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GCCs in India:

Building resilience for sustainable growth

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Foreword

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As organisations navigate the complexities of the modern business landscape, the Global Capability Centres (GCC) ecosystem in India has emerged as a beacon of growth and innovation due to the unprecedented expansion. The GCC landscape has witnessed the establishment of over 1,580 centres by FY2023[1], with many new GCCs being established and existing ones expanding every quarter. This remarkable growth is a testament to India's attractiveness as a hub for global companies seeking a favourable business environment and cost competitiveness.

Several factors are driving the growth of GCCs in India. The country's vast pool of skilled professionals has been a major draw for global companies seeking to establish their presence in the region.

Global tailwinds, focus on profitability, adopting new technologies and the imperative to make greater impact for the ultimate customer have also contributed to the growth of the GCC ecosystem in India. The trajectory over the next two-three years will continue to see a growing number of global players across sectors establish deep capabilities, building technology (Tech) centres and transformation hubs underscored with sustainability as the watermark.

GCCs leverage the benefits of India's favourable business environment. With a growing economy and a large domestic market, they have been able to build a sustainable and scalable operating model in India. This has enabled them to create jobs, contribute to the economy and build long-term relationships with the wider ecosystem.

This rapid growth and scale of GCCs have also brought to the forefront some associated issues that need to be navigated, as one builds and grows.

Given this backdrop, Nasscom along with KPMG in India, embarked on a brief study to understand some of the top considerations for GCCs as they define their future road map and equip themselves better.

Nasscom and KPMG in India surveyed a representative sample of GCCs from across sectors, at different stages of their lifecycle with varying functional scope, scale and footprint to understand the top challenges and areas of concern they are seeking to address.

This paper captures some of these top-of-mind considerations, underscores the proactive measures GCCs are implementing to overcome prevailing challenges and provides some frameworks as well as recommendations to aid in navigating the dynamically evolving landscape. It also highlights the strategic initiatives undertaken by the broader GCC ecosystem, industry stakeholders and the Government of India (GoI), all towards further fortifying the growth levers to enable sustained GCC growth.

We are pleased to release this paper that delves into the key themes, providing insights into the current ecosystem and also features some viewpoints and perspectives from various industry stakeholders.

Contents

Executive summary

The Global Capability Centres (GCCs) have emerged as lynchpins for growth and innovation across various sectors. India has cemented its position as the leading destination for establishing GCCs, driven by its vast pool of talent, innovative and operational excellence, conducive government policies and the established ecosystem. The country boasts of over 1580 GCCs, with a workforce crossing 1.66 Mn[1] and this growth is expected to leapfrog even further. However, this rapid growth and scale of GCCs also brings with them associated priorities that needs to be navigated, addressed and mitigated.

Nasscom and KPMG in India conducted a survey on this topic that saw participation from 75+ GCCs in addition to CXO leadership discussions, and they all pointed to four big considerations for GCCs in India managing talent, effectively leveraging emerging technologies, ensuring regulatory compliance and addressing concentration concerns.

1. Managing talent remains a key priority for GCCs in India

- Over 72 per cent of GCC leaders identified talent management as a key priority for GCCs.
- Key talent related considerations include talent availability, capability and employability, attracting and retaining talent, growing need for leadership talent and maintaining cost arbitrage.
- Mitigation measures to address talent related considerations include:
  a) Investing in future talent availability, deployability and capability, having specific frameworks, understanding the organisational technology roadmap and mapping of the same are essential. Workforce strategies include hire, build and scale, borrow and augment, and co-creation.
  b) Attracting and retaining top talent – aligning with strategic objectives, scope of services, innovation agenda, upskilling programmes, workforce models etc.
  c) Cultivating a strong leadership pipeline is imperative. Few work models include 2-in-a box-model, GPOs and women leadership programmes.
  d) The narrative around cost arbitrage is evolving. GCCs are moving up the value chain and embracing complex and specialised functions.
- Government has also initiated various measures to build a large talent pool with emerging technology skills.

2. Leverage emerging technologies to become strategic transformation hubs:

- Before embarking on ET journey, GCCs should consider several factors (e.g., strategic clarity and quantifying the ROI) to determine the business case, obtain leadership buy-in, and ensure the success of technology adoption.
- Various considerations regarding emerging technologies which need to be addressed and mitigated include:
  a) External considerations related to third party, regulatory and compliance considerations, and technology landscape and cyber threats
  b) Internal considerations include quality and reliability of content, data, people related issues, and considerations related to governance and ethics
- Mitigation measures include rethinking the skills of the future, service delivery models and governance structure, redefining the customer experience, the partner ecosystem, and delivery models with respect to buying, building, or renting, and reimagining the value proposition, solution design, and the skill arbitrage
- Government of India's (GoI) initiatives for emerging technologies include India AI Stack, national programme on artificial intelligence (NPAI), mission for accelerating financial inclusion (MAFI), start-up India initiatives, and MeitY's roadmap for 2047 for emerging tech.

Executive summary (Contd)

3. Ensuring regulatory compliance is paramount for GCCs operating in India:

- 81 per cent of respondents mentioned transfer pricing as the top regulatory priority for GCCs in India. More than half of the respondents highlighted SEZ laws and STPI regulations (67 per cent) and labour laws (60 per cent) among key regulatory priorities.
- For the CXOs surveyed, the top five regulatory considerations include transfer pricing, SEZ and STPI compliance, labour laws, DPDPA, and FEMA.
- Regulation specific best practices for continued compliance include –

a) For transfer pricing, maintaining robust, clearly defined inter-company agreements (ICA), establishing and documenting pricing models, and assessing and evaluating the costs and benefits are necessary.

b) For SEZ compliance, establishing processes for statutory declaration development and compliance tracking, developing SOPs for SEZ-specific documentation, and regular audits of SEZ-specific documentation.

c) For Labour laws, implementing internal controls for background checks, utilising compliance tools to monitor periodic updates on regional and central regulatory changes, and tracking applicable statutory timelines are essential measures.

d) For privacy related considerations, designing and implementing privacy policies and procedures in line with Digital Personal Data Protection Act (DPDPA) requirements, performing data mapping exercises and maintaining record of processing activities (RoPA), and assessing third-party vendors before onboarding and ensuring privacy by design principles to be implemented.

e) For corporate tax and FEMA regulations, documention to support foreign tax credit claims and treaty benefits, assessing access to tax treaty for favourable taxation, and validating secondment arrangements are some common best practices.

- GoI has undertaken various initiatives to enhance the ease of doing business and improve regulatory frameworks. Efforts include streamlining processes, digitising compliance procedures, providing customs duty and GST exemptions for SEZ/STPI units and amending labour laws to promote flexibility and efficiency.

4. Address concentration concerns in India

- 44 per cent of the interviewed stakeholders expressed the view that it is imperative to de-layer concerns around concentration. Only 20 per cent of survey respondents view the concentration as perceived risk.
- By adopting a variety of metrics, GCCs can accurately identify critical risk exposures, thoroughly assess potential vulnerabilities, take proactive measures to mitigate concerns and provide comprehensive reports to global organisations.
- The metrics include –
  - Scope and volume of work from the global perspective, strategic and functional objectives of the global organisation being fulfilled by Indian GCCs, criticality of the activities, number of centres in India, global presence and capabilities, reliance on the Indian ecosystem and offerings, third party and supply chain resiliency, technology landscape, business continuity plans (BCPs) and contingency planning, cultural integration and ethical practices.
- Some of the measures include:
  - Understanding the concerns by conducting joint workshops to arrive at a shared understanding of ‘concentration concern’.
  - Assess through the multi-pronged approach of a combination of qualitative and quantitative parameter to assess whether concentration concern exists and to evaluate the severity of the concern.

Talent

The talent landscape: Fueling the growth of GCCs in India

At the core of the thriving GCC model in India is the nation's vast pool of talent and a growing knowledge economy. This rich and diverse landscape provides GCCs a competitive edge, attracting skilled professionals across various domains. From tech-savvy engineers crafting cutting-edge solutions to dynamic business strategists navigating complex markets and deep functional experts unlocking value across the business value chain, the talent landscape provides a compelling proposition.

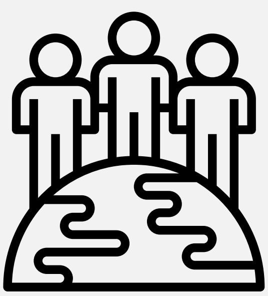
1.1 India's talent landscape

1.1.1. An attractive location for GCCs, given the scale and depth of talent in new emerging skill areas

In Q4 CY2023 alone, 10 new GCCs were established in India and 60 per cent of these cover engineering, research and development (ER&D), IT service and business process management (BPM)[2]. The dynamic nature of technological change has created a demand for new niche skills, such as data analytics, generative artificial intelligence (GenAI) and cloud computing, among others.

The Indian talent is equipped to meet the demand because of its following unique characteristics:

World's highest youth population[3]



24% of India is under the 20-34 age group[4]

Highest STEM graduates[6] and 2nd largest English language proficiency[5]

34% of **students under STEM[6]**

48% employability rate in **AI/ ML roles[7]**

Promising R&D activities

Ranked 4th globally for **research output[8]**

R&D Growth of **54%** between 2017 and 2022[8]

Globally **ranked 3rd** for **scientific publications[9]**

Eight-fold growth in no. of **patents granted** during 2014-15 to 2023-2024[9]

Start-up ecosystem

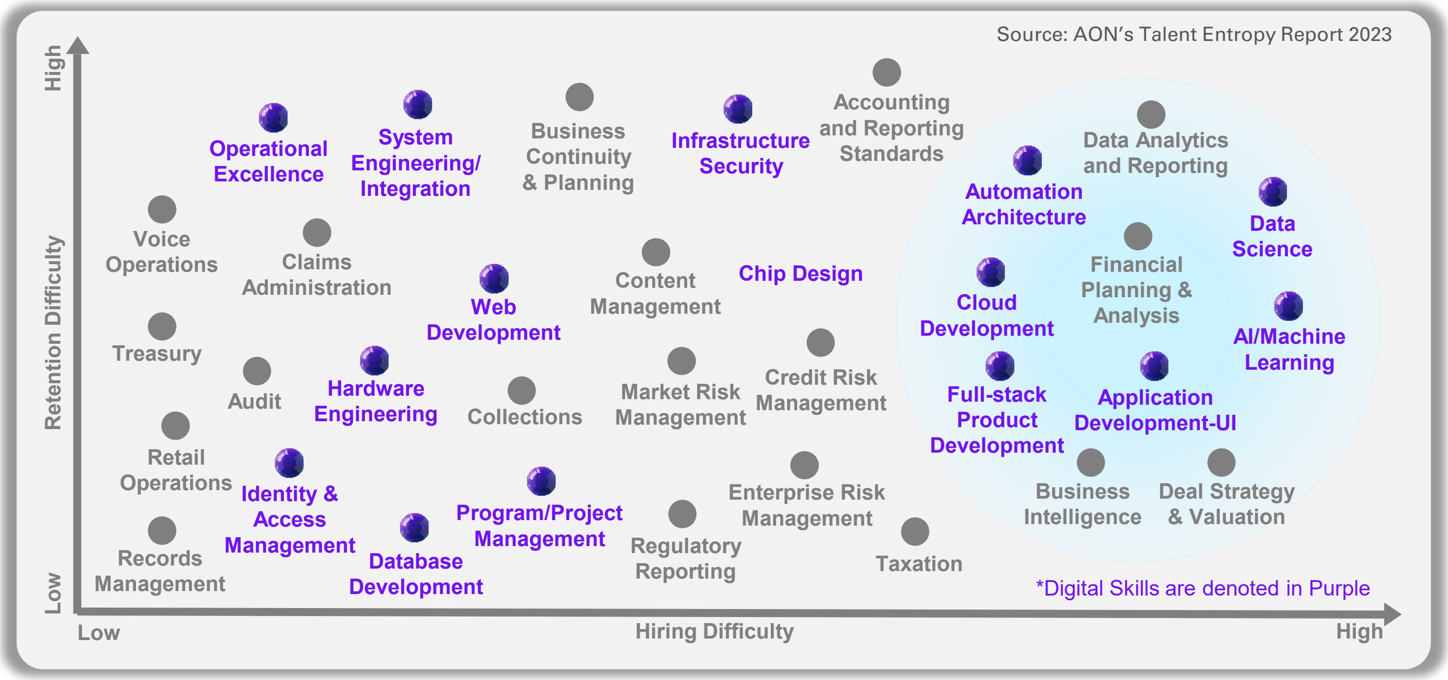
31,000 active tech start-ups[10]

3rd largest tech start-up ecosystem[10]

These factors combine to make India an attractive destination for global organisations looking to establish deep capability hubs in India with high-quality talent at scale and at a reasonable cost.

1.2 Exploring the multifaceted and evolving talent landscape

As GCCs in India are transforming and moving up the value chain, roles are expanding and evolving. Also, given the number of tech centres being set up, there is a growing demand of high value digital skills (automation architecture, cloud development, AI/machine learning, data science, etc.). The growing demand is putting pressure on hiring and retaining digital talent, while operational roles (voice operations, records management and administration) are easier to hire and retain.



Thus, strong talent acquisition and management becomes one of the critical success factors for GCCs as they move up the value chain. This section delves into some of the key considerations and talent considerations facing GCCs in India, given the competitive talent market.

Talent availability, capability and employability	• While talent at scale is available, rapidly evolving skills and growing demand for digital skills entail focused efforts from GCCs to ensure sustained pipeline for niche talent. • Building a pipeline of readily deployable talent with the new emerging skills and capabilities is a top priority.
Attracting and retaining top talent	• India's thriving economy intensifies competition for skilled professionals among start-ups, tech service providers and GCCs, which impacts the ability to attract and retain talent.
Leadership talent	• As GCCs evolve into strategic hubs, the need for strong leadership becomes paramount. Hence, finding and nurturing talent equipped for global leadership positions are critical.
Cost arbitrage	• Over the years, with rising wage bills, a perception has grown that the cost arbitrage advantage may have become blunted, especially for niche skills and leadership talent.

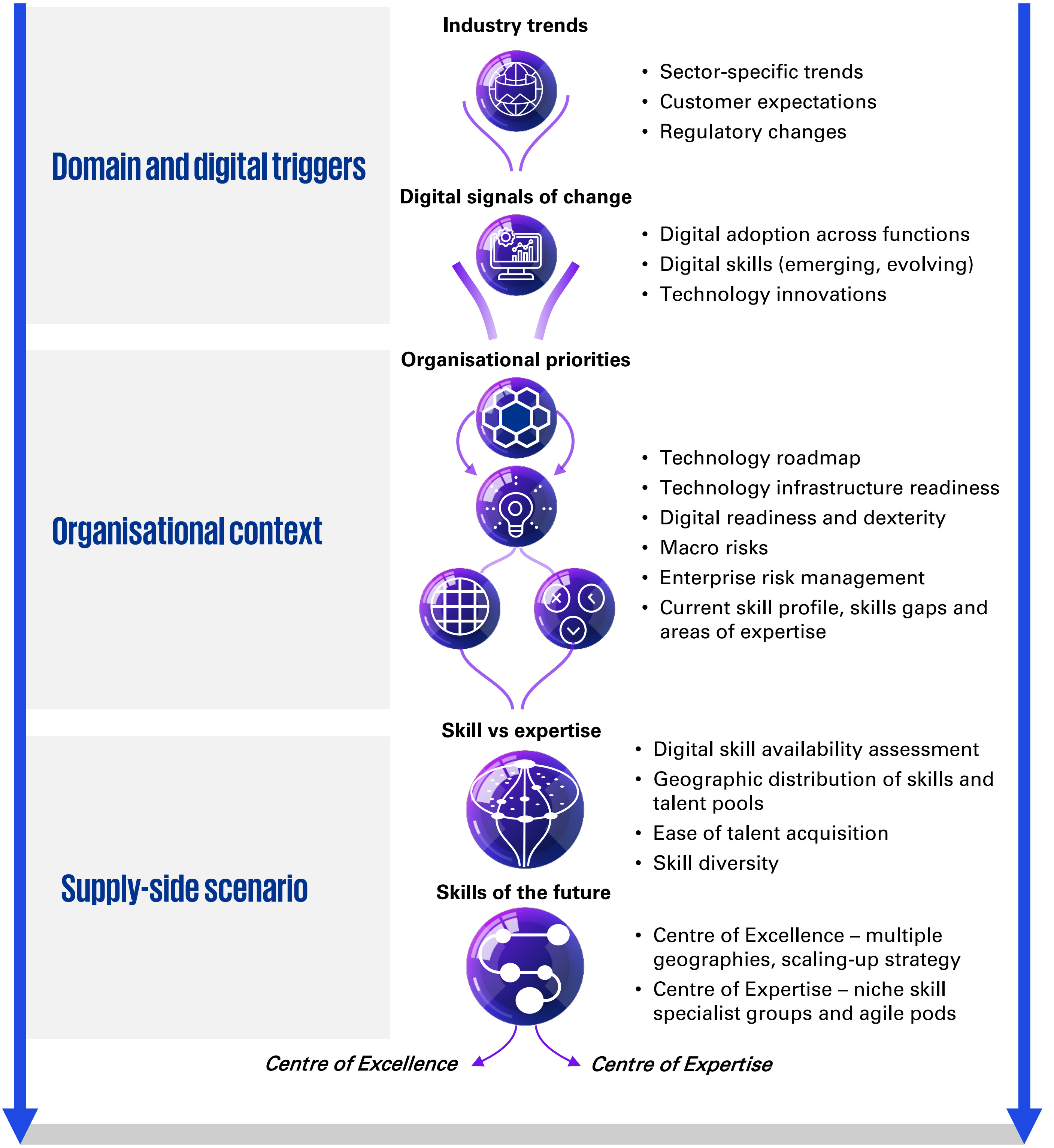
To navigate these talent concerns, proactive mitigation measures are essential as talent capital is the most significant differentiator, charting the road ahead for GCCs.

1.3 Mitigation measures to address the multifaceted talent considerations

1.3.1 Investing for future talent availability, capability and deployability

GCCs in India are embracing a comprehensive approach that ensures a steady stream of skilled individuals ready to meet emerging and future business needs. The focus is on both **talent demand forecasting** and **building a robust talent pipeline**.

The below illustration represents the **digital skills analysis framework**:



The above approach has empowered several GCCs to predict the future talent profile a few years in advance and work backwards on their proactive workforce strategy.

Analysing the technology roadmap and its impact on the business value chain allows GCCs to identify which processes are likely to become redundant due to automation, assess the impact of new platforms replacing older ones, and understand the investment required to build deep capabilities and capacity in emerging technologies. As an outcome of this, along with their ability to profile future talent needs, GCCs are innovatively transforming their workforce strategy and models:

Hire, build and scale

- This entails assessing the current workforce, actioning the skill gaps through reskilling programmes and influencing the future pipeline through collaborations with academia to shape curriculum.
- For example, there are a few BFSI GCCs that have invested in defining very specific Financial Services and Risk Management curriculum, which would enable creating a more readily employable talent pool.

For strategic areas

Borrow-augment

- GCCs are leveraging the gig workforce through vendor partners and staffing services who provide a very competitive workforce model.
- The evolving hybrid operating model, where GCCs increasingly work with their vendor partner ecosystem, provides an agile and optimal option to balance talent needs.

For immediate and short-term requirements

Co-create

- To support and enable rapid scale up, the assisted build or Build – Operate - Transfer (BOT) model has been seeing a significant uptake.
- The industry has experienced the mushrooming of GCC-as-a-service provider, a new category, which also enables the talent fulfillment.
- This is also a model adopted by GCCs in the quest to establish deep capabilities, which requires high-end, niche talent, allowing for rapid scale-up of GCC operations by leveraging niche expertise.

For rapid scale-up and niche capabilities

1.3.2 Attracting and retaining top talent

Some factors that influence and directly impact the ability to attract and retain top talent include:

- The strategic narrative for establishing the GCC and alignment with the global organisation
- Significance of the GCC to the global organisation and the level of empowerment
- Scope of services across the business value chain
- Vision and plans to establish deep capabilities in new emerging technology areas
- Deep functional capabilities planned
- Innovation agenda and the opportunity to collaborate with the start-up ecosystem and academia
- Upskilling programmes that link learning paths to career paths
- Hybrid workforce models embracing agility

In addition to the above, competitive employment policies are assumed to be the foundation of building and growing a differentiated GCC.

1.3.3. Cultivating tomorrow's leaders today

The rise of GCCs as strategic hubs and their evolving role demands a strong leadership pipeline. By implementing some of the following measures, GCCs are cultivating a strong leadership pipeline from within and fostering a future-ready generation of leaders equipped to navigate the complexities of the global landscape.

"2-in-a-Box" Model: Bridging the leadership gap

- For critical roles within the GCC, a "2-in-a-Box" structure is established, which involves creating a counterpart role within the parent organisation and both share the ownership of roles, responsibilities and have common Key Result Areas (KRAs).
- This allows for Knowledge Transfer (KT) and ensures a smooth transition of responsibilities as needed, while enabling GCC talent to also gain invaluable exposure to senior leadership and critical decision-making processes at a global level.

GPOs: A stepping stone to global functional leadership

- Global Process Owners (GPO) play a pivotal role in standardising processes, driving continuous improvement, and ensuring optimal performance across global delivery centres. Indian GCCs boast attributes that make them ideal for GPOs, including deep process expertise, a global perspective, and strong analytical skills.
- A structured approach to GPO development involves identification, specialized training, and global exposure, leading to cost-effectiveness, cultural understanding, and enhanced process ownership. This strategic initiative empowers GCC talent, fosters global process ownership, and drives organization-wide operational excellence.

Women Leadership Circle Program

- Under this programme, women leaders mentor aspiring women technologists through development sessions to help them evolve into the next level of their career path. The programme enables women employees to build expertise by providing ample opportunities and thereby help them grow within the firm.
- High-performing and high-potential women managers are identified, and are trained through monthly sessions, practical exercises and executive coaching for senior leadership positions.

1.3.4. Debunking the cost arbitrage myth

The narrative around the declining cost arbitrage for GCCs in India warrants a closer examination, one that dispels common misconceptions and offers a more nuanced perspective. While wage inflation is a real phenomenon, it is also a global reality. One also needs to take cognizance of the maturing model where GCCs are moving up the value chain and embracing complex, specialised functions that warrant competitive compensation on a global scale.

1. **Globally increasing costs:** Globally, the upwards trend in costs is undeniable, extending even to other low-cost countries.
2. **Shifting job landscape:** New, specialised roles have emerged that demand competitive compensation on a global scale. Some examples include roles of data scientists, cloud transformation roles and cybersecurity experts, which did not exist a few years ago. Further, research indicates that the middle management layer has expanded over the years, indicating the movement of jobs up the value chain, especially for technology roles[11].
3. **Resource rebalancing:** GCCs are witnessing a rebalancing of resource requirements owing to automation, reskilling and redeployment, and enhanced operational efficiencies.
4. **Cost optimisation**: GCCs recognise that while cost remains a pivotal consideration, it is not the sole influencer of competitiveness and value delivery. Various cost optimisation initiatives are being adopted.
5. **Improved operational efficiency:** GCCs are adopting automation and cutting-edge technologies to streamline operations and reduce expenses. They are also re-evaluating alternative workforce models (E.g., BOT, Co-Create) to find the most cost-effective approach. This allows them to focus on delivering high-quality services and improving productivity.

6. **Enduring talent advantage:** While some niche skill sets might command similar salaries anywhere globally, cost arbitrage remains relevant for junior and non-core roles within GCCs. For GCCs, India retains the competitive advantage for operational roles; however, for high value technology and platform roles, India is offering lucrative talent market at global prices[11].
7. **Strategic geographic expansion:** Build niche skill hubs and Centres of Excellence in metros and shift process operations into Tier-II and Tier-III cities. This allows GCCs to tap into diverse talent pools while benefiting from lower operational costs.
8. **Favourable currency exchange rates:** The benefit of employing talent in India persists due to the favourable exchange rate between the US dollar and the Indian rupee, even with rising salaries.

In conclusion, the concept of cost arbitrage is evolving rather than diminishing. By prioritising value creation and leveraging technology, GCCs in India continue to innovate, evolve and play a pivotal role in the global service delivery model.

1.4. GoI's initiatives to create job readiness and enhance talent base

The GoI has initiated various measures to build a large talent pool with new emerging technical skills. These initiatives carry immense potential to contribute significantly to the development of skills that are aligned with evolving market demands.

Measures taken to build a talent base

1 A digitally inclusive society

India's transition to a digitally inclusive society by building digital public infrastructure (DPI) with an aim to provide a multitude of services to the public and expand high-speed internet connectivity to all parts of the country presents unique opportunities for start-ups as well as boosts the country's digital proficiency.

2 Next-generation skilling initiative

Skill India Digital, launched in September 2023, is a centralised hub for skill development efforts by both central and state governments. By leveraging the latest technologies and enhancing the access to learners across the country, this platform is empowering Indian talent to acquire digital and Industry 4.0 skills, thereby making them future-ready.

3 Stronger collaboration among government and private players

The Ministry of Education and Skill Development and Entrepreneurship has forged a partnership with leading private organisations and higher educational institutes, such as AICTE, to offer training on digital content, experiential learning and new skills for technical careers.

4 Ministry-level intervention

The Ministry of Electronics and Information Technology (MeitY) is working on introducing AI education at various levels of the country's education system, ensuring that these courses are aligned with the National Credit Framework and the National Higher Education Qualifications Framework. Nasscom and MeitY are collaborating on FutureSkills Prime, aimed at making India a Digital Talent Nation.

The Government is creating a digitally inclusive society by building a digital public infrastructure (DPI) and expanding high-speed internet connectivity across the country. The start-up ecosystem has also provided path-breaking solutions to ensure these digital initiatives reach a wider percentage of the population. With this kind of rare combination of a vast talent base, technology-supportive government policies and start-ups with a 'can-do' mindset, India has been at the forefront of global firm's efforts to drive operational efficiency and strengthen innovation capability.

Key takeaway

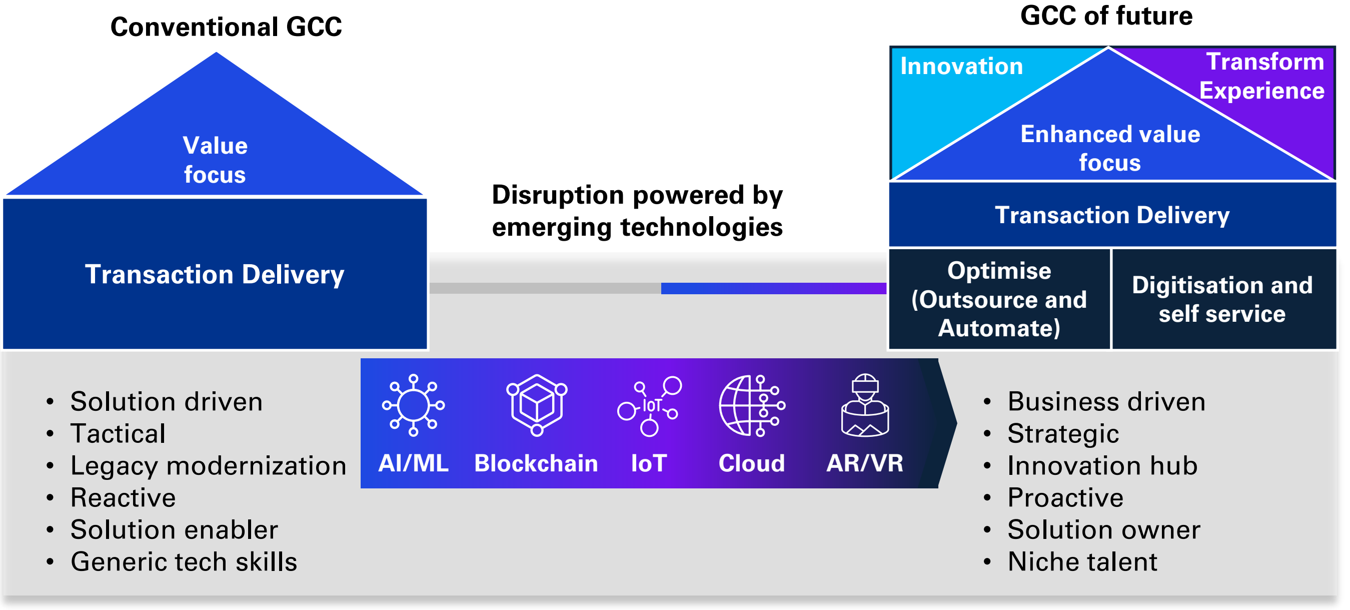
The talent landscape of GCCs in India is indeed rich, diverse and dynamic, presenting opportunities and some challenges in equal measure on account of the growing scale and demand. However, the innovative strategies adopted demonstrate the efforts invested for the future to build and sustain the talent pipeline. By continuously adapting and fostering a culture of learning and innovation, these critical nodes of the nation's economic engine are well-positioned to navigate the evolving landscape and secure their future success. The talent concern, therefore, isn't a looming threat but rather a catalyst for growth and transformation, propelling India's GCCs towards a future of even greater excellence.

Emerging technology

Navigating the tech labyrinth

Technology is at the very core of the GCC model, emerging as the driver of innovation and efficiency to enhance value. Fueled by the rapid adoption of Emerging Technologies (ET), these centres are evolving from being conventional centres focused on transaction delivery and cost-optimisation to strategic transformation hubs focused on innovation and value creation. With the boom around ET, especially the large-scale development of practical use cases of AI/ML (particularly GenAI), Blockchain, IoT, Cloud and AR/VR, technology adoption has gathered a significant pace.

2.1 GCCs are fast transforming aided by new emerging technology

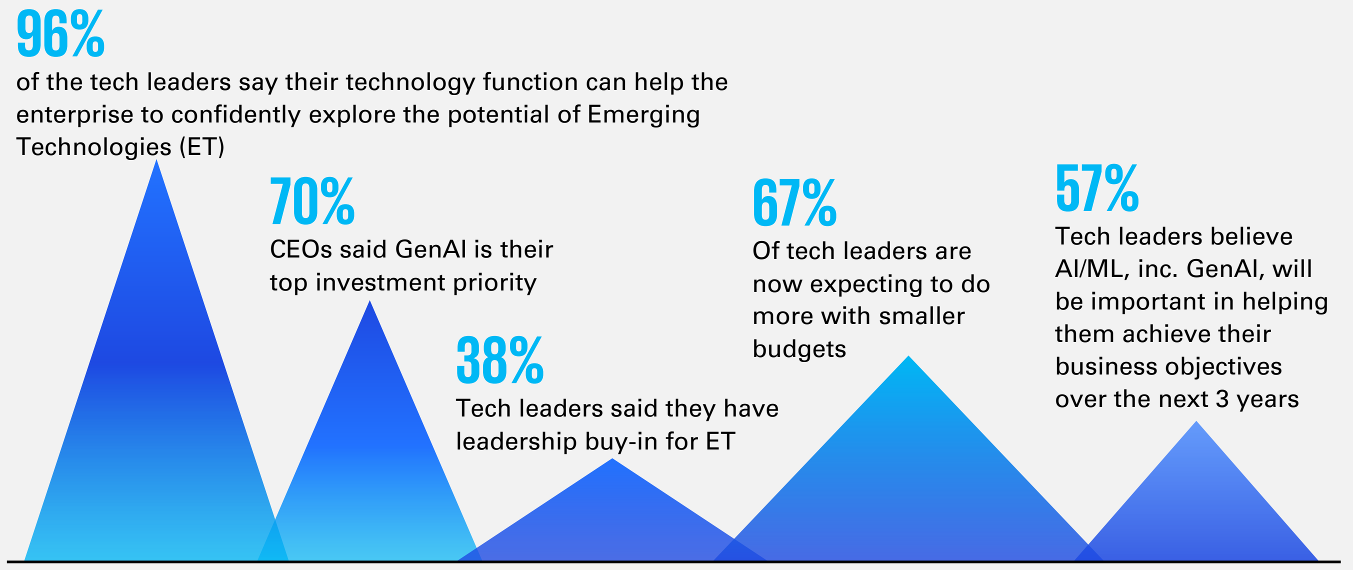


This future-oriented approach is characterised by three key transformations:

1. **Elevating value with innovation:** GCCs are leveraging ET to redefine their role as innovation leaders, addressing strategic and operational challenges across the business value chain. For instance: Global pharma companies are using supercomputing and AI simulations in drug discovery (E.g., Super-computer paired and advanced computational method to find the right molecules in drug discovery to treat Covid-19 orally instead of intravenously[12]).
2. **Transforming user experience**: GCCs are leveraging ET to enhance user experiences by providing immersive interactions, seamless collaboration and personalised services, creating differentiated value in the market and fostering sustainable growth. For instance, in aerospace and defense sector, AR/VR technology in being used to design prototypes, to develop applications to train pilots to build muscle memory, and to simulate trainings for manufacturing, repair and maintenance. Similarly, retail companies are employing ET to deliver personalised shopping experiences and product transparency.
3. **Optimising transaction delivery:** GCCs are embracing automation, digitisation and self-service solutions to increase efficiency and reduce costs. For instance, RPA automates repetitive tasks, freeing up resources for higher-value work. AI and ML optimise workflows, streamline operations and reduce turnaround times, fostering cost-effectiveness.

GCCs are shifting from tactical support to strategic value creation, leveraging innovation and skilled talent to deliver significant business outcomes in the digital landscape. They are driving the charge in strategic innovation through experience enhancement and transaction optimisation.

Insights from global technology leaders and CEOs shed light on the significance of emerging technologies and the myriad of opportunities it presents for GCCs:



Source: KPMG CEO Outlook 2023, KPMG Global Tech Report 2023

a) Despite 96 per cent of tech leaders expressing confidence in their tech function's ability to explore ET, only 38 per cent report having leadership buy-in. GCCs can enable greater buy-in by developing robust and practical business cases.

b) As 67 per cent of tech leaders expect to amplify their output with smaller budgets, GCCs can be the tech and innovation hubs to enable them and the organisations to implement tech strategies cost-effectively as-well-as address cyber threats in ET adoption.

c) 57 per cent of the tech leaders believe ET will help organisations achieve business objectives. GCCs can co-own and co-pilot some of the tech initiatives to jointly achieve the goals.

d) GCCs can develop capabilities on GenAI and streamline GenAI governance/ adoption process for global organisations.

2.2A. Strategic considerations for emerging technology adoption

In the pursuit of innovation and strategic value creation, GCCs are increasingly shifting towards adoption of ET. However, this shift necessitates robust leadership buy-in and ongoing support from global organisations.

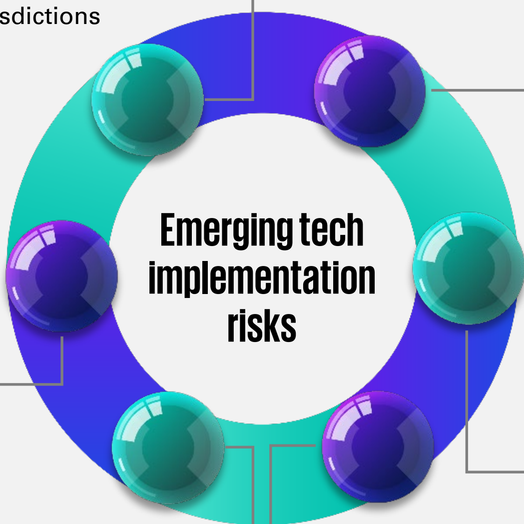
One of the foremost challenges encountered by the GCCs, is the imperative to articulate the need and the business case for ET adoption to their global organisations. This challenge arises due to:

- **Unstructured innovation**: Innovation often lacks a structured approach, hindering its effectiveness.
- **Absence of a compelling business case**: The absence of compelling business cases undermines the justification for ET adoption.
- **Growing demand for technology adoption:** Quick enhancements and minor modifications are often incorrectly equated with substantial innovation, leading to a misalignment of priorities. It is essential to concentrate on achieving significant breakthroughs and fostering disruptive innovations rather than rushing to mainly demonstrate usage of ET with low value adding bots.

Hence, it is crucial for GCCs to clearly define the rationale for adopting emerging technologies prior to exploring the implementation methodologies.

2.2B. Concerns for GCCs in implementing emerging technologies

As GCCs embark on a journey to adopt Emerging Technologies, they need to steer through a landscape of internal and external concerns and challenges. These are not unique to GCCs but are inherent to organisations deploying these technologies. Considering the strategic value add and transformation journey embarked by GCCs in India, it is imperative to be aware of these concerns and to consciously address the same.



Regulatory and compliance

- **IP issues** – Copyright threats/Infringements esp. in patented tech and sensitive R&D
- **Nascent regulatory framework** – Highly evolving regulatory landscape as governments try to match pace with tech evolution
- **Data privacy and confidentiality-** GCCs must navigate complex and varying data protection laws across different geographical jurisdictions

Governance and ethics

- **Governance:** Absence of clear policies, guidelines governing acquisition, development and use of ET including data, security and ethical considerations
- **Ethical concerns:** Bias, discrimination, ethical challenges.

Quality and reliability

- **Quality and reliability of content:** Ensuring reliability and consistency of outputs generated by new technologies
- **Data tampering:** Manipulated training data could give rise to financial and reputational risks
- **Change management:** Inadequate change management process, lack of transparency and lack of well-defined implementation strategies

Third-party

- **Third-party–** Increased touchpoints leading to vulnerability due to 3rd party systems
- **Lack of integration with organisational tech stack**, governance and risk management mechanisms

Tech landscape and cyber threats

- **Technology advancements:** Ability to keep pace with the rapid technological advancements and challenges in integrating with legacy systems
- **Cyber threats:** Increased exposure to cyber threats and attacks targeting vulnerable emerging technology infrastructures
- **Black box technologies:** New and emerging technologies have limited use cases and visibility on implications and risks

People

- **Tech talent availability:** Insufficient expertise and experience in emerging technologies among existing workforce
- **Resistance to change:** Employee reluctance or pushback towards adopting new technologies
- **Training and development:** Challenges in upskilling existing workforce to effectively utilise emerging technologies

Internal External

2.3A. Charting the course: defining the 'Why'

Before embarking on ET journey, GCCs should carefully consider several factors which may enable them to determine the business case, obtain leadership buy-in and ensure the success of technology adoption:

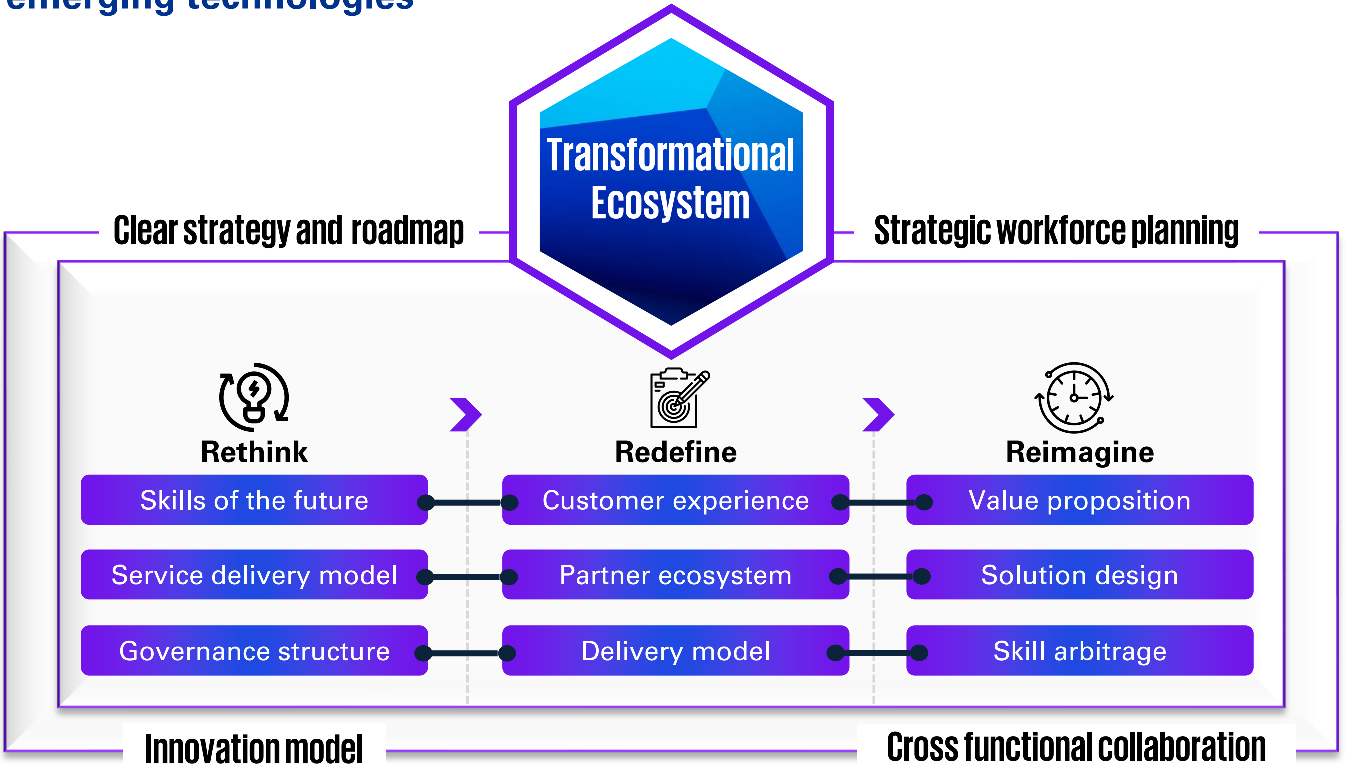
Factors	Objectives	Parameters	KPIs
Strategic clarity	Define clear strategic objectives for adopting emerging technologies	• **Technology relevance:** Assess how tech fits within industry and current trends • **Vision and mission alignment:** Identify how the tech fits within long-term plans and determine if tech provides a sustainable competitive edge • **Define the innovation strategy pillars** (E.g., Cost savings, operational efficiency, customer delight, revenue growth)	• **Alignment with corporate vision:** Degree to which tech adoption aligns with long-term vision of the organisation (High, Medium, Low) • **Innovation readiness index:** Identify key components that define innovation readiness (Process, Resources, Infrastructure, Skills), assign weights to each component and assess the organisation's readiness to adopt and integrate new tech.

Quantifying ROI	Establish a clear business case by quantifying the ROI	• **Direct and indirect costs:** Include acquisition, implementation, training and maintenance costs
		• **Quantifiable benefits:** Increased revenue, cost savings, efficiency improvements
		• **Define the T-shirt size guidelines** to measure the efforts involved: (XS – Minimal effort (15 days, XL – Very high effort (100+ days)
			• **ROI:** (Net benefits – implementation cost)/ implementation cost *100 per cent
			  • Net benefits = Dollar savings/ benefit expected
			  • Implementation cost = T-shirt sizing (Max man-days)*manpower cost + Non labour cost (e.g., acquisition, implementation, training and maintenance cost)
			• **Payback period:** the time required to recoup the investment in the tech

Understanding the true impact	Assess the broader impact of tech adoption on operations, culture and customer experience	• **Workforce transformation:** The extent to which the workforce needs to adapt or upskill • **Cultural fit:** Consider how the tech aligns with or disrupts the existing company culture	• **Operational efficiency gains:** Measure improvements in operational processes efficiency and productivity • **Employee productivity index:** Levels of employee productivity, satisfaction and engagement levels post-adoption
Aligning with business context	Ensure that the tech adoption is in sync with the business' current state and future state.	• **Current state analysis:** understanding of current processes, tech landscape and capabilities • **Future state vision:** Detailed vision of how tech will transform the business	• **Strategic alignment score:** Metric assessing alignment between tech initiatives and business strategy • **Adaptability to business processes:** Ease with which the tech can be integrated into existing processes
Impact over innovation	Prioritise tech that deliver tangible impacts over those that are innovative but may not offer clear benefits.	• **Practicality:** The usability and practical applications of the tech in the business context • **Scalability:** The ability to scale the tech solution to meet future business requirements.	• **Impact score:** Evaluation of the direct impact on business outcomes vs the novelty of the tech • **Innovation relevance rating:** Assessing the relevance of the innovation/tech to the core business functions.

By carefully considering these factors, GCCs can approach emerging technologies with a strategic mindset. This will allow them to make informed decisions, optimise their investments and leverage these powerful tools to achieve their strategic objectives.

2.3B. Future-proofing GCCs: How concerns are being mitigated in the age of emerging technologies



GCCs must strategically **Rethink, Redefine and Reimagine** their approach, leveraging a four-tiered transformational ecosystem as they go about adopting and implementing ET. GCCs need to establish a definitive strategic roadmap, nurture a workforce equipped for the future, promote a sustainable model of innovation and ensure integrated cross-functional collaboration.

1) Rethink

- **Skills of the future:** Fine-tuning the existing talent pool with a skill-driven continuous learning path to build and prepare for the change. Investing in reskilling and upskilling workforce to bridge the talent gap is likely to be necessary.
- **Service delivery model:** Finding vulnerable areas in service delivery and fixing gaps to tap into maximum value from emerging technology.
- **Governance structure:** Building governance frameworks specific to emerging technologies, building robust data security measures, quality assurance and monitoring, IP rights management and integrated regulatory compliance.

2) Redefine

- **Customer experience:** Proactively identifying ways to reduce the impact of futuristic implementations on customer experience while ensuring the final value is delivered.
- **Partner ecosystem:** Building a resilient partner ecosystem to support implementation in terms of services and talent.
- **Delivery model:** A strategic assessment of the 'Buy,' 'Build,' or 'Rent' options for technology solutions should be conducted, considering key factors such as business objectives, organisational competencies, return on investment and scalability.

3) Reimagine

- **Value proposition:** Building a futuristic and innovative workforce with cultural values through newer opportunities or re-envisioning existing ones to evolve with the changing landscape and ways of working.
- **Solution design:** Transforming solution designing to create innovative solutions delivering impact across the organisation while being resilient on associated concerns.
- **Skill arbitrage:** Identifying the niche skills needed for the tech strategies, growing them as part of organisational philosophy and expanding global reach to acquire talent.

2.4 Government initiatives on AI and emerging technologies

The Indian government recognises the importance of technology for GCCs and is actively supporting their growth:

National initiatives:

- **India AI stack:** This comprehensive framework provides open-source, interoperable AI components and platforms, enabling GCCs to experiment and develop AI solutions cost-effectively.
- **National programme on artificial intelligence (NPAI):** Seeks to foster AI research and development, supporting academic institutions and start-ups working on relevant technologies.
- **Mission for Accelerating Financial Inclusion (MAFI):** Encourages the use of AI in financial services, potentially creating opportunities for GCCs to develop and deploy AI-powered solutions for banks and fintech companies.
- **Start-up India initiative:** Provides financial and regulatory support to start-ups, fostering innovation and nurturing a talent pool for the growing AI and emerging tech ecosystem.
- **MeitY roadmap:** MeitY R&D in Cyber Security Group has embarked on seeking multi-stakeholder consultations for the Cyber Security R&D roadmaps for various the areas such as IoT security, mobile security, cyber forensics and cryptography as a part of 2047 roadmap.

Initiatives relevant for GCCs:

- **Tax benefits and incentives:** The government offers tax benefits and incentives for companies investing in R&D and innovation, potentially encouraging GCCs to explore and adopt emerging technologies. (E.g., customs duty exemptions on import of R&D equipment and the weighted reduction for R&D expenditure incurred)
- **Skilling programmes:** Initiatives such as Skill India aim to bridge the skill gap in emerging technologies, offering training programmes and certifications relevant to GCC needs. Nasscom and MeitY’s joint collaboration on FutureSkills Prime is aimed at making India a ‘Digital Talent Nation’
- **Data governance framework:** The DPDPA aims to create a clear and secure data environment, fostering trust and enabling GCCs to leverage data ethically and responsibly.

These initiatives collectively create a supportive ecosystem for GCCs to explore and adopt AI and emerging technologies. While challenges remain, government efforts provide a solid foundation for GCCs to harness the power of technology and contribute to India's digital transformation journey.

Key takeaway

Access to ET is increasingly straightforward, eventually heightening associated concerns. However, technology also plays a crucial role in mitigating these risks. For GCCs, the path forward involves selecting appropriate technological solutions, implementing robust governance, staying updated with regulatory changes and securing the necessary implementation support and expertise. This approach will establish GCCs as strategic drivers of business value in the digital era.

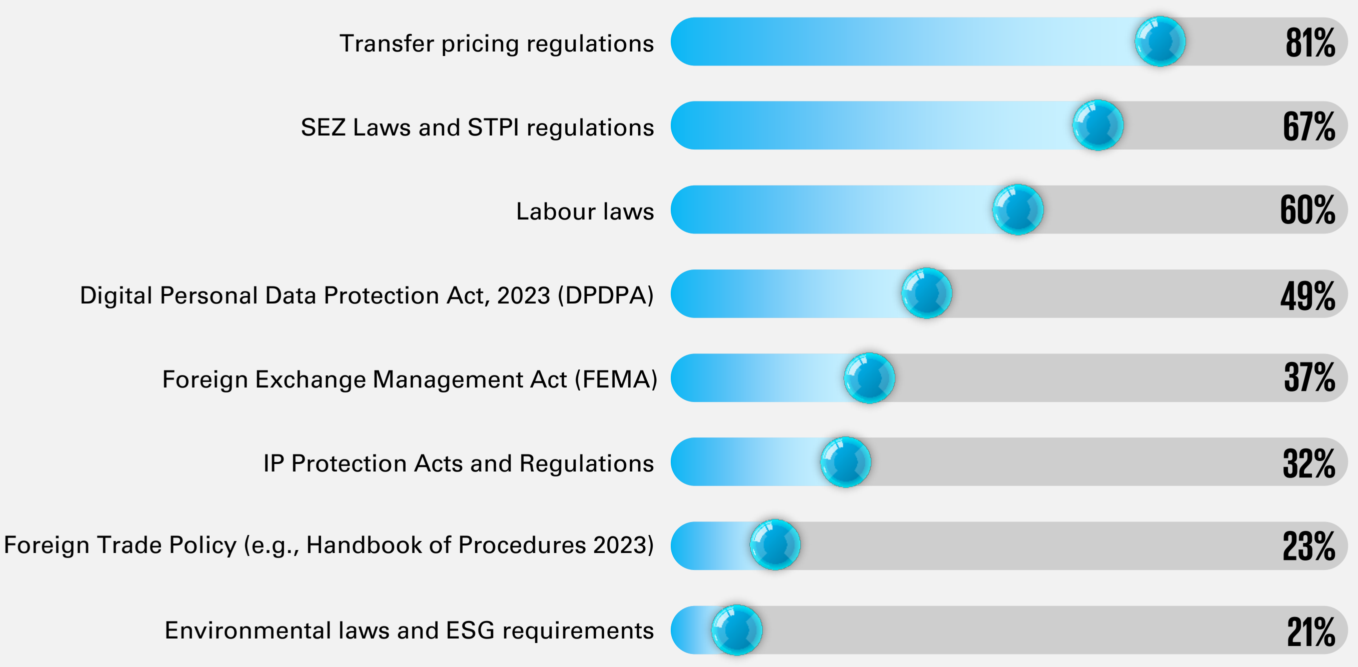
Regulation

Navigating the regulatory waters: ensuring compliance, alongside growth

In a rapidly evolving landscape of global business organisations, ensuring regulatory compliance is paramount for Global Capability Centres (GCCs) operating in India. From taxation to labour laws, understanding the requirements is crucial for ensuring smooth functioning and mitigating potential concerns.

3.1 Indian regulatory landscape for GCCs

The joint survey conducted by Nasscom and KPMG in India, highlights the top five regulations that are the key priorities for GCCs. 81 per cent of the survey participants mentioned ‘Transfer pricing’ as a key regulatory priority for GCCs. This chapter explores the top 5 regulatory considerations for GCCs and practical strategies to navigate the same.



Source: KPMG in India-Nasscom Survey on ‘Emerging Risks for GCCs in India 2023

3.2 Overview of the top five regulations

1 Corporate Tax (Esp. Transfer Pricing)

Guidelines ensuring fair pricing in transactions between affiliated entities

2 SEZ and STPI Compliance

Incentives and regulations governing operations within designated special economic zones and technology parks.

3 Labour Laws

Legislation governing employment practices, including hiring, working conditions and dispute resolution

4 DPDPA

Legislation recognising rights of individuals to protect their privacy and governing the processing of digital personal data

5 FEMA

Regulations overseeing foreign exchange transactions and cross-border investments

Refer appendix 3.2 for details

3.3 Best practices and mitigation measures

GCCs are proactively addressing regulatory considerations through measures such as implementing robust compliance frameworks, conducting regular audits and engaging with regulatory authorities for guidance and clarification. The following are some of the key best practices that GCCs are adopting to ensure compliance with regulatory requirements:

Comprehensive Compliance Framework: Development of a robust compliance framework aligned with global standards and local regulations

Regulatory Compliance Maturity Model

Governance level

1. **Organisational structure:** Integrity and independence are maintained in the compliance structure
2. **Policy and procedures:** Well defined processes and procedures exist for compliance functions
3. **Roles and responsibilities:** Clear roles and responsibility defined along with segregation of duties
4. **Risk Assessment:** Periodic risk assessment conducted, and prioritisation made based on the impact
5. **Whistleblower framework:** Process for whistle blower reporting, investigation and resolution exists
6. **Reporting structure:** Guidelines, escalation mechanism is in place for reporting exceptions periodically

Operating level

7. **Alignment of business practices:** Mapping of business requirements with applicable regulatory provisions
8. **Applicable regulatory requirement:** Identification of relevant acts, license, registration and provisions
9. **Implementation of systems and rules:** Translating compliance checklist into digital form for monitoring
10. **Sourcing of license:** Ensuring timely application and renewal of relevant license and monitoring expiry
11. **Document retention:** Safe custody of the documents in physical as well as digital form
12. **Learning, development and awareness:** Imparting periodic training to business, compliance officer and vendors

Monitoring level

13. **MIS and reporting structure:** Various exception MIS are generated and reported for effective monitoring
14. **Audit, inspection and site visit:** Periodic audits, independent assurance from auditors/ third-parties
15. **Compliant process:** Any non-compliance identified is reported or resolution process exists
16. **Self certifications:** Process defined for self certification by the business for key controls
17. **Third party compliance:** Test plan defined for monitoring third party vendor related compliances
18. **Remedial action for non-compliance:** Follow-up process conducted to monitor corrective actions taken

Here are regulation-specific best practices for GCCs to ensure continued compliance:

A. Transfer pricing:

1. **Maintain robust and clearly defined inter-company agreement (ICA)** which is aligned to the functional profile of the GCC and includes the terms and conditions of inter-company transactions, pricing mechanism, roles and responsibilities.
2. **Establish and document the pricing model** to demonstrate the assumptions, adjustment and inclusion/exclusion from the cost base.
3. **Assess and evaluate the benefits and costs associated** with pursuing regular litigation routes vs various alternate dispute resolution mechanisms such as advance pricing agreements, mutual agreement procedures and safe harbour rules to manage transfer pricing litigation concerns.

B. SEZ

1. Establish in-house processes for consistent statutory declaration development and compliance tracking.
2. Develop SOPs for managing SEZ-specific documentation and resolving disputes with authorities promptly.
3. Conduct regular audits of SEZ-specific documentation and compliance process to identify areas of improvement.

C. Labour Laws

1. Implement internal controls to check the background of employees such as nationality and previous membership under India provident fund law. For instance, non-Indian passport holders qualify as International Workers (IWs) and contributions with respect to such IWs are to be made as per the provisions applicable to them.
2. Implement a compliance tool to monitor periodic updates on regional and central regulatory changes and leverage automation tools and APIs to relay any notifications from the government.
3. Maintain a robust tracker with applicable statutory timelines to ensure due compliance to mitigate interest and penalties.

D. DPDPA

1. Design and implement privacy policies and procedures in line with the requirements of DPDPA and formulate a robust mechanism to honour Data Principal Rights requests.
2. Perform data mapping exercises across the organisation and maintain Record of Processing Activities (RoPA).
3. Assess third-party vendors before onboarding as well as on an ongoing basis and ensure Privacy by Design principles are implemented right from the early stages of software development.

E. Corporate Tax and FEMA regulations

1. Maintain comprehensive documentation to support foreign tax credit claims and treaty benefits. Implement robust data gathering to aid audit preparedness and review inter-company digital transactions to mitigate potential multiple tax demands.
2. Assess 'substance over form' to substantiate access to Tax Treaty for favourable taxation.
3. Validate secondment arrangements to prove economic employment with Indian GCC.

3.4 Initiatives by GoI to improve the 'Ease of Doing Business'

The Government of India has undertaken various initiatives to enhance the ease of doing business and improve regulatory frameworks. Efforts include streamlining processes, digitising compliance procedures, providing customs duty and GST exemptions for SEZ/STPI units and amending labour laws to promote flexibility and efficiency. These initiatives underscore India's commitment to fostering a conducive environment for GCCs to thrive.

a) Flexibility to operate IT/ITeS operations from demarcated areas of the SEZ zone

b) Establishing an international arbitration centre at GIFT City - to speed up dispute resolution.

c) Setting up of centres to process accelerated corporate exit in case of voluntary winding-up of companies [established in May 2023].

d) Reduction in the withholding tax rate on dividends from ~20 per cent to 5 to15 per cent[13] based on applicable tax treaty to encourage fresh investments.

e) Extension of tax holiday exemption for start-ups to encourage innovation.

f) As part of the reducing compliance burden exercise and based on data uploaded on the regulatory compliance portal, more than 3,600[14] compliances have been decriminalised and more than 41,000[15] compliances have been reduced by various ministries/ departments and states/ union territories.

g) Insolvency and bankruptcy code to ensure the process of insolvency is completed within 90 days with a maximum grace period of 45 days.

h) A reduction in construction permit costs from 23.2 per cent to 5.4 per cent[16] of the economy's per capita income.

i) Technology adoption to ease regulatory compliance

1. Automation of import and export procedures through a paperless compliance system – for instance: SPICE plus, Agile Pro forms for incorporation of companies
2. Introduction of a single window for obtaining building permissions through an online permission system
3. Further, GoI is moving towards centralised KYC and PAN as Single Business Identity and Regulatory Impact Assessment, thereby giving impetus to FDI in the country and domestic manufacturing activities

j) The upcoming labour codes aim to consolidate 29 central laws, offering beneficial provisions for employees and employers and propose streamlining compliance requirements.

k) Digital India Act (DIA) sets a framework for implementing a standard set of practices leveraging DPDPA, the DIA rules, National Data Governance Policy and IPC amendments for cyber crimes. The Digital India Act is set to replace the IT Act.

Key takeaway

In navigating the regulatory landscape of India, GCCs encounter a spectrum of challenges ranging from transfer pricing complexities to data protection regulations. By embracing compliance as a strategic imperative, GCCs can not only mitigate risks but also enhance operational efficiencies and foster trust with stakeholders. The collaborative efforts between industry players and the government underscore India's commitment to facilitating a conducive environment for business expansion and investment. As GCCs continue to evolve and adapt, proactive engagement with regulatory frameworks will be paramount in ensuring sustained success and contributing to India's position as a global business hub.

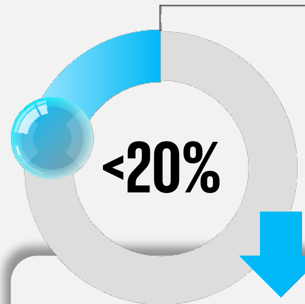
Concentration

Concentration of GCCs in India: A perceived concern or a strategic advantage?

India has emerged as a global hub for GCCs, attracting multinational corporations (MNCs) with its engineering talent prowess, vast talent pool, emerging technology capabilities and being an innovation sandbox. With over 1,580 GCCs[1] (FY23) operating in the country, India accounts for nearly half of all GCCs globally[17]. Given this momentum, the country is estimated to have 1,900+ GCCs by 2025 with a market size of USD 60 billion[18].This substantial GCC ecosystem in India has yielded considerable advantages for GCCs, their global organisations and the country as a whole; however, it has also sparked concerns regarding the potential concentration concerns inherent in having a large number of centres i.e., a significant portion of global organisational talent aggregated in a single country. The objective of this chapter is to shed light on the concept of 'concentration concern' by examining the various perceptions and misconceptions surrounding it, establishing a framework for determining whether this concern is real or perceived and offering best practices for risk management to help businesses mitigate this concern and enhance their resilience.

4.1 De-layering the concentration concern

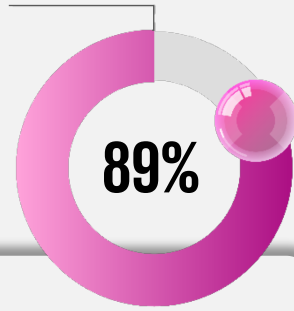
The survey by Nasscom and KPMG in India reveals that there are many dimensions to it beyond the headcount.



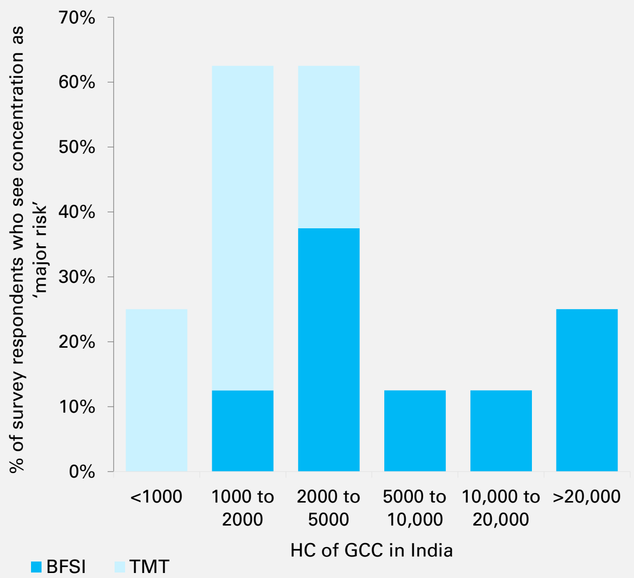
of survey respondents ranked concentration as a concern

Headcount not a strong indicator of concentration concern*

of GCCs are increasing footprint only in India or mainly in India



Of the 20% who see concentration as a major concern, 57% belong to the **BFSI sector** having mid- to large-sized GCCs and **29%** are from the **TMT sector**

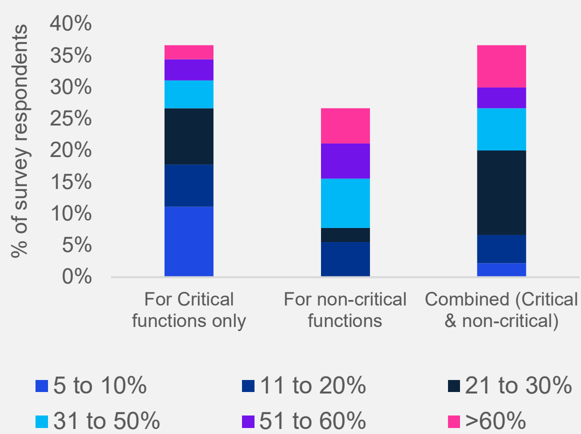


Further, TMT GCCs who have ranked concentration as a key concern are mostly present in one or two cities and are supporting critical functions such as R&D and COE, among others.

There is no consensus on the definition of concentration: The threshold varies based on the size, scale and nature of operations and is unique to what GCCs have defined.

Critical functions: 10-50%	**Non-critical functions:** 40-50%
Combined: 20 to 50%	**20% have not defined** a threshold

Threshold range for concentration concern



Source: KPMG-Nasscom 2023 survey on 'Emerging risks for GCCs in India'

4.2. Understanding the concern by moving beyond the headcount as a yardstick

The reality of concentration consideration goes beyond a simple headcount evaluation. By adopting a variety of metrics, GCCs can accurately identify critical risk exposures, thoroughly assess potential vulnerabilities, take proactive measures to mitigate concerns and provide comprehensive reports to the global organisations. This approach ensures their continued success in a rapidly changing global business environment.

Parameter	Description
Scope and volume of work from the global perspective	Listing the global functions being supported from Indian centres and assessing the volume of work rendered from Indian centres (Example: The value percentage of global procurement operations supported from India, percentage of employees payroll operations performed from India).
Strategic objectives	Identify and analyse which of the strategic and functional objectives of the global organisation is being fulfilled by the GCCs in India. Assign weightage for alignment to strategic objectives.
Criticality of the activities	Evaluate the importance of the activities handled by Indian centres to the global company's overall value chain and business continuity using a scale ranging from 1 (low) to 5 (high).
Number of centres in India	Map the number of centres in India against the functions being supported from India and their geographical spread across cities and states (Three out of five global COEs are in India of which two are present in City A and 3 in City B).
Global presence and capabilities	Assess the company's existing global footprint and capabilities in other geographical locations to support outsourced operations managed from India. Evaluate the presence and knowledge of functions being supported from India with other centres or global organisations.
Reliance on the Indian ecosystem and offerings	Analyse the company's dependence on Indian expertise, talent, capability, technology, infrastructure, etc. (percentage of global tech infrastructure based out of/ supported from India).
Third party and supply chain resiliency	Evaluate the dependence on third parties for critical operations by GCCs in India. Review the third-party resiliency and adequacy of third-party risk management mechanisms to ensure supply chain resiliency.
Technology landscape	Evaluate the platform and infrastructure and technology service support spread provided from India i.e., the spread of data servers within India).
Business continuity plans (BCPs) and contingency planning	Evaluate the adequacy of contingency plans to address potential disruptions in India and ensure business continuity in the event of unforeseen events.
Cultural integration and ethical practices	Evaluate the extent to which the culture of GCC is seamlessly integrated with the Global company and vice versa.

Further, in collaboration with the global organisation, GCCs need to define the thresholds for critical and non-critical functions considering the company's overall risk tolerance and its appetite for risk associated with the concentration of critical functions in a single city in India.

4.3 Using a business resiliency lens

While the presence of many GCCs in India may raise concerns about potential operational disruptions, a closer examination reveals a narrative of business resilience rather than concentration concern.

A. Geographical dispersion

- India is a vast and diverse nation with significant regional variations and cannot be perceived as a homogenous country.
- GCCs are not clustered in one location but rather geographically dispersed. In addition to Tier-I cities, GCCs are now expanding operations in Tier-II and III cities, such as Coimbatore, Vadodara, Thiruvananthapuram, etc[19].This spread minimises the risk of a single event, such as a natural disaster, impacting all GCCs simultaneously.

B. Proven track record

GCCs in India have a proven track record[20] of successfully navigating disruptive events. They have proactively addressed potential concerns by implementing robust BCPs and disaster preparedness measures. **Further, GCCs in India have demonstrated their business resiliency and commitment to operational excellence** by their ability to adapt and thrive amidst disruptive events, such as the COVID-19 pandemic.

COVID-19 Pandemic

- The pandemic was a global black swan event that forced businesses to adapt rapidly. GCCs in India demonstrated their agility and resilience by quickly transitioning to a remote work model. The biggest differentiator has been how the GCCs were able to step up and support the global organisation[20]. Below are some of the key takeaways:
    - The GCC of a global beverage company led initiatives, created Over-the-Counter (OTC) frameworks, conducted gap analysis to manage the cashflows and reduced overdue to the extent of USD 350 million.
    - Retail GCCs developed analytical models to better predict their inventory requirements considering global supply chain disruptions and supported the 50 to 100 per cent increase in volumes across services.
- Healthcare and life sciences sector GCCs helped to create medical devices and solutions and performed R&D for life-saving solutions (for example, COVID-19 vaccinations, medicines, etc.)
- A global banking GCC used data and insights to prioritise staff well-being (real-time health and wellness check-in conducted for over 33,000 staff members and contract vendors within a span of 10 days)

Source: GCC TRAILBLAZERS | Winners Of The Nasscom GCC Awards 2021

Key learnings from Covid-19: Resiliency spectrum

Embracing agile work models

- GCCs have adopted WFH and hybrid models, balancing flexibility with resiliency (Example: Work from home and collaborate in office; fixed two weeks in a month working from office; permanent WFH for contract resources)

Digital transformation

- Adoption/development of cloud-based solutions has improved accessibility, scalability and disaster recovery capabilities
- Rapid adoption of Virtual Desktop Infrastructure (VDI)
- Automation and streamlining of processes
- Investment in remote collaborations tools

Cyber resiliency

- Implementation of end-point security
- Focused cloud and cybersecurity measures
- Investments in infrastructure security and IT asset management solutions
- Implementation of zero-trust policy

Widened talent pool access

- Ability to hire enabled GCCs to target specific skill sets irrespective of location, thereby fulfilling niche requirements
- Flexible work models allowed GCCs to attract diverse workforce

Strengthened business continuity

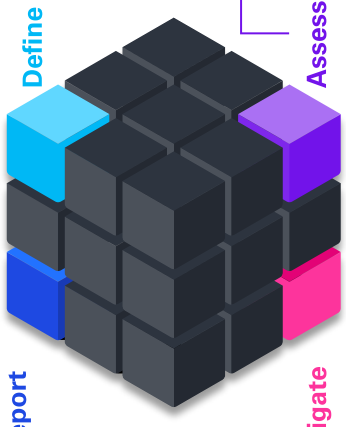
- Distributed teams and locations: Owing to the pandemic, and distributed data centres, offices, etc.
- Development of crisis communications
- Strengthening supply chain resiliency

Evolved talent management

- Investing in remote training programmes and fostering a culture of continuous learning ensure a future-ready, adaptable workforce
- Focus on employee well-being to improve productivity
- Cross-country and global collaboration and learning initiatives

4.3 Mitigation measures

This section outlines a collaborative and holistic framework for GCCs and global organisations to define, assess and mitigate concerns.



A. Understanding the concern

Global organisations and GCCs should conduct joint workshops to arrive at a shared understanding of 'concentration concern'. Metrics beyond headcount to be used for evaluating the concern. (Refer 4.2)

B. Assess through multi-pronged approach

GCCs and global organisations should use a combination of qualitative and quantitative approach to assess whether concentration concern exists and to evaluate the severity of the issue.

C. Mitigate and strengthen business resiliency

Develop mitigation measures and monitor the risk exposures that may affect business continuity.

D. Reporting and communication

Establish communication channels and reporting mechanisms to keep the global organisation informed.

4.3B. Assessing the concern through a multi-pronged approach

I. Quantitative factors

i. **Identify and monitor key risk indicators (KRIs)**, including employee turnover rate, absenteeism due to natural disasters and cybersecurity incidents.

ii. **Track key performance indicators (KPIs)**, such as service delivery levels, operational costs and talent acquisition metrics, to identify potential vulnerabilities.

iii. **Conduct stress testing and scenario planning** to simulate potential disruptive events (example, natural disaster or cyberattack) to assess the impact on GCC operations and identify weaknesses.

II. Qualitative factors

i. **Macroeconomic and external risks:** Identify, assess and monitor the emerging country - and city- specific economic and political macro risks that may potentially impact the GCCs operations such as changes in government, inflation, border disputes etc.

ii. **Business Continuity Planning (BCP) and contingency planning:** Develop region-/city-specific BCP and contingency plans and periodically test the same.

iii. **Governance, oversight and strong ethical practices:** Assess the comprehensiveness and effectiveness of governance, oversight, ethical codes, policies and fraud prevention mechanisms (for instance, number of material fraud incidents reported in a given period).

4.3C. Mitigate and strengthen business resiliency

i. **BCP:** Strengthen existing BCPs with measures such as data backup at geographically dispersed locations, WFH capabilities and alternate site activation plans.

ii. **Geographical expansion:** Consider diversifying/expanding GCC locations to other cities within India to ensure that critical functions are spread across multiple cities within India. Evaluate the need to expand or move into Tier-II cities within India.

iii. **Cross-training and distributed teams:** Implement cross-training programmes to enable knowledge development of critical skills and operations across cities within India and outside India. GCCs are also leveraging offshore development centre (ODC) in IT service companies and are leveraging GCC-as-a-service provider for rapid scale up. Hiring is focused on distributed teams across regions and countries to support critical functions.

iv. **Cybersecurity enhancements:** Implement robust cybersecurity measures to protect against cyberattacks that could target all GCCs simultaneously.

v. **Third-Party Risk Management (TPRM):** Implement third-party risk management frameworks. Assess and mitigate risks associated with the reliance on third-party vendors for critical services.

vi. **Industry ecosystem:** Engage and collaborate with industry bodies, local authorities and educational institutions for collective problem-solving in times of disruption.

4.3D. Reporting and communication

i. Establish clear communication channels between GCCs and global organisations.

ii. Implement regular reporting mechanisms to keep the global organisation informed on market conditions, macro risks and GCC's preparedness to build transparency and trust.

4.4 Initiatives by GoI and industry bodies

The framework outlined above enables GCCs and global organisations to take a proactive approach to managing the concentration concerns, but it is equally important to recognise the vital role that the Indian government and industry bodies, such as Nasscom, play in cultivating a business-resilient ecosystem that supports the growth and success of GCCs.

A. Government initiatives:

1. **Focus on tier-II cities:** The government is actively promoting the development of tier-II cities (smaller cities with growing IT infrastructure) as potential locations for GCCs. This initiative aims to encourage geographical dispersion and reduce concentration concern. Examples include the IT/ITES policy 2023 of the Maharashtra government, which offers incentives for setting up GCCs in non-metro cities. The Karnataka government's Spoke-Shore initiative aims to create a talent pool and attract GCCs outside of Bengaluru. Cities, including Mysuru, Hubbali and Mangaluru, are being developed as hubs with a target of generating one million jobs by 2026.
2. **Infrastructure development**: The government is investing heavily in improving India's physical and digital infrastructure, including power grids, communication networks and data centres. These investments aim to create a more robust foundation for GCC operations and mitigate concerns associated with infrastructure disruptions.
   - *Smart Cities Mission 2.0 (launched in 2020)*: This ongoing mission focuses on developing 100 additional smart cities across India. These cities aim to provide advanced infrastructure, such as intelligent transport systems, digital governance platforms and robust IT connectivity, making them attractive locations for GCCs.
3. **Financial incentives**: State governments in India are offering financial incentives for setting up GCCs outside of major metropolitan cities. These incentives can include tax breaks, subsidies for land acquisition and support for infrastructure development. These initiatives encourage a geographical diversification and contribute to a more resilient GCC network.

B. Nasscom initiatives:

1. **Best practices and knowledge sharing:** Nasscom actively promotes best practices for BCP and disaster recovery among GCCs. They organise workshops and conferences and publish resources to help GCCs build resilience.
2. **Collaboration with service providers and academia**. This fosters knowledge sharing and helps GCCs stay informed about emerging concerns and mitigation strategies.

Key takeaway

Focusing solely on the headcount paints an incomplete picture of the concentration concern. GCCs need to define and evaluate using a more nuanced approach beyond the headcount as a yardstick to understand the exposures. Emerging from the pandemic, GCCs in India have displayed agility and strategic shift towards 'resiliency by design'.
In essence, India's large and well-established GCC network, combined with its focus on business resiliency and a supportive ecosystem, positions the country as a strategic and resilient partner for global businesses in the years to come.

Conclusion

In summary, here are some of the key takeaways:

- There exists a resounding sense of excitement about what the future holds for GCCs as the model evolves and technology presents a whole new world of possibilities.
- GCCs have a strong conviction about the rich talent landscape and the wider vibrant ecosystem in India.
- India presents the stability and the opportunity to global organisations amidst macro, global headwinds.
- There is an agreement across the Board, on the key areas GCCs will need to continue to plan for and address as they steer through the dynamic landscape.
- The acknowledgement that while talent is the single largest opportunity to leverage, an agile and robust workforce strategy is critical to ensuring a sustainable, competitive and effective GCC of the future.
- A strong approval is noted for adopting emerging tech for meaningful business outcomes, aided by upskilling and augmenting the talent pool which is secured through robust governance, and a plan to mitigate open concern factors.
- GCCs are appreciative of the regulatory framework and the need to align future plans, models, underlying processes and overarching governance accordingly.
- A realisation that India needs to be treated as a diverse region that inherently helps mitigate the perceived concentration concern.
- Above all, what underscored every response was the sense of how the GCC model continues to evolve to address the new emerging challenges that this landscape of opportunity presents.

As GCCs continue their growth trajectory and move up the maturity curve, geographic borders continue to blur, and technology continues to disrupt, GCCs are constantly scanning the dynamic landscape and adapting to successfully navigate through.

Methodology

The premise of this paper is based on sources of information, meetings and brainstorming sessions undertaken by KPMG in India, Nasscom and GCC industry leaders between September 2023 and January 2024.

Interviews and survey
The insights published in this paper are primarily based on the interviews and Nasscom and KPMG in India survey on 'emerging risks and opportunities for GCCs in India 2023'. The participants in the interview and survey were various GCC leaders involved in heading and managing the GCC operations in India such as managing directors, CEO's, vice presidents, country heads, chief operating officers, divisional heads, chief technology officers, head of operations, head of talent, etc.

The interview and survey have representation from GCCs belonging to various sectors, size, scale and operations. Here's an overview:

Sector coverage
- Banking, capital markets and financial services
- Technology, media and telecom
- Healthcare and life sciences
- Automotive
- Power and utilities
- Transport, shipping and logistics
- Industrial manufacturing
- Consumer, retail and e-commerce

Scale of operations: The scale of operations of the GCCs ranged from less than 1000 employee headcount to over 20,000 headcounts.

Tenure of operations: Responses cover GCCs as young as less than 2 years old to over 20+ years of operations in India.

Range of operations: GCCs who participated in interviews and surveys had a diverse range of operations such as:
- Human resource
- Global finance and accounts
- Centre of excellence
- Compliance
- Cyber security, data analytics
- R&D, innovation, deep tech
- Digital technology support
- Business operations support

Country and city of operations: GCCs had operations varying from tier I, tier II and tier III cities in India and also covered GCCs having operations outside of India in countries such as the Africa, Canada, Costa Rica, Ireland, Mexico, Malaysia, Philippines, Poland, Portugal, Spain, US etc.

Meetings with industry leaders: The industry and service line leaders at KPMG in India were interviewed, and brainstorming sessions were conducted for frameworks mitigation measures, and industry best practices to address the key considerations in the paper.

Secondary research: The industry experts at KPMG in India conducted detailed secondary research. The team relied on proprietary databases and public websites to gain a better understanding of each insight.

Content review: Multiple reviews were conducted by the leaders from KPMG in India, Nasscom and GCC council members of Nasscom.

Appendix

Appendix 3.2 Key regulatory considerations

The following provides some of the crucial regulatory considerations that GCCs must navigate with respect to the top five regulations:

a) Transfer pricing

i. **Documenting basis of formulating transfer pricing policy:** When creating a transfer pricing policy, it's essential to comprehensively document the functions, assets and risks (FAR) analysis. Subsequently, the FAR analysis serves as the foundation for establishing the transfer pricing policy and compensation structure for the GCC. Consequently, GCCs that provide high-end, or core support services would typically require a higher return on investment compared to those that offer low-end or support services.

ii. **Determining arm's length pricing:** Conduct economic analysis to determine that transactions with related parties (Global companies, subsidiaries, fellow subsidiaries) are priced at arm's length and are not affected by the affiliation between the parties.

iii. **Intercompany agreement:** Actual conduct of related parties vis-à-vis the intercompany agreement (ICA) e.g. contract R&D services provider as per the ICA but the GCC in reality provides contract software development services or vice versa, as per the ICA but in reality GCC assumes a more entrepreneurial role.

b) SEZ and STPI regulations

i. **Maintaining zone status compliance:** GCCs must adhere to ongoing requirements to retain their SEZ/STPI status regarding export thresholds, infrastructure development and employment generation.

ii. **Profit repatriation:** Repatriating profits earned by the GCC might have specific requirements or limitations depending on the SEZ/STPI regulations.

iii. **Subcontracting:** GCCs operating in SEZs/STPIs may face limitations on subcontracting activities to units outside the zone. Comprehending and adhering to these restrictions is of utmost importance.

c) Labour laws

i. **Keeping pace with multiple jurisdiction specific regulations:** Navigating multiple, distinct and unique labour law compliances, encompassing state-specific regulations and social security obligations (PF, minimum wage and gratuity). To ensure ongoing compliance, it is essential for GCCs to regularly review and update their human resource and compensation-related policies and procedures.

ii. **Maintaining accurate employee records:** Maintaining accurate and complete employee records for wages, leaves, benefits and statutory deductions is crucial for compliance with labour laws and resolving potential disputes.

iii. **Contract labour management:** GCCs utilising contract labour need to ensure compliance with regulations governing minimum wages, working conditions and social security contributions for contract workers.

d) Digital Personal Data Protection Act (DPDPA)

India's Digital Personal Data Protection Act (DPDPA) establishes a framework for safeguarding individual privacy by regulating the processing of digital personal data. It applies to any organisation collecting, storing, or using the personal data of Indian citizens, regardless of the organisation's location. The DPDPA defines key stakeholders including:

- Data Principal: The individual whose personal data is being processed.
- Data Fiduciary: Any entity determining the purpose and means of processing personal data.
- Data Processor: An entity processing personal data on behalf of a Data Fiduciary.

GCCs must assess the relevance and applicability of DPDPA along with their role as Data Fiduciary and Data Processor.

DPDPA applicability for GCCs - Illustrative scenarios

#	Data fiduciary	Data processor	Data principal	DPDPA applicability	Remarks
1	Global entity in India	GCC in India	Data fiduciary's customers'/ employees' digital personal data processed within territory of India	Yes	N/A
2	Global entity outside India	GCC in India	Data fiduciary's customers'/ employees' digital personal data processed within territory of India	No (provided the exemption mentioned in the 'Remarks' section is applicable)	exemption data fiduciary to data processor section 17(d)- when personal data of data principals not in the territory of India is processed and a contract is executed between the entity outside India and the entity in India, then DPDPA would not become applicable, however, accountability and security obligations will apply.

Disclaimer: The above information provided is based on KPMG in India's interpretation of the Digital Personal Data Protection Act 2023 and may not be exhaustive. The application may vary in scenarios not described above. This should not be taken as legal advice/opinion.

Below are some of the key requirements for GCCs to align with DPDPA:

i. **Grounds of processing:** It is essential to establish and document the legal basis for processing personal data, whether it is based on consent or certain legitimate uses, depending on the purpose of the processing activity. Furthermore, when consent is obtained from the data principal, a privacy notice must be provided, which is typically the responsibility of the data fiduciary.

ii. **Review of technical and organisational measures:** The DPDPA requires all entities to establish technical and organisational measures. Such measures may include, but not limited to information security practices, implementation of data protection controls, data breach management systems, data retention and deletion mechanisms, among others.

iii. **Implement data breach management:** As stated in the DPDPA, it is necessary to ensure that reasonable security safeguards are implemented to prevent personal data breaches. It is imperative to document and deploy breach detection and response mechanisms.

e) Corporate tax and FEMA regulations

i. **Understanding applicability and extensive audit scrutiny:** FEMA regulations encompass a wide range of activities, including the need for identifying specific regulations that are applicable, leading to either over-compliance or unintentional non-compliance. Additionally, there can be extensive audit scrutiny on claim of foreign tax credit, treaty benefits, corporate restructuring, etc.

ii. **Potential Permanent Establishment (PE) risk** owing to expat movement and nature of service provided to Global company.

Source

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Nasscom represents the voice of the USD250 billion+ technology industry in India with the vision to establish the nation as the world's leading technology ecosystem. Boasting a diverse and influential community of over 3000 member companies our network spans the entire spectrum of the industry from DeepTech and AI start-ups to multinationals and from products to services, Global Capability Centres to Engineering firms. Guided by our vision, our strategic imperatives are to accelerate skilling at scale for future-ready talent, strengthen the innovation quotient across industry verticals, create new market opportunities - both international and domestic, drive policy advocacy to advance innovation and ease of doing business, and build the industry narrative with a focus on Trust, and Innovation. And, in everything we do, we will continue to champion the need for diversity and equal opportunity.

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