Driven by business volatility and the need for agility, the role of global business process operations is changing. Talent imbalances, technology innovation, and process advances are reshaping what’s possible – making industrialized enterprise operations a viable alternative for a range of support processes.

**Executive summary**

Global business process operations will be asked to play an increasingly important role in the future of corporate competitiveness - and not be confined solely to supplying a cost-effective foundation. Global operations will need to support the quest for new markets, emerging or local, and adjust to an ever-changing marketplace and evolving regulatory requirements. The transformation will require operations to pay close attention to three trends related to talent, technology, and process management.

**Talent** imbalances – the mismatch between the demand and supply of specific skills in particular locations - are already profoundly influencing the ability to run specific support processes cost-effectively, from accounting to engineering design and analytics.

**Technology** has provided numerous avenues for collaboration of increasingly large and dispersed teams – within and outside of the enterprise. Less invasive than previous waves of ERP, these technologies are being adopted at an increasing scale and will trigger a rejuvenation of the operations discipline.

Finally, and partly driven by the two previous trends, sophisticated **process** operations practices have emerged in global business services (GBS). Their ability to dematerialize and decouple the delivery of numerous business processes has fostered the maturation of “industrialized” business operations across support functions - from traditional finance and accounting transactional processing to more sophisticated financial modeling; from indirect procurement to supply-chain analytics; from the contact center to data-driven, multichannel support; from client application processing to Know Your Customer and Anti-Money Laundering.

Organizations that embrace change within global operations can boost their agility and cost-effectiveness. Similarly, COOs of such organizations can achieve significant personal success. The roles of the COO and head of service delivery become increasingly strategic. To succeed, cross-functional and innovation skills are essential.

This white paper explores the drivers of future efficiency and effectiveness in global operations – and the key capabilities that can drive increased “industrialization.”
Why enterprises need stronger global operations

Operations – whether they are for internal lines-of-business, shared services, operating centers, or global business services – enable the business they serve. There is much more global complexity in what businesses do today, yet operations do not typically react to change quickly because they are optimized for scale, not agility. Why is it important to enable operations to do more today?

• Technology: Long ago, operations embraced ERP and workflows. But numerous other enablers such as unified communications, analytics, and social technologies have emerged over the last few years. All have the potential to positively disrupt global operations.

• Process: An increasingly scientific understanding of operations processes has fueled the emergence of GBS models. A shared environment and global delivery are combined with a clear understanding of the economics and metrics of such delivery models.

The first wave of operations transformation hinged primarily on cost reductions. However, more recently, organizations have recognized that other factors such as access to talent and the ability to drive change have become considerably more significant. Today, improving analytics, enhancing internal and external service levels, and realistic innovation are driving many objectives. Tactical measures of governance like SLA performance management have not significantly increased in importance. Revenue growth and innovation are now the driving motivations at many organizations.

The human factor: a necessary double-edged sword

Global talent imbalances are growing. Soon, there will be an estimated shortage of 200,000 data scientists per year in the U.S. alone. Baby boomers are retiring at a rapid pace. Simultaneously, some skills will become obsolete because of automation and increasingly unviable cost differentials. Unsurprisingly, most HR executives believe the future will see more part-time, temporary, semi-retired, offshore, and work-from-home staff. The traditional office model is under significant pressure to deliver efficiency and effectiveness. One of the best places to observe this phenomenon is global operations.

The world economy is growing at two speeds. Developing markets are largely a tricky “land grab,” while developed markets are growing only in hard-to-find profitable niches. To succeed, operations must employ both offensive and defensive strategies.

Offensively, global operations help the front lines penetrate new markets without relinquishing control. At the same time, they enable the right insight and reaction speed to conquer micro markets and enable granular growth.

Defensively, operations must accommodate more volatile business cycles by reducing costs and improving the variability of cost. In the words of Nassim Taleb, a risk expert, operations must help companies become more “antifragile.” For example, in industries where raw-materials costs are volatile, pricing power is limited, and consumer demand is difficult to forecast, hundreds of basis points and billions of dollars of market valuation are at stake. Sustaining operations’ cost structure in the face of new regulations is also a critical component. For example, in capital markets, anti-money laundering fines are hundreds of millions of dollars, and the cost of controllership is skyrocketing.

The stakes have increased and changed – and so have the key tenets of business process delivery. Today, global operations are at an inflection point in three macro areas:

• People: Dramatic changes in demographics and the evolution of job requirements means resourcing operations is far from “business as usual.” Finding the right resources at the right time and in the right place is more challenging than ever before.

U.S. example - the great shift impacts operations

Source: McKinsey Global Institute
Finding the right people in the right places to do the work – transactional, judgment-based, or data-driven – is becoming increasingly difficult. It is challenging to train, manage, motivate, and retain personnel who live far from company offices, as well as guarantee their compliance and control. Younger employees have different needs and expectations than their more-experienced colleagues. Resource utilization is a continuous struggle, especially in times characterized by volatile demand and a need for speed and agility. The complexity is not just with floor delivery workers. It is also at the management level.

Companies are getting more scientific and identifying where they fall short. The challenge is to develop performance-management disciplines that cope with operations that are no longer necessarily run solely to obtain stable delivery. Companies need people on the ground and in management who can drive transformation.

**Technology your operations can (and will) use**

Key technology trends will move faster and impact operations more significantly than ever. In the recent past, the main inflection has been the penetration of enterprise technology such as ERP and desktop computing. Now, ERP technology is threatened on the periphery by more agile, cloud-based technologies, especially with smaller lines of business, smaller legal entities, and processes that weren’t well-covered by previous technologies, such as collections. And mobile devices are challenging desktop computing.

Another large inflection point is the ability to harness collective intelligence. A recent McKinsey report found that 70 percent of companies use some social technologies, of which 90 percent report at least some business benefit. According to McKinsey, knowledge workers spend 28 hours each week writing emails, searching for information, and collaborating internally. McKinsey predicts that those knowledge workers could use social technologies to potentially achieve a 20-25 percent productivity improvement.

Falling communications barriers facilitate this. In the last 10 years, bandwidth costs have halved every 30 months. And penetration of technology like the Internet and mobile broadband has spiked in a way that mimics the advent of modern media and communications innovations of the last 100 years – without pausing through recessions.

The way people interact with and visualize data has also changed. Screen pixels have doubled in performance every 1.5 years, and their cost is plummeting, leading to the advent of increasingly larger screens. Four years ago, tablet penetration was near zero. Today, tablets are ubiquitous in both offices and homes. In terms of global operations, the technology journey is just beginning but will likely evolve quite rapidly.

**The economics of scientific process operations**

The dematerialization of operations – matching people with work, irrespective of where they reside – is increasingly important. But while distance is fading, many are failing to take advantage of this dynamic. Technology adoption takes time.
Email penetrated quickly, for example, but heavy user adoption took a decade. Yet time is an increasingly scarce commodity in volatile, ever-shortening business cycles. The labor landscape will present meaningful opportunities for those who can harness it through creative use of technology - and present massive risks for those who cannot. But technology alone is not the answer. Technology creates real innovation only when it is deployed on a large scale and that takes adoption in enterprise processes.

That, too, is moving fast. More than 90 percent of finance and accounting operations now run in at least a partial delivery model. More than 50 percent of back- and middle-office processes are now performed in shared services and/or operating center organizations that are located far from business owners. This trend is steadily increasing. The average weighted distance (the number of FTEs multiplied by the distance) between stakeholders is increasing: It is now 1,000 miles.

The reason is simple: The economies of scale, optimization, and cost arbitrage that industrialized operations can command for the right type of process are compelling. Scale is a critical component and can result in a rapidly decreasing cost per unit of work. Ten times the scale can cut 50 percent of cost. Optimization can cut another part. Standardization enables scale and explains much of the variance between large companies that have not reaped the benefits of scale and those that have.

The chart below shows the cost structure of three types of operations. There is significant impact on global business services at each level. The global business services construct impacts all of these variables and reduces their costs.
This is not just an efficiency game. It is also about effectiveness. For example, consider the finance department’s “time-to-report.” There is a large variance between best-in-class and the lower quartile. Some key levers of industrialized global business operations (process optimization, scale, and labor arbitrage) impact those practices (technology redesign, standardization, pooling of resources, and sharing of best practices) that are closely correlated with business outcomes. By implementing global business services, companies can drive, for example, standardization of policies and operating frameworks that ultimately improve reporting cycle times. When understood at the granular level, those powerful levers can impact both the cost and effectiveness of operations.

Driven by such benefits, the appetite of many companies to redesign their operations models is expanding as they explore new inclusions into GBS. Interestingly, service-type work is even prevalent in manufacturing companies, making it plausible to decouple and industrialize an increasing portion of operations, as illustrated by the following analysis.

### Significant potential still exist for industrializing operations in manufacturing industry

<table>
<thead>
<tr>
<th>Average # of FTEs</th>
<th>% industrialization potential</th>
<th>% already industrialized</th>
<th>% not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D</td>
<td>9%</td>
<td>1%</td>
<td>90%</td>
</tr>
<tr>
<td>Procurement</td>
<td>30%</td>
<td>10%</td>
<td>60%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Distribution</td>
<td>25%</td>
<td>5%</td>
<td>70%</td>
</tr>
<tr>
<td>Customer Care</td>
<td>25%</td>
<td>5%</td>
<td>70%</td>
</tr>
<tr>
<td>Marketing &amp; Sales</td>
<td>50%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Back-office Support</td>
<td>5%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>General Management</td>
<td>45%</td>
<td>95%</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Industrialized Enterprise Operations Scope and Impact

- Research support
- Sourcing and procurement support
- Inventory and demand forecasting
- Product cost accounting
- Logistics optimization
- Contact center optimization
- Sales and marketing operations and analytics support
- All G&A support
- Decision and transformation support

Source: McKinsey Global Institute, Genpact analysis
**The way forward**

What does this mean for rule-based transaction support (for example, order-to-cash or procure-to-pay) or judgment-based work (strategic sourcing, continuous transaction monitoring, or excess payment supply recovery), or analytic support such as inventory optimization? What can that do to integrated business planning in the presence of significant fluctuations in raw materials?

Genpact contends that industrialized operations run through global business services organizations, in concert with corporate and line-of-business counterparts, will grow further.

While many companies already have some form of shared services or operating center, most are continuing a journey of expansion and refinement of those structures. However, collaboration practices based on outdated technology and human resources management practices don’t allow operations to fully reach their potential.

Allocation of work will change over time due to the enhanced ability to more fully collaborate among related organizations and will favor allocations based on economies of scale, process optimization, available skill, and cost arbitrage - and much less on the constraints of communications.

Effective collaboration requires workers to connect with one another quickly, preferably within two or three clicks. The ability to share work, draw images, and look at the same thing as they talk to each other is critical. Managers, meanwhile, should be able to do some of these tasks on the move because they do not necessarily remain in a fixed environment. Operations with such technologies and practices can do a great deal of work from a distance. These environments also allow for better team management, better one-on-one interactions, better performance.
reviews, etc. Strategy, knowledge-sharing, training, immediate query resolution, and troubleshooting can all be performed more quickly and easily. Running sophisticated operations at a distance will be an increasingly frictionless exercise.

**Conclusion**

Global operations must keep pace with the changing business landscape. That means knowing how to harness distributed and flexible talent, leverage new technology, and implement innovative yet robust practices. Yesterday’s ways of running operations might have already been stretched to the limit, but fragmentation of the front lines, requirements of the law, and volatility in the market continue.

Success in the future means embracing more scientific, industrialized business process designs. It means building a stronger, more contemporary technology infrastructure with a clear scientific view of how those business processes are run globally. Global business services based on modern collaboration practices and technology can be a substantial part of the solution.
About Genpact

Genpact Limited (NYSE: G), a global leader in business process management and technology services, leverages the power of smarter processes, smarter analytics and smarter technology to help its clients drive intelligence across the enterprise. Genpact’s Smart Enterprise Processes (SEP®) framework, its unique science of process combined with deep domain expertise in multiple industry verticals, leads to superior business outcomes. Genpact’s Smart Decision Services deliver valuable business insights to its clients through targeted analytics, reengineering expertise, and advanced risk management. Making technology more intelligent by embedding it with process and data insights, Genpact also offers a wide variety of technology solutions for better business outcomes.

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