

17th Annual Global CEO Survey

Fit for the future?



1,344

CEOs in 68 countries

77

CEOs in India

49%

of CEOs in India are very confident about their company's growth prospects

17th Annual Global CEO Survey

In total, we conducted 1,334 interviews with CEOs across 68 countries between 9 September and 6 December 2013. By region, 445 interviews were conducted in Asia Pacific, 329 in Western Europe, 212 in North America, 165 in Latin America, 113 in Central and Eastern Europe, and 80 in the Middle East and Africa. In India, 77 CEOs were interviewed. The interviews were spread across a range of industries.

To better appreciate CEO perspectives for 2014, we also conducted in-depth interviews with 34 CEOs from six continents over the fourth quarter of 2013. Their interviews are quoted in this report and more extensive extracts can be found on our website at <https://www.pwc.in/global-ceo-survey-2014/index.jhtml> for the India cut and <http://www.pwc.com/gx/en/ceo-survey/> for the full global data, where you can explore responses by sector and location.



Preface

Year 2013 saw mixed fortunes for India.

While policy and regulatory reforms fell behind, corporate India grew on the back of growing domestic consumer demand.

While mega projects suffered without administrative approvals and other macroeconomic factors, certain sectors were supplemented by demand from the mending global economy.

Clearly, while developed nations started to come around, India much like other emerging economies, continued its sluggish trend.

CEOs in India continue to be confident of their growth prospects, although their enthusiasm is muted in comparison with earlier years. While they are still concerned about political, social and economic issues in the short term, they believe that global trends will impact and shape their businesses even more in the long term. The top three trends identified by CEOs in India are the same as those identified by CEOs globally—technological advances, demographic changes and shifts in economic power.

We at PwC believe that organisations will need to strategically focus on harnessing technology to create value in new ways, capitalise on demographic shifts to develop tomorrow's workforce and most importantly, understand how to serve the new consumer.

This India summary of PwC's 17th Annual Global CEO Survey explores the challenges that these trends mean for CEOs and their organisations in India.

I hope you will enjoy reading it.

Deepak Kapoor
Chairman



17th Annual Global CEO Survey

Telling the India story

- 1 The macroeconomic environment continues to be difficult in India. How has this affected business confidence?
- 2 What are CEOs in India most worried about?
- 3 What accounts for the confidence of CEOs in India?
- 4 How does India figure in the plans of global companies?
- 5 What are the trends that will transform businesses?
- 6 What are CEOs changing to make their organisations fit for the future?
- 7 Are companies in India ready for change driven by all-pervasive applications of technology?
- 8 What are CEOs doing to develop tomorrow's workforce?
- 9 How are companies gearing up to serve new consumers?
- 10 What does all this mean for leadership?

1. The macroeconomic environment continues to be difficult in India. How has this affected business confidence?

CEOs in India continue to be confident of their growth prospects with 49% very confident of the short term and 70% very confident of revenue growth over the next three years.

For the first time, since we started publishing the India cut of the survey, CEOs in a number of countries are more confident than CEOs in India about revenue growth for next year. These include CEOs from Korea, Taiwan, the Middle East, Russia and Africa.

Ten years ago, CEOs from India were the most confident of all CEOs and this trend continued till last year.

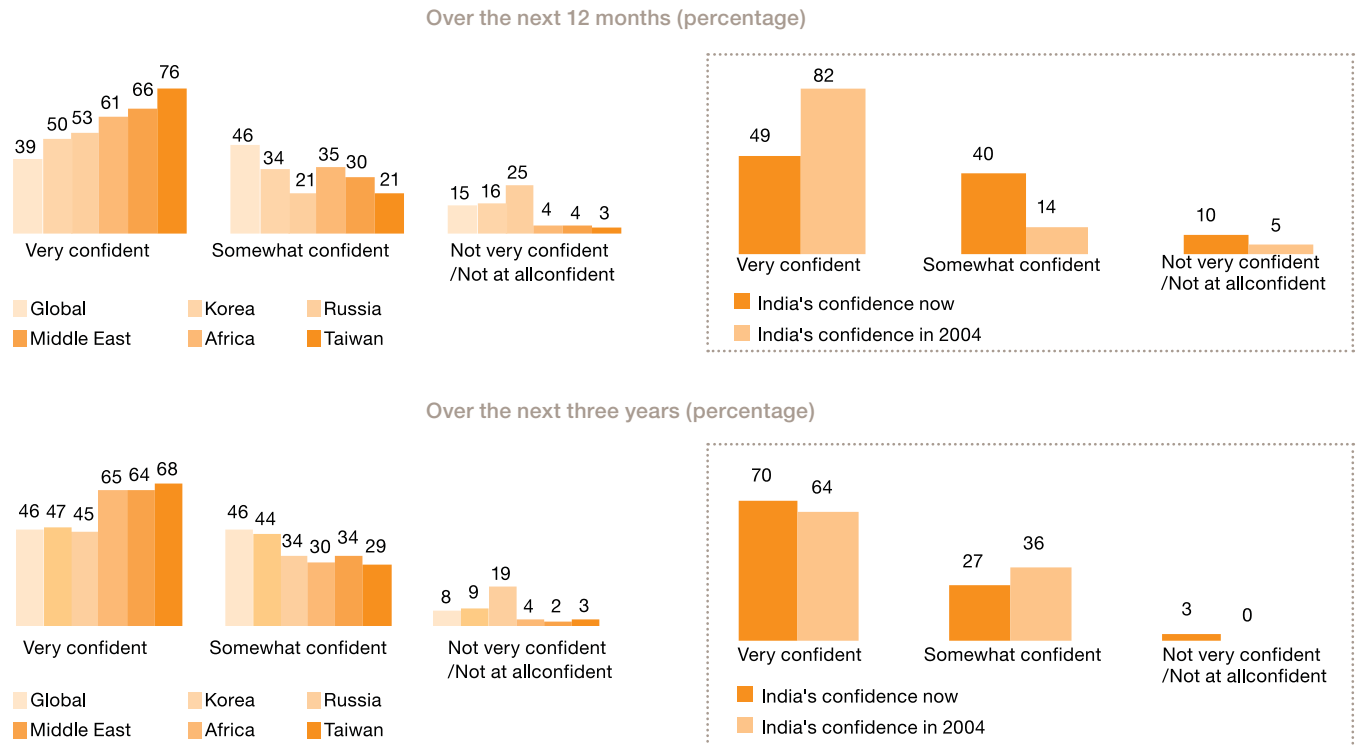
The World Bank¹ and the IMF² have projected higher GDP growth for India in FY 2014-15 than in FY 2013-14.



So, are CEOs discounting growth prospects due to the uncertainty of the outcome of the general elections and perhaps the sense that even after the elections are completed, it may take some time for a new coalition government to start to act with purpose?

Muted confidence in the short term, while long-term confidence continues to be high

How confident are you about your company's prospects for revenue growth?



Source: 17th Annual Global CEO Survey

Base: All respondents (1,344); India (2014=77; 2004=22); Russia (47); Africa (23); Middle East (47); Taiwan (34); Korea (32)

India's biggest advantages really lie in its demographic dividend and its potential for investment in infrastructure and the core manufacturing sectors. The biggest action point for India is to really harness these fundamental drivers of growth.

Chanda Kochhar, MD and CEO, ICICI Bank

2. What are CEOs in India most worried about?

The CEO's concerns around top economic, policy and business threats to growth are somewhat different from those of their global counterparts.

Globally, top threats include over-regulation, government response to fiscal deficit and the debt burden, continuing slow or negative growth in developed economies and an increased tax burden. CEOs in India though worried about similar issues, have only over-regulation in common as a top threat.

The CEO's perception of big threats to growth continue to include the long-term issues which have plagued us over the years—currency volatility, over-regulation and talent issues.

Increased competition which was the biggest threat 10 years ago has dropped lower. On the other hand, inadequate infrastructure is a top threat today which it wasn't 10 years ago.



Is this the result of a poor investment climate in general or that supply side constraints have become the ruling challenges in our economy?

Talent issues and availability of key skills recur as a concern. For CEOs, putting in place succession planning systems and ensuring depth of the leadership pipeline, at all levels, are going to take on even greater relevance going forward. At the same time, ensuring the development of critical functional and technical capabilities as strategic differentiators will also gain importance. CEOs and organisations will have to find the right balance and alternate growth paths to address these needs.

Top threats to growth then and now

How concerned are you about the following potential economic, policy and business threats to your organisation's growth prospects? ('extremely' or 'somewhat concerned')

Global top threats 2014	Global	India
Over-regulation	72%	82%
Government response to fiscal deficit and debt burden	71%	79%
Slow or negative growth in developed economies	70%	58%
Increasing tax burden	70%	73%

Indian top threats 2014	Global	India
Exchange rate volatility	60%	84%
Inadequate basic infrastructure	47%	82%
Over-regulation	72%	82%
Availability of key skills	63%	81%

Indian top threats 2004	India
Increased competition	82%
Currency fluctuation	60%
Over-regulation	55%
Loss of key talent	55%



Source: 17th Annual Global CEO Survey
Base: All respondents (1,344); India (2014=77, 2004=22)

3. What accounts for the confidence of CEOs in India?

So, why are CEOs in India more confident of medium-term growth than most of the world even as their confidence in short-term growth is somewhat muted this year?

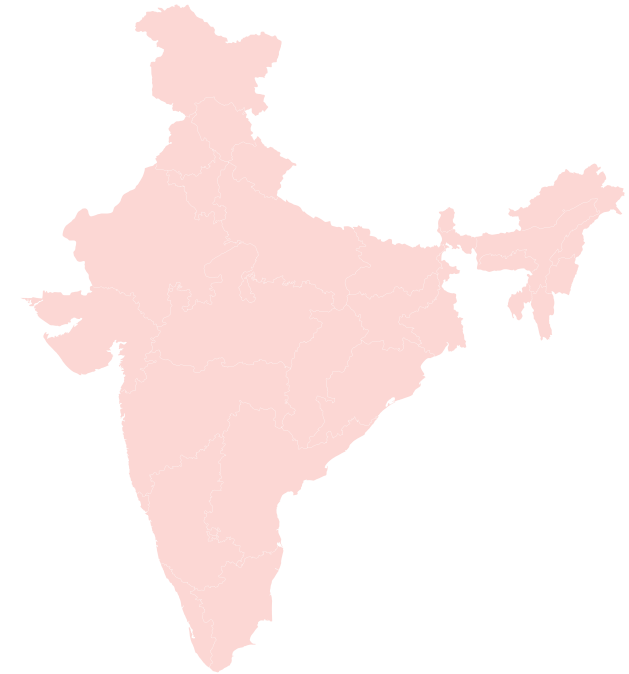
We think that this confidence is based on a belief in both, domestic demand as well as their ability to deliver profitable growth in India and abroad. The middle class as well as the ‘emerging middle’, which lies just below, are forecast to grow. In India, the segment is expected to cross the 1 trillion USD threshold by 2021³.

Another clear theme is that CEOs in India have started to look at new markets in order to grow revenues as well as to improve their competitive position. These new markets include venturing across borders as well as tapping new pockets of opportunities within India driven by rapid urbanisation and rising incomes in rural and semi-rural regions.

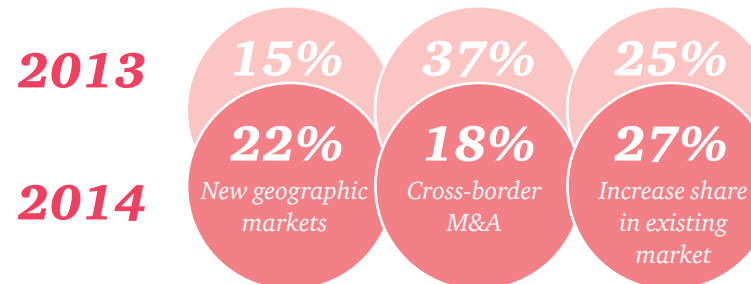
India's emerging middle is creating huge market potential

India's income distribution (millions)		Population (millions)	
Household income / year (INR)		2010	2021 (Projection)
> 850,000	Upper middle +	80	190
300,000 – 850,000	Middle	170	300
150,000 – 300,000	Emerging middle	470	570
< 150,000	Low	460	290

Source: PwC analysis, NCAER, CMI
*Purchasing power parity (PPP)



Indian companies are increasing their focus on new geographic markets



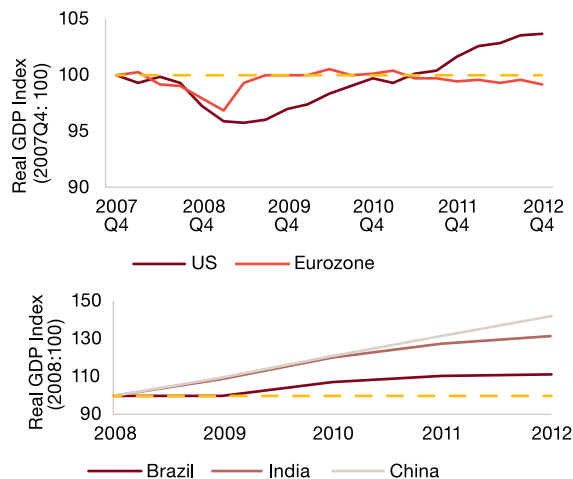
Source: 17th Annual Global CEO Survey
Base: India (2014=77; 2013=73)

4. How does India figure in the plans of global companies?



India slipped to sixth place in the global CEO's list of countries for growth, as developed economies have begun to mend and India's growth has slowed.

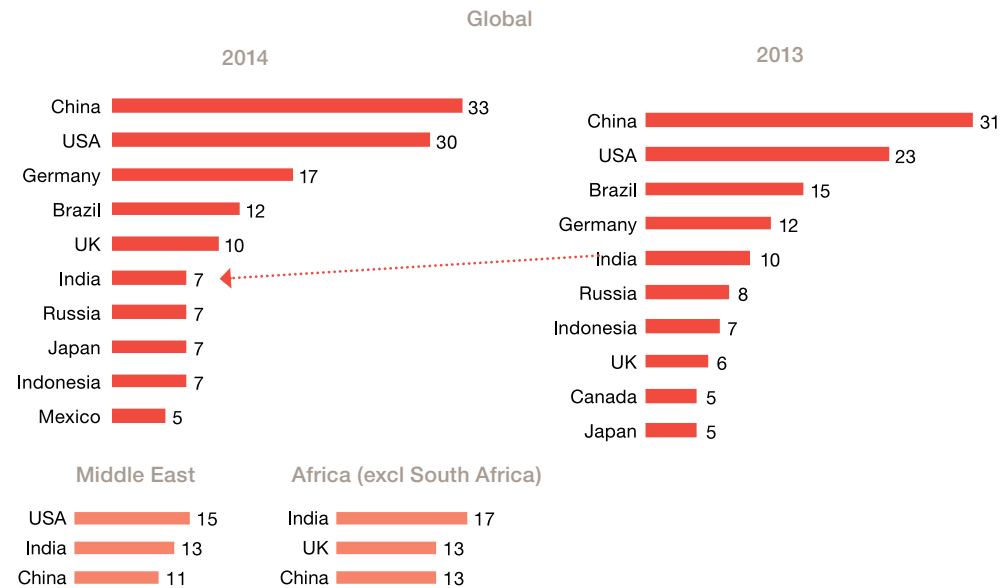
Yet, some countries continue to believe that India is very important for their overall growth. We asked CEOs to assign first, second and third ranking to countries they considered important for growth other than their home country. Their responses showed that CEOs in the Middle East and Africa (excluding South Africa) still rate India as among the top three.



Source: Thomson Datastream, PwC analysis

India slips in global ranking for growth, but is among the top three growth markets for CEOs in the Middle East and Africa

Which countries, excluding the one in which you are based, do you consider most important for your overall growth prospects over the next 12 months? (percentage ranking 1st, 2nd or 3rd)



Source: 17th Annual Global CEO Survey
Base: All respondents (2014=1,344; 2013=1,330)

We've got to decouple even within the global growth markets themselves, and the opportunities then appear with more clarity and are many... It's not going to be about a BRIC in a wall. It's going to be about many such BRICS in the wall and continued and sustainable growth.

**Arif Naqvi, Founder and Group Chief Executive,
The Abraaj Group**

5. What are the trends that will transform businesses?

So, what does the future hold?

CEOs in India agree with their global counterparts about the three megatrends that they think will transform their businesses over the next five years. These trends are not new. But, there is increasing recognition of the pace at which they are interacting to change our consumers, our workforce and our operating environment.

The digital revolution has put more power in the hands of more people than ever before. Consumers are constantly exchanging information and advice through mobile platforms and social networks. Collaborative networks are replacing conventional corporate modes of operating. Demographic shifts on the one hand continue to drive population growth in some emerging economies, while mature economies are experiencing a shrinking workforce.

These forces are transforming and forcing societies to change on a number of dimensions.



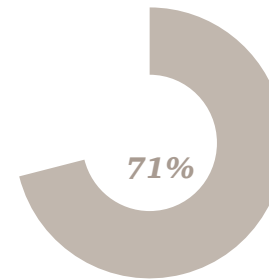
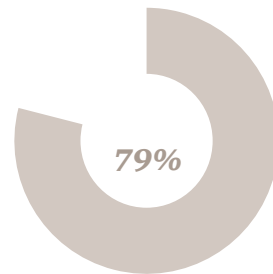
On the positive side, a billion people will be better off than they are now, as incomes in emerging economies rise. On the other hand, unemployment and resource shortages could be exacerbated.

Companies who recognise these trends, and come up with innovative solutions to these technical, demographic and social shifts will win and gain more trust.

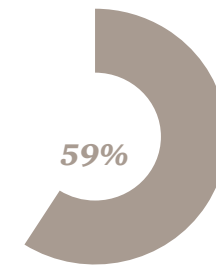
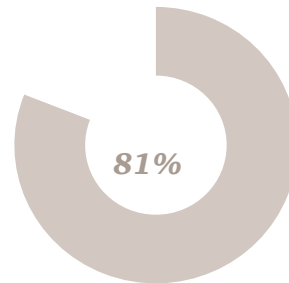
CEOs identified three transformative global trends

Which global trends do you believe will transform your business the most over the next five years?

India



Global



Technological advances

Demographic shifts

Shifts in global economic power

Source: 17th Annual Global CEO Survey
Base: All respondents (1,344); India (77)

The costs for acquiring information and communications technology (ICT) and information have fallen to incredibly low levels, and whoever takes advantage of information innovation will win in the marketplace... We have formed a task force to investigate how ICT is going to impact our company's business and how we can take advantage of it. We are also working on big data to see how we can use it.

Shigetaka Komori, CEO, FUJIFILM Holdings Corporation

6. What are CEOs changing to make their organisations fit for the future?

CEOs know that the megatrends provide opportunity as well as challenge. They are therefore creating new capabilities to deal with them, for an organisation fit for the future.

The priority for CEOs in India is different from their global counterparts. While corporate governance, customer growth and retention strategies and management of data and data analytics remain common, global CEOs are more concerned with organisation structure and technology investments.

R&D and innovation capacity changes are at ninth place globally, first in China and at sixth place in India.



The interplay between the three megatrends, will require careful attention as this in itself will become a significant trend. Our view is that incremental adaptations won't suffice.

In a world that's changing rapidly the very purpose of business—not just its practices—will come into question. This will force CEOs to look at radical re-tooling of their organisations where both technical and business model innovation will play a key role.

Priorities of Indian and global CEOs overlap when it comes to customers

To what extent are you currently making changes, if any, in the following areas? (Percentage of respondents who stated 'change programme underway or completed')

	India	Global
Organisational structure/ design	27	35
Technology investments	31	35
Customer growth and retention strategies	36	34
Corporate governance	45	33
Use and management of data and data analytics	32	28

Source: 17th Annual Global CEO Survey
Base: All respondents (1,344); India (77)

I think that to stand a chance of ensuring prosperity for their companies, business leaders today have to... move towards the triple bottom-line thinking... The missing link today is measuring... Today, financial markets drive businesses, especially public businesses... There are three pieces of paper which ultimately determine how healthy a company is today in the eyes of the financial market: a balance sheet, a P&L and a cash flow statement. But these are three documents which don't tell you very much about the overall impact of that business. So, we desperately need to develop a system to try and measure and quantify and communicate wider stakeholder engagement.

Badr Jafar, Managing Director, Crescent Group

7. Are companies in India ready for change driven by all-pervasive applications of technology?

When we asked CEOs what they thought would be the next big thing that would revolutionise their business, industry or society over the next 10 years, technology was unsurprisingly their top pick. Seventy-nine per cent of CEOs in India believe that technology advancement will transform their business over the next five years and 38% (35% global) see product and service innovation as the main opportunity for growth.

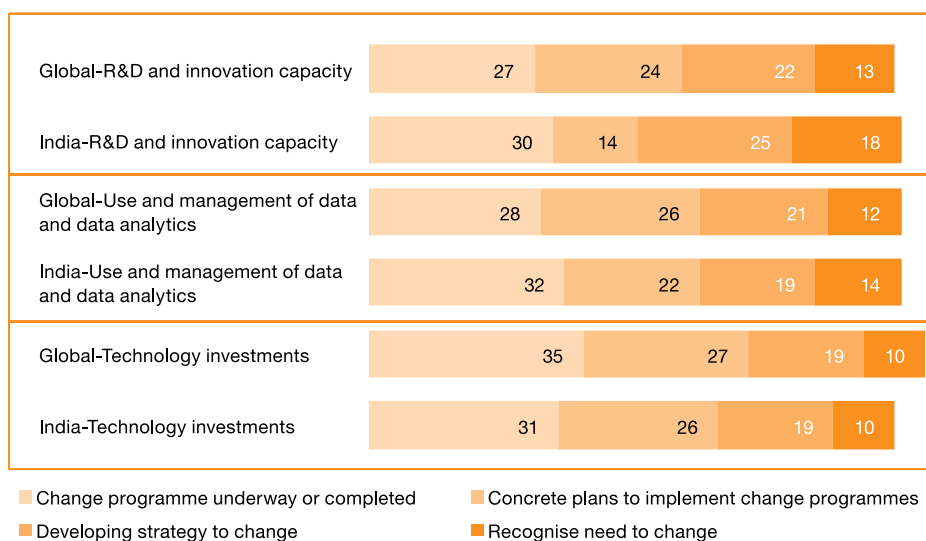
So what does the survey tell us about the ways in which CEOs in India are preparing to respond to this transformation? Sixty-nine per cent (73% global) recognise the need to change, or are planning or making changes to their R&D management, 73% (75% global) to data management and analytics and 76% (81% global) to IT management in order to capitalise on the transformative global trends.

The survey also tells us that there is a glaring gap between aspiration and action. The number of CEOs who have already completed a change programme in R&D and innovation capacity, use and management of data and data analytics and technology investments are far fewer than the ones who are still planning to implement these programmes.

So what is holding CEOs back? Is it not knowing how to 'industrialise' innovation? Or are they worried about the speed of technological change and hence of getting on the 'wrong side' of the change?

There is a change in progress in innovation, technology and data management

To what extent are you currently making changes, if any, in the following areas? (Percentage of respondents)



Source: 17th Annual Global CEO Survey
Base: All respondents (1,344); India (77)

8. What are CEOs doing to develop tomorrow's workforce?

The working-age population is growing rapidly in India, where nearly a million workers will swell the labour force every month for the next 20 years. Urbanisation is causing further upheavals. The UN's 2011 Revision of the World Urbanisation Prospects report expects India to add another 497 million to its urban population between 2010 and 2050.

In spite of these trends, corporate India faces a significant challenge in finding the talent required to take the organisation forward. Availability of key skills, considered a potential business threat by 81% of the CEOs in India last year, remains a consistent threat to growth.

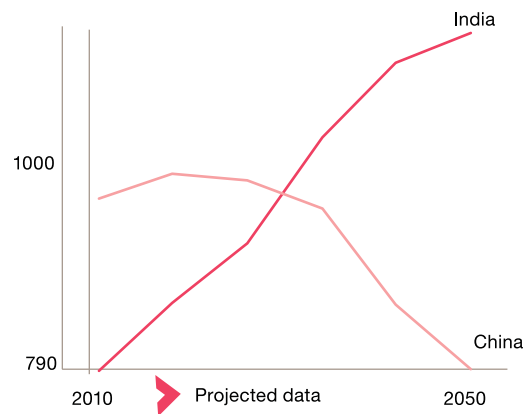
The effort to address the issue, though, is gathering momentum. This year, 79% of the CEOs are planning 'a significant' or 'some increase in' investment over the next three years to foster a skilled workforce, as opposed to 74% last year. Also, 88% of the companies are planning or implementing a change in their talent strategies to find, attract and retain a skilled workforce.

The skilling of the workforce will become increasingly challenging as technology becomes more pervasive. At the same time, wages are rising, though not as fast as in China.

So how are CEOs finding the right people and retaining them? They're looking for varied sources of talent.

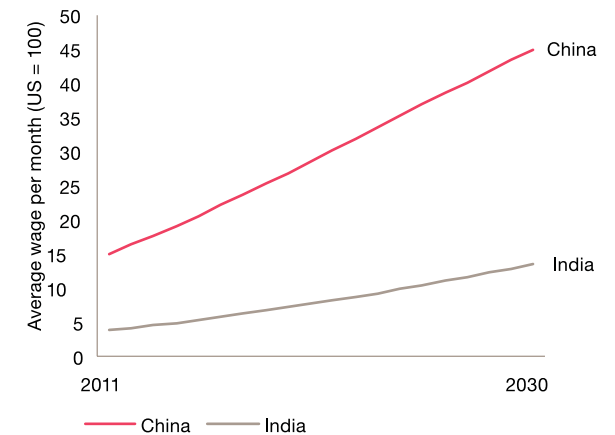
The present shifts are also driving changes in workplace models and forcing innovation. Through these models 'core teams' of companies are collaborating with an ecosystem of hyper specialists, flexible workforce and partners. They're also aligning their expectations with that of the millennial workforce where flexibility and the ability to ramp up and down based on broader life priorities are valued.

In two generations, China will have lost 150 million workers while India will have gained 317 million



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, 'World Population Prospect: The 2010 Revision'.

Wages in the emerging economies are rising



Source: PwC 'Global wage projections to 2030' report

A majority plan to hire in the coming year

What do you expect to happen to headcount in your company globally over the next 12 months?



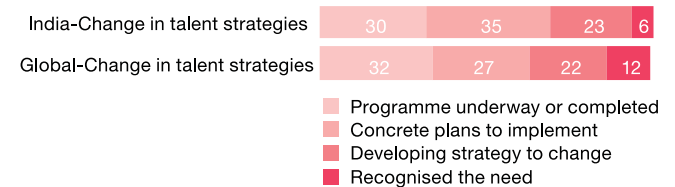
Source: 17th Annual Global CEO Survey
Base: India (77)



The female labour force remains a largely untapped asset in many emerging economies. Older workers will likewise play a much more active role in tomorrow's workforce, and some firms are trying to alleviate the challenges facing these employees.

CEOs recognise the need for change in talent strategies

To what extent are you currently making changes, if any, in the following areas? (Percentage of respondents)



Source: 17th Annual Global CEO Survey
Base: All respondents (1,344); India (77)

9. How are companies gearing up to serve new consumers?

Technological and demographic trends are causing massive economic shifts in the profile of consumers and an increase in the per capita GDP in India. The number of middle-class consumers is projected to rise dramatically over the next 15 years⁴. With urbanisation, this affluence is also becoming more geographically concentrated. By 2025, New Delhi's GDP could nearly rival that of New Zealand⁵.

Consumers are demanding more and the customer base is diversifying. Nuclear families are giving way to a much wider variety of family types as international demographic movements reshape the distribution of wealth in urban areas. Female buying power is on the increase.



Forty-eight per cent of Indian respondents are concerned about changes in the way consumers behave. CEOs in India are working on making customers their focus, be it in channels to market or customer growth and retention strategies.

On the business-to-business front, the shift in the balance of global economic power is also bringing in new competitors for India and creating new demand for world-class products and services. Earlier, Indian consumers were used to supply side constraints and India-specific products. This has been changing steadily for the last two decades.

Changing consumers and increasing competition worries our CEOs

How concerned are you about the following potential business threats to your organisation's growth prospects?



Source: 17th Annual Global CEO Survey
Base: All respondents (1,344); India (77)

CEOs look forward to product and service innovation to grow

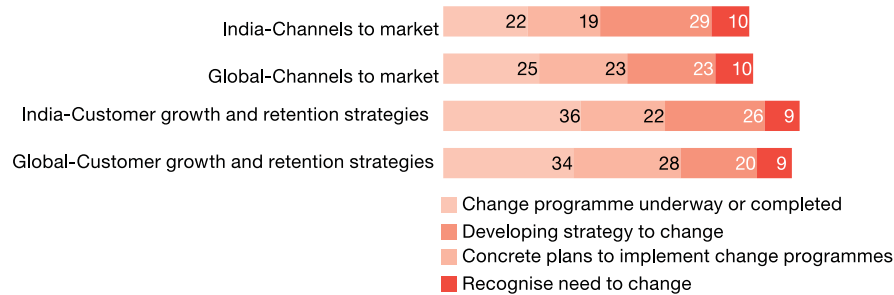
Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months? (Percentage of respondents who replied 'Product/service innovation')



Source: 17th Annual Global CEO Survey
Base: All respondents (1,344); China (66); India (77)

Most CEOs want to change the customer-facing parts of their business

To what extent are you currently making changes, if any, in the following areas? (Percentage of respondents)



Source: 17th Annual Global CEO Survey
Base: All respondents (1,344); India (77)

Consumers have become discerning over the last 10 years. They now question more, ask more, expect more and demand more; so, dealing with the consumer of today is so different from what it was even five or 10 years ago and it's going to be vastly different five or 10 years down the road. So, we have to equip ourselves to be able to deal with an extremely knowledgeable consumer and then we have to be completely uncompromising in the way we deliver our product.

Preetha Reddy, Managing Director, Apollo Hospitals

10. What does all this mean for leadership ?

Radical changes are underway. The interplay between the megatrends along with constant shifts in internationalisation and regulations will yield opportunity as well as challenge. CEOs will have to harness technology in order to create value in totally new ways, capitalise on demographic shifts to develop tomorrow's workforce, and understand how to serve increasingly demanding and diverse consumers across the new economic landscape.

With time, as these trends unfold, the demand on the leaders of companies will also increase exponentially. They will not only have to cope with changing dynamics, but will also have to encourage innovation through change; innovation that's both radical as well as methodical. They will have to attract and retain employees as well as consumers who don't look, think or act like them; experiment with new operating models while preserving existing efficiencies; and deliver value without compromising on quality or integrity. In short, CEOs will need to become comfortable straddling two worlds—drawing on the best of the old while operating at the frontiers of the new.

What then will be leadership attributes for success in the operating environment of tomorrow?

“Comfort with ambiguity, a high degree of cognitive capability, lateral leadership and influencing skills, a strong ethical compass makes for a 'whole' leader and a successful CEO.” - Padmaja Alaganandan, People and Change Leader, PwC India

Questions that will help you reflect on your fitness for the future

1. How well do you understand the new customer?	<ul style="list-style-type: none"> • Have you considered how your market segments are changing? • Are there new customer and geographic areas that you should consider? • When did you last 'immerse' yourself in the market? • Have you considered analytics on the data that you already have?
2. How robust is your planning when everything is changing so rapidly?	<ul style="list-style-type: none"> • Have you considered adopting multiple planning horizons? • How well do you incorporate 'known unknowns' in your plan? • Have you considered business analytics in planning process?
3. Are you looking at creating value in new ways?	<ul style="list-style-type: none"> • What are you doing to focus on breakthrough innovation? • What are you doing to 'mainstream' or industrialise innovation? • Do you have a 'digital' strategy or a strategy for a digital world? • Have you considered new collaboration models? • Have you considered new risk reward models for innovation for collaborators and employees?
4. Do you have a plan to find the right people to staff your organisation for tomorrow?	<ul style="list-style-type: none"> • Have you considered <ul style="list-style-type: none"> – redefining the workplace? – diversity of your workforce? – collaborating instead of employing?
5. How well do your stakeholders trust you (government, NGOs, customers, lenders, employees, local communities and the media)	<ul style="list-style-type: none"> • Have you considered the whole footprint? • Do you engage with stakeholders regularly and systematically?

Sources and notes

1. *Global Economic Prospects – South Asia*, World Bank, January 2014
2. *Is the Tide Rising*, World Economic Outlook Update, The IMF, January 2014
3. *Profitable growth strategies for the Global Emerging Middle*, Learning from the ‘Next 4 Billion’ markets, PwC, 2012
4. Homi Kharas and Geoffrey Gertz, ‘The New Global Middle Class: A Cross-Over from West to East’, *China’s Emerging Middle Class: Beyond Economic Transformation* (Washington, DC: Brookings Institution Press, 2010).
5. McKinsey Global Institute, ‘Urban World: A new app for exploring an unprecedented wave of urbanization’ (September 2013), http://www.mckinsey.com/insights/mgi/in_the_news/urban_world_app

PwC’s extensive network of experts and specialists has provided input into the analysis of the survey.

Note: Not all figures add up to 100%, due to rounding of percentages and exclusion of ‘neither/nor’ and ‘don’t know’ responses.

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