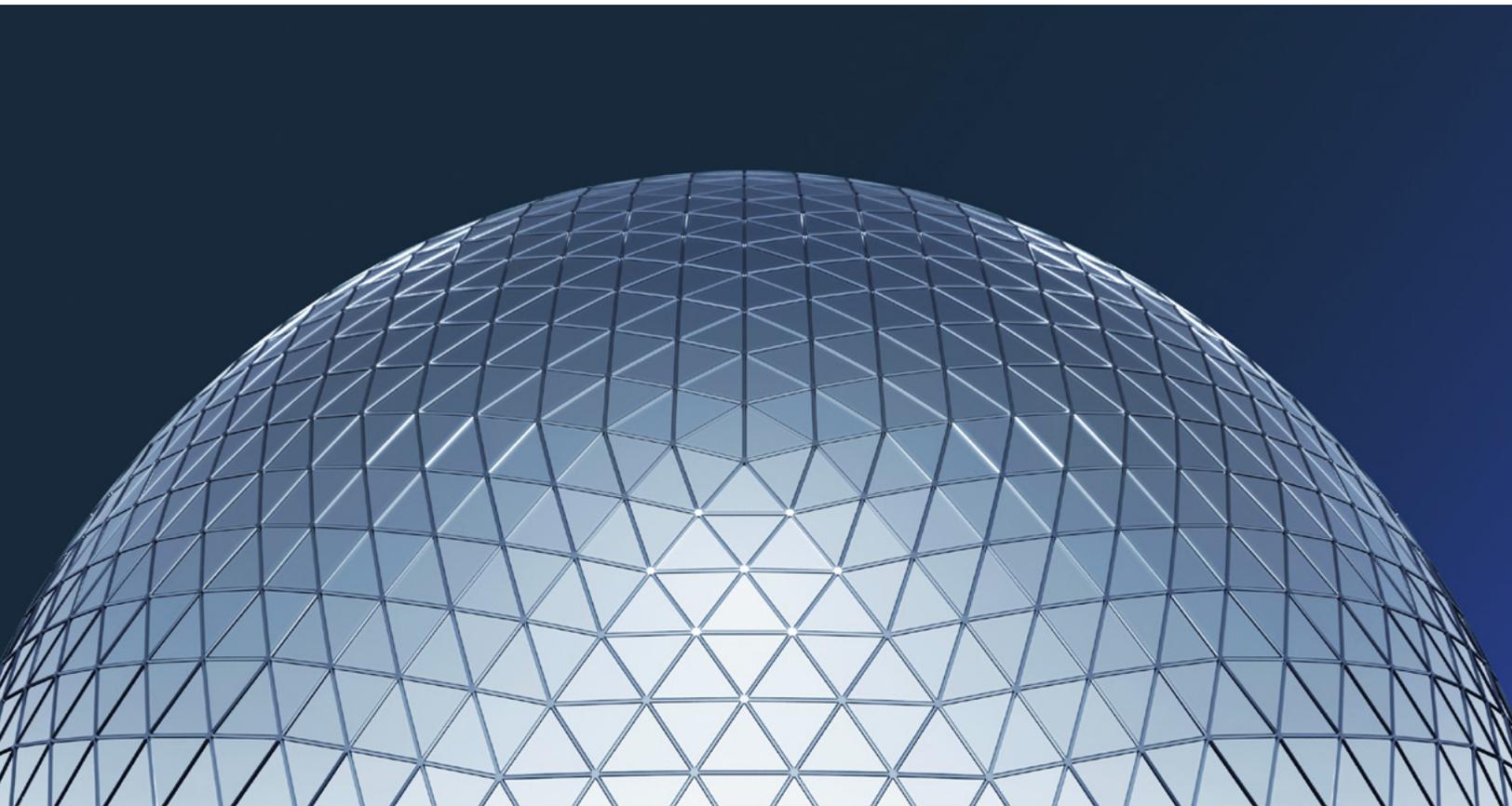


Global capability centers in the next normal

Companies with large global operations had to respond quickly to COVID-19. Now their short-term fixes are turning out to offer longer-term opportunities.

by Indraneel Banerjee, Abhinav Chanakya, Avinash Chandra Das, and Akash Lal



For certain parts of the global economy, the impact of the COVID-19 pandemic has been both immediate and sweeping. Executives have had no choice but to let go of long-held beliefs and quickly conceive a new way forward. The upside: measures that initially felt like a short-term fix to steady the ship now offer lessons for how to succeed in the next normal.

Global capability centers (GCCs) are a case in point. These large facilities concentrate workers and infrastructure that handle operations (back-office functions, corporate business-support functions, and contact centers) and IT support (app development and maintenance, remote IT infrastructure, and help desks) to sustain productivity growth. Some large companies use GCCs as a center of excellence for automation, innovation, and analytics, among other tasks.

The pre-crisis location-based model for GCCs had been honed over decades, but within the span of a few weeks, the pandemic rendered it obsolete. GCC physical facilities were shuttered, and organizations quickly shifted to remote working. Surprisingly, many GCCs have been able to maintain service levels even while adapting.

The disruption caused by the pandemic has irrevocably changed how GCC executives approach their operations. Some executives say that their organizations have navigated five or even ten years' worth of change in the span of a few months. Best-in-class GCCs have pivoted swiftly and have

performed well on measures such as resilience, continuity, and efficiency (see sidebar, "About the research"). But not all GCCs have been equally successful. Some have struggled with declining service levels and flagging employee satisfaction. Executives now have an unexpected opportunity to reimagine their GCC.

How GCCs have performed during the crisis

Our survey analysis of 46 GCCs identified three key performance markers during the lockdown: resilience (defined as capacity and workforce availability), continuity (including client and customer experience), and efficiency (measured by productivity). While GCCs, on average, performed well, the best-in-class businesses achieved at least 100 percent of their pre-crisis baseline across all three metrics, setting the gold standard for operations and service delivery (Exhibit 1).

Resilience

At the onset of the pandemic, GCCs had to rapidly transition their entire workforce to remote-working arrangements. While the majority were able to make this shift successfully—88 percent of survey respondents reported that at least 90 percent of their employees were working from home during the lockdown—the best-in-class organizations were focused not just on crafting an immediate response but also on supporting work-from-home (WFH) arrangements for the foreseeable future. Indeed, top performers are prepared to support remote

About the research

To understand how global capability centers have adjusted their operations in response to the pandemic and the impact of those adjustments, McKinsey conducted two surveys of 46 GCCs at Fortune 500 companies in April 2020. The sample included GCCs from Europe, India, and North America and spanned sectors including financial services, consumer goods, pharma, and technology. The surveys explored areas such as client and employee experience, the impact of new working models on productivity, and priorities for continuity and planning.

Exhibit 1

The new operating model has created new opportunities—and a new gold standard.

		Bottom- quartile GCCs	Average GCC	Best-in-class (BIC) ¹ GCC	BIC vs bottom quartile
Resilience	Current availability (% FTE ² WFH ³ enabled)	80%	95%	100%	 1.3X
	Future availability (# of days WFH ³ with acceptable SLA ⁴)	50	125	270 ⁵	 5.5X
Continuity	Client experience (% SLA ⁴ adherence vs pre-COVID-19)	75%	90%	100+%	 1.3X
	Employee experience (employee experience score vs pre-COVID-19)	80%	95%	120%	 1.5X
Efficiency	Productivity ⁶ (per FTE ² vs pre-COVID-19 baseline)	80%	90%	100+%	 1.3X
No variation (<3%; not statistically significant) observed across geographies on key dimensions					

¹BIC include GCCs with BIC/top-quartile scores across resilience, continuity, and efficiency.

²FTE = full-time equivalent.

³WFH = work from home.

⁴SLA = service-level agreement.

⁵Blend of 180–360-days option.

⁶Blended low/medium-complexity work; high-complexity work 50:50 mix, where % split of work complexity was not available.

Source: McKinsey survey of impact/learnings from GCCs around work from home due to COVID-19 lockdown, April 2020, n = 46

working for 270 days and beyond, but respondents in the bottom quartile estimated that they could sustain this arrangement for fewer than 50 days (Exhibit 2).

Taking the longer view has enabled best-in-class organizations to capture benefits from greater workforce flexibility. A respondent at a leading technology and engineering company stated, “We are planning to create a rolling WFH plan post-lockdown, with 25 to 50 percent of employees working from home.” For example, these GCCs have created new work schedules that don’t conform to the traditional nine-hour shift, to match the production capabilities and lifestyle needs of employees. By enabling individuals to stretch their shifts over a longer period of time, companies can manage production peaks while giving workers breaks to manage their obligations at home. This approach could greatly increase the long-term

resilience of GCCs in responding to all manner of disruptions.

Continuity

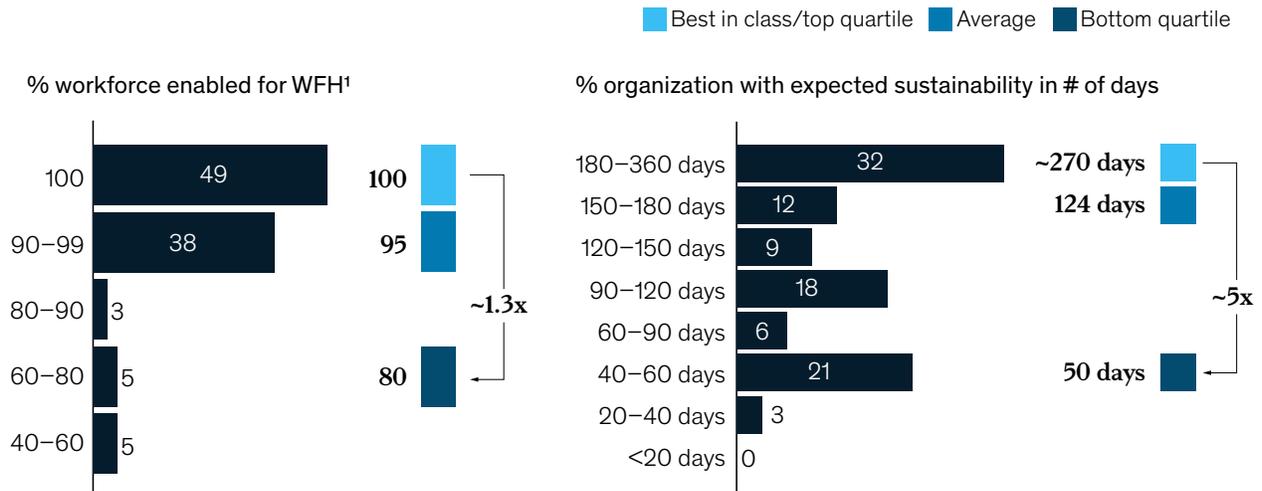
There are two core elements to continuity:

- *Client experience:* Responding to work-environment disruptions during an intense spike in customer volumes added to an already complex challenge for some GCCs. Top performers were able to manage it while avoiding a decline in service-level agreements (SLAs). In contrast, average GCCs saw their service performance drop by 10 percent consistently across different processes, job roles, and complexities of tasks. Survey respondents pointed to a decrease in productivity (46 percent) and reduced capacity (18 percent) as the primary factors.

Exhibit 2

Best-in-class global capability centers support 100 percent remote working—and can do so for longer.

Question: What percentage of your workforce is currently WFH enabled? As per your estimation, how many days can you sustain >80% of required capacity, with acceptable service-level performance, during complete lockdown?



¹WFH = work from home.
Source: McKinsey survey of impact/learnings from GCCs around work from home due to COVID-19 lockdown, April 2020, n = 46

— *Employee experience:* Employee experience varied significantly across GCCs, with the top-performing organizations recording employee satisfaction 50 percent higher than that of bottom-quartile organizations. This pattern matters. The most-productive employees also reported higher levels of engagement with the company (Exhibit 3). Without concerted and sustained efforts to encourage a sense of connection and engagement in the virtual workspace, employees may quickly feel isolated and without the direction and guidance they need to excel in their roles. Best-in-class leadership spends 30 percent of its time on coaching and mentoring its WFH teams. Certain activities, such as daily and online huddles, help workers feel connected and supported. On the other hand, increased communication by management had a less favorable impact on efficiency.

Efficiency

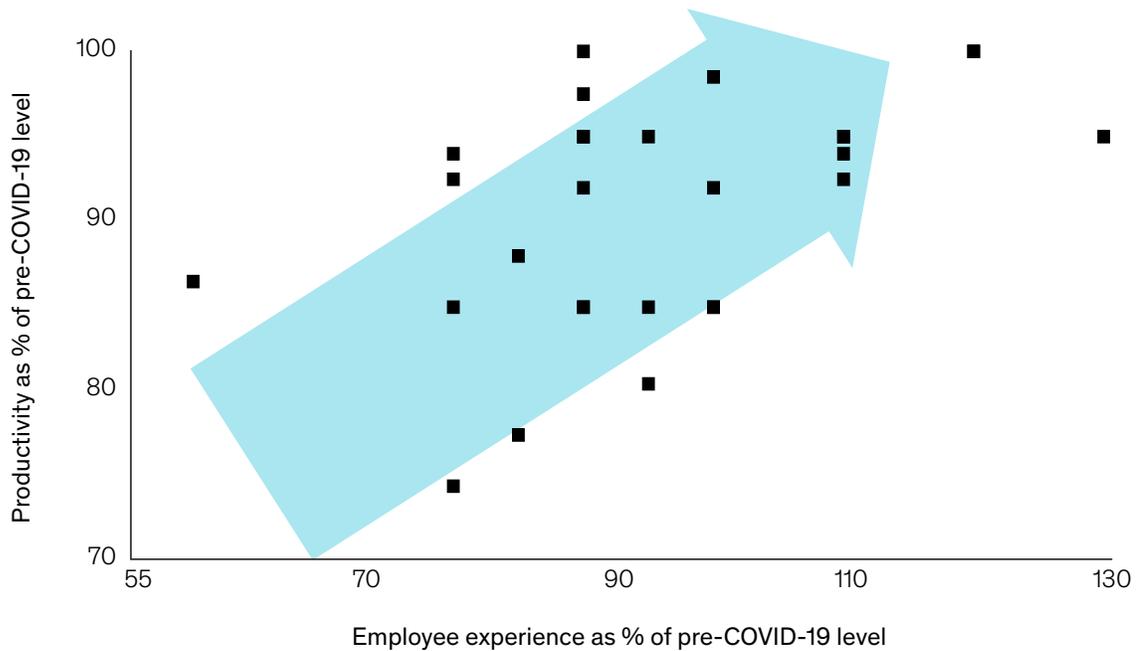
Organizations that had already built agile capabilities were able to adapt more quickly to the complexities of working remotely. Lean and digitized practices for distributed delivery and enhanced collaboration tools and processes to keep employees motivated and engaged have been key drivers of productivity. Best-in-class GCCs are 15 percent more mature in digitized operational practices than average GCCs.

Survey respondents cited a lack of collaboration among team members and shortcomings in performance-management processes as factors that impeded efficiency (Exhibit 4). For example, management had to spend additional time to provide support and direction to workers as they adjusted to remote environments. An executive at a leading pharma company remarked, “Our ops

Exhibit 3

Employee experience varies widely across global capability centers and is positively correlated to productivity.

Question: *What would be your current aggregate employee-experience score guesstimate, with pre-COVID-19 being indexed to 100?*



Source: McKinsey survey of impact/learnings from GCCs around work from home due to COVID-19 lockdown, April 2020, n = 46

team faced productivity loss because it required multiple huddles and collaboration throughout the day.” That focus on keeping employees engaged and clear about their tasks during a confusing time was crucial, however, as loss of employee and team motivation were also significant inhibitors to efficiency.

Infrastructure issues also impeded performance. According to one respondent, “Bandwidth limitations sometimes degrade our productivity, as we have to access multiple applications and transfer large files.”

Reimagining the GCC operating model

In the immediate response to the pandemic, GCCs were focused primarily on employee well-being and

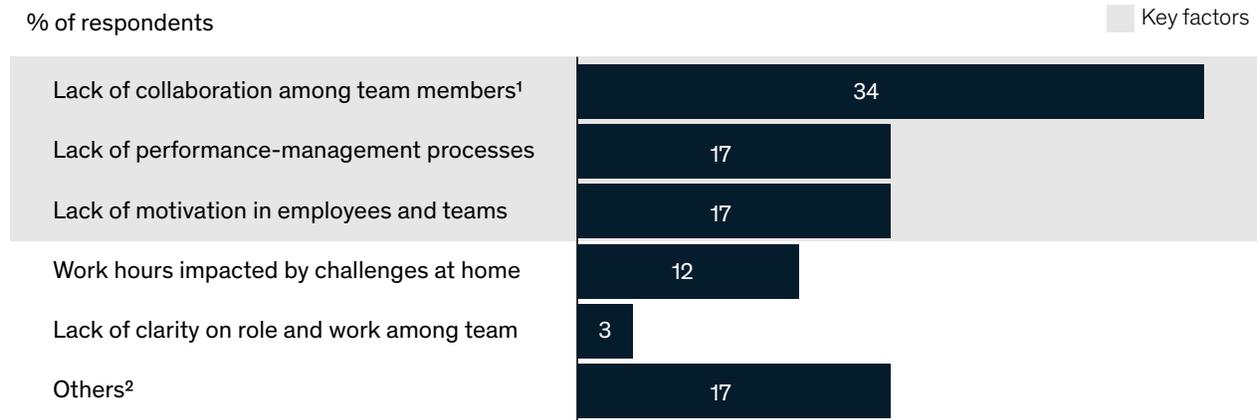
setting up essential IT services. But as managers look toward the next three to six months, those priorities have shifted to stabilizing the business and improving productivity. One global business-services executive remarked, “Productivity improvement and employee experience are our next goals. We are now thinking of improving ergonomics at home.”

As companies begin to look beyond the lockdown to economic recovery, many of the lessons from their immediate response will shape their long-term strategy toward their global delivery model. The need to move fast and innovate has opened up a wave of possibilities previously viewed as purely aspirational. Forced to move quickly, high-performing GCCs have uncovered opportunities in five areas.

Exhibit 4

Reduced collaboration, performance-management challenges, and lack of motivation account for two-thirds of productivity drop.

Question: Which of the following factors are driving productivity loss in your workforce?



¹Includes collaboration issues due to remote working, lack of or suboptimal usage of digital tools, and process limitations (query resolution, escalation).

²Includes productivity loss due to multitasking, skill issues, shortage of utilities, etc.

Source: McKinsey survey of impact/learnings from GCCs around work from home due to COVID-19 lockdown, April 2020, n = 46

Remote working

For decades, co-location was deemed a requirement for certain roles to perform well in a GCC. The pandemic has proved it to be unnecessary in an overwhelming number of cases and caused a rapid reassessment of every element of the organization: management evaluated positions in the front, middle, and back offices across locations and job functions, complexities, and seniority for their feasibility of being effective working remotely.

When determining the right mix of workforce capacity, executives need to consider employee availability and engagement, ways of working, and employment terms (Exhibit 5). Delivery agents, for example, can effectively work remotely on 100 percent of their tasks, while workers with customer-facing roles, such as wealth-management agents, can complete only 55 percent of their tasks remotely.

Our analysis indicates that the shift to a remote workforce could reduce GCCs' need for real estate

and related facilities by 20 to 40 percent, creating the opportunity to free up and reallocate around 5 percent of their total operating costs—if they can be released from their current leases.

Other factors to be considered in assessing the opportunities opened up by remote working in the long term include the shift in risk profile for WFH and the need to adjust security controls accordingly, the infrastructure needed to support a dispersed workforce, and regulatory differences between geographies.

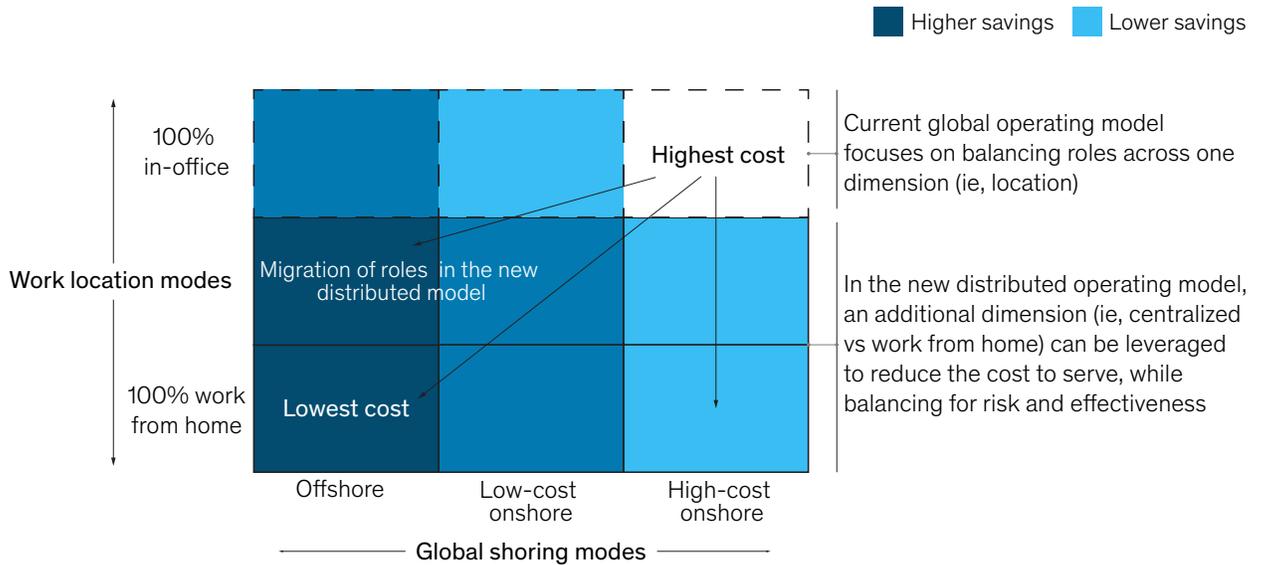
Digitally optimized organization

The pandemic has led customers to increasingly embrace digital and self-service tools. Our B2B customer sentiment survey shows that digital channels are twice as important now as they were before the crisis. To respond to this growing demand for and familiarity with digital channels, GCCs will have to improve their ability to quickly deploy innovative digital products and services, such as self-serve channels.

Exhibit 5

A distributed operating model leverages multiple location and office constructs to maximize value while balancing for risk and effectiveness.

In the next normal, firms are expected to leverage the full potential of the distributed model.



Source: Based on "day-in-life" teardown for leading global banking GCC

To support a distributed workforce, they will also have to expand their IT capabilities to enable digital tracking and monitoring of employee activities and usage of different applications. One GCC of a global bank digitally tracked usage of different productive and nonproductive applications to improve its resource-scheduling process, with potential to improve employee utilization by 15 percentage points.

Companies that are able to adapt their approaches to build cohesive virtual teams and digital workflows will be best positioned to reap benefits from remote working. The end-to-end use of digital practices—such as dynamic work allocation, virtual team huddles, and Intelligent Actionboards, a solution that provides supervisors with greater transparency into team progress and recommends prioritized interventions—as well as collaboration platforms and flexible work schedules can not only

maximize employee engagement, utilization, and productivity but also increase customer satisfaction.

Virtual talent management

A remote workforce also presents many opportunities to maximize talent engagement and agility. By reducing the need for employees to work from a central location, organizations that adopt work-from-home and part-time arrangements can extend employment opportunities to a more diverse talent pool.

Companies should consider developing advanced analytics capabilities (for example, machine learning to forecast talent requirements for different skills and intervals or simulation models to predict future competency needs) to attract, retain, and develop this more flexible workforce. Benefits such as flexible hours can enable GCCs to better match demand for talent to supply, resulting in higher

utilization. Doing so will require dynamic approaches to match remote employees with specific work—for example, assigning people to peak workload times based on their skills. Developing capabilities to manage remote employees (such as transitioning all learning online, training supervisors on coaching in a remote environment, tools to optimize talent reallocation as required) will be necessary. In addition, investing in scaling digital tools that can monitor performance of a broad array of employees in a remote global workforce will also help to track and manage performance.

Remote and agile teams and processes

Many companies went through a crash course in remote agile practices during the early days of the crisis. GCCs should focus on “baking in” new distributed agile practices that proved successful,

such as distributed decision making, regular check-ins, and quick sprints to achieve clear milestones (Exhibit 6). With their emphasis on small teams, agile practices, when properly supported, can spur engagement of online teams.

Next-generation remote infrastructure and facilities

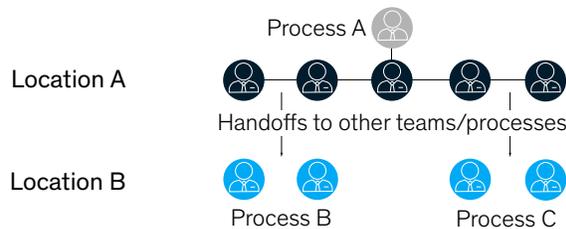
As organizations move to support onsite and remote work, reliable and secure infrastructure will be needed to improve resiliency and continuity. Leading GCC companies are already beginning or extending investments in cloud-based infrastructure, collaborative tools (lab simulators, document sharing, videoconferencing, and channel-specific communications), and information-security technologies (virtual private networks, desktop virtualization, at-scale multifactor authentication,

Exhibit 6

A distributed model can enable the shift to an agile operating model, with fewer layers and increased customer focus.

From...

Top-down tiered model



- Minimal number (10–20%) of processes following agile model
- Top-down-managed teams, where every team is steered by individual team lead
- Siloed operation with co-located teams owning specific process
- Detailed key performance indicators (KPIs), primarily focusing on individual KPIs

To...

Self-managed agile model



Customer-focused first-time resolution

- 20–30% of processes following agile model, enabled by advanced collaboration tools
- Self-managed teams driven by objectives and key results (OKRs), with fewer layers
- Teams owning end-to-end process and outcomes with members distributed across geographies
- Focused and shared team KPIs, prioritizing customer experience

Illustrative

accelerated patching for critical systems, and secure screen blocks).

The pandemic left companies little choice but to adapt as quickly as possible, and many rose to

the challenge. With the focus shifting to recovery, executives should take concerted action to build on the lessons they have learned and reinvent their GCC. The benefits are clear: better performance, greater resilience, and increased agility.

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