s leading organizations across all major industries and sectors. A.T. Kearney has offices in major business centers in 39 countries.

With more than 500 consultants focused on the sector, A.T. Kearney has an industry-leading communications, media, and hi-tech practice globally and in India. We work extensively with major industry players, including operators, equipment and handset manufacturers, industry associations, and governments, on a range of strategic and operational topics.

For more information, please visit www.atkearney.in or www.atkearney.com.

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization that plays a proactive role in India’s development process. Founded more than 117 years ago, it is India’s premier business association, with a direct membership of more than 7,100 organizations from the private and public sectors, including small and medium enterprises and multinational corporations, and an indirect membership of more than 90,000 companies from 250 national and regional associations.

CII catalyzes change by working closely with government on policy issues, enhancing efficiency and competitiveness, and expanding business opportunities for industry through a range of specialized services and global linkages. CII also provides a platform for sector consensus building and networking. Major emphasis is place on projecting a positive image of business and assisting industry to identify and execute corporate citizenship programs. Partnerships with more than 120 non-governmental organizations across the country carry forward our initiatives in integrated and inclusive development, including health, education, livelihood, diversity management, skill development, and water just to name a few.

The CII theme for 2012-13, Reviving Economic Growth: Reforms and Governance, accords top priority to restoring the nation’s growth trajectory while building global competitiveness, inclusivity, and sustainability. CII advocacy focuses on structural reforms, both at our centres and in the states, and effective governance, while taking efforts and initiatives in affirmative action, skill development, and international engagement to the next level.

With 63 offices including 10 Centres of Excellence in India and seven overseas offices in Australia, China, France, Singapore, South Africa, the United Kingdom, and the United States as well as institutional partnerships with 223 counterpart organizations in 90 countries, CII serves as a reference point for Indian industry and the international business community.