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Growth reimagined

The hearts and soul of India

14th Annual Global CEO Survey, India

pwc

Foreword

The economic crisis was hard on all of us. But it also had the two-fold effect of keeping India at the centre of attention for global businesses, and bringing home India's private sector prowess. And that bodes well for lifting the living standards of all Indians.

The international attention should come as no surprise. India grew faster than 5% per year in the crisis years of 2008 and 2009, and was the 10th fastest growing economy from 2006-2010. That's one reason why 18% of CEOs, the fourth highest percentage, named India one of their three most important markets in PwC's 14th Annual Global CEO Survey. India is no longer 'the world's call centre', as some had taken to calling it; it's a key market and supplier, and a vital source for talent, knowledge and innovation.

The economic crisis also had a subtle effect on India's businesses, a change that could have a more profound impact on the nation's future competitiveness and social well-being. A few years ago, India-based multinationals spent a lot of time selling in overseas markets. Now, with the strength of India's economy in spite of the global recession, they're spending time closer to home. They're designing distribution channels to reach more customers, which will lead to better infrastructure within and among urban centres and rural communities. They're directing innovations at Indian consumers to better serve their unique needs. They're bringing the full breadth of the country's human capital to bear on improving the social welfare of Indians.

The collective vision of Indian companies has an enormous impact. So if a lasting legacy of the economic crisis is a homecoming for India's successful global businesses and a renewed focus on India's people, then India's future is bright indeed.

Deepak Kapoor
Chairman, PwC India

'A nation's culture resides in the hearts and in the soul of its people.'

Mohandas Gandhi

Introduction

The 1,201 chief executives in 69 countries polled for the PricewaterhouseCoopers 14th Annual Global CEO Survey were nearly as confident in their outlook for revenue growth over the coming 12 months as in the boom years before the global economic crisis. Much of that renewed confidence is driven globally by targeting key markets, often in emerging economies, for growth.

The 60 Indian CEOs we polled were among the most confident coming into 2011. All were either somewhat confident or very confident about their company's prospects for revenue growth over the next 12 months. Similarly, all those polled were either 'somewhat confident' or 'very confident' about their company's prospects for revenue growth over the next three years.

We also conducted in-depth interviews with 31 CEOs worldwide, two of whom are based in India, which provided useful nuance to the survey responses. Through the survey and the interviews, it became clear that Indian CEOs depend on the people of India – the hearts and soul of the nation's culture. For companies must not only draw on the nation's people to execute their strategies, but also ensure there is a vibrant domestic middle class to provide a market for future products and services, which will require drawing more people out of poverty and reducing inequality. This dual focus on people sets India's CEOs apart from their peers overseas.

The 60 Indian CEOs we polled were among the most confident coming into 2011.

Growth reimagined

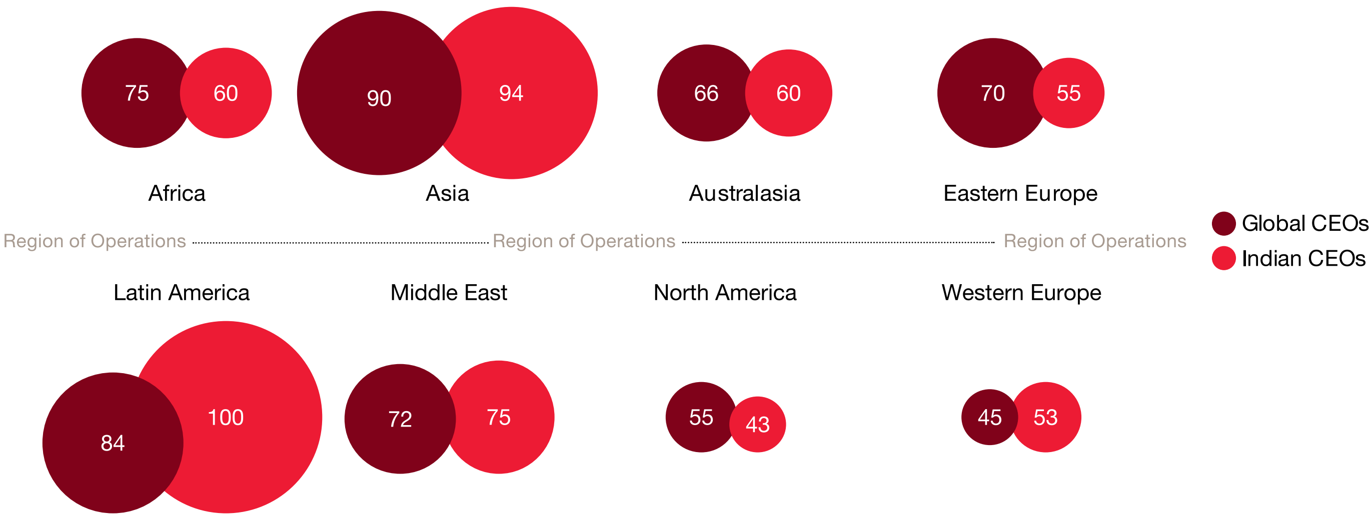
Although the International Monetary Fund forecasts global growth at 4.2% for 2011, developed economies, which make up 52% of the world economy, are managing only half that rate. In contrast, emerging markets are booming, with India forecast to grow faster than 8%, according to the IMF. Our own forecasts suggest that the GDP of the seven largest emerging economies could be bigger than that of the G7 economies by 2020, and that India could overtake the US by 2050 (on a purchasing power basis).[1]

Indian CEOs are clear on where they expect growth to come from. China was named by half of the polled Indian CEOs as one of their top three growth markets. In addition, while developed markets such as Germany, Japan and the United States were viewed as important, Indian CEOs also stressed emerging economies such as Brazil, Indonesia, Vietnam and South Africa as key destinations. Indian companies' growth expectations were higher for their operations in Africa and Central Europe, for example, than in North America or Western Europe (see exhibit).

1 The World in 2050: The accelerating shift of global economic power: challenges and opportunities, PwC, January 2011.

Figure 1: Like their global peers, Indian CEOs have low growth expectations for North America and Western Europe

Q: In the next 12 months do you expect your key operations in these regions to decline, stay the same or grow?



Base: Respondents whose business has key operations in these regions (168-672; 5-47)

The growth of trade among emerging markets—the so-called 'South-South' trade—plays a role in spreading confidence. 'Europe and the US were our major export markets,' says Sajjan Jindal, Vice Chairman and Managing Director of JSW Steel, a key unit of Mumbai-based OP Jindal Group. 'Today, they are minor markets for us and the Latin American and African markets have become more important. That has been a huge change for us.' Trade barriers overall appear to be coming down, easing fears of protectionism as companies explore untapped markets.

Indian CEOs are also upbeat about their home market: 80% of them see India as having high potential for growth, versus 37% of global CEOs of their respective home markets. That's a key difference. To be sure, some companies operate only in India. Some of the focus reflects the global downturn that began in earnest in 2008. 'The economic downturn has made us become more India-focused,' says Jindal.

India is not only a key consumer market, it is emerging as an important supply source, along with the US, Germany, China and Brazil. To get closer to customers, some CEOs are shifting the development process closer to customers in important, growing markets like India. That, in turn, drives innovation in those markets. A consumer goods business seeking to expand in India, for example, is focused not only on shipping the best possible product out of its facilities, but also on where it is best designed, and on how to package, distribute and sell it into a changing marketplace. At each stage, approaches that may work elsewhere, whether the US, China or any other country, might not be appropriate for the Indian market. So strategies are changing in ways that place a higher premium on innovation.

Indeed, since 2007, business leaders had consistently reported that their single best opportunity for growth lay in better penetration of their core markets. But this year, innovation is of equal importance. Strategies to address particular customer segments are redefining approaches to innovation. Many companies are bringing their innovation activities closer to their customers by, for example, giving customers their say in the design of offerings, or opening innovation up to more partners.

'We innovate on behalf of our customers and participate with them in the risk associated with innovation,' says Vineet Nayar, Vice-Chairman and CEO of HCL Technologies, a Delhi-based information technology and software development company. 'When innovation results in a new revenue stream for them, we share in it. We have this arrangement now with several customers. It's a way of "putting your money where your mouth is".'

'We innovate on behalf of our customers and participate with them in the risk associated with innovation.'

Vineet Nayar,
Vice-Chairman and CEO
of HCL Technologies

The talent challenge

The global war for talent is heating up, especially in Asia. In 2010, 41% of employers in Asia-Pacific had difficulty filling positions, 10 percentage points greater than the global average, according to a recent Manpower survey of 35,000 employers worldwide[2]. With twice as many Western European CEOs expecting growth in their Asian operations over those in Europe, according to the CEO survey, Asian CEOs will face even stiffer competition for scarce skilled workers.

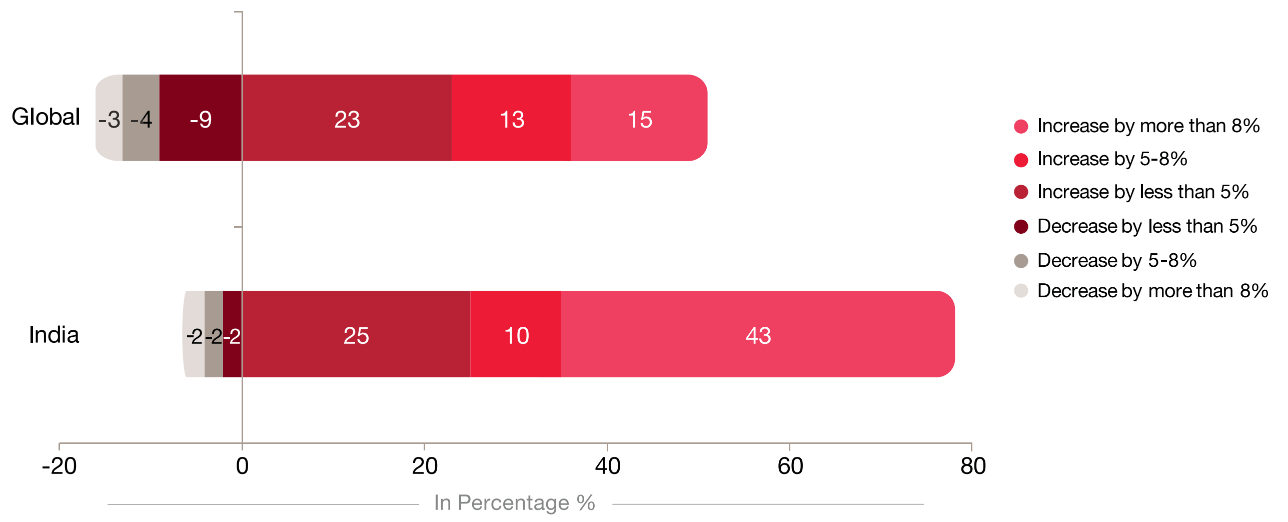
India is one of the major emerging economies where the challenges will be most prominent. While in the Manpower survey, India's talent shortage seemed less problematic than other Asian economies, many CEOs anticipate future shortages. Businesses seeking to double or triple revenue in five years in emerging markets, for example, and anticipating an equal rate of growth to their employee base, find that the availability of talent is often their biggest constraint.

In high-growth markets such as India, talent shortages are as critical as – and in some cases more acute than – in the rest of the world. According to the Organisation for Economic Co-operation and Development (OECD), India is the No. 2 source of skilled non-OECD migrants to OECD member nations. Recruiters point to significant global competition for talented Indian managers in skilled fields such as engineering, information technology, manufacturing, logistics, travel and tourism and financial services. Semi-skilled construction workers are also in demand.

Meanwhile, Indian CEOs are hiring quickly: 55% of surveyed Indian CEOs reported headcount increases in 2010, v. 42% globally. And 78% are planning increases in India in 2011 – half of whom are planning headcount increases of greater than 8% (see exhibit.) They're not the only ones hiring in India, of course, as foreign companies are also building their operations in the country.

Figure 2: Indian CEOs are upbeat about hiring in 2011

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



Base: All respondents (1,201; 60)

2 'Supply/Demand: 2010 talent shortage survey results', Manpower, May 2010.

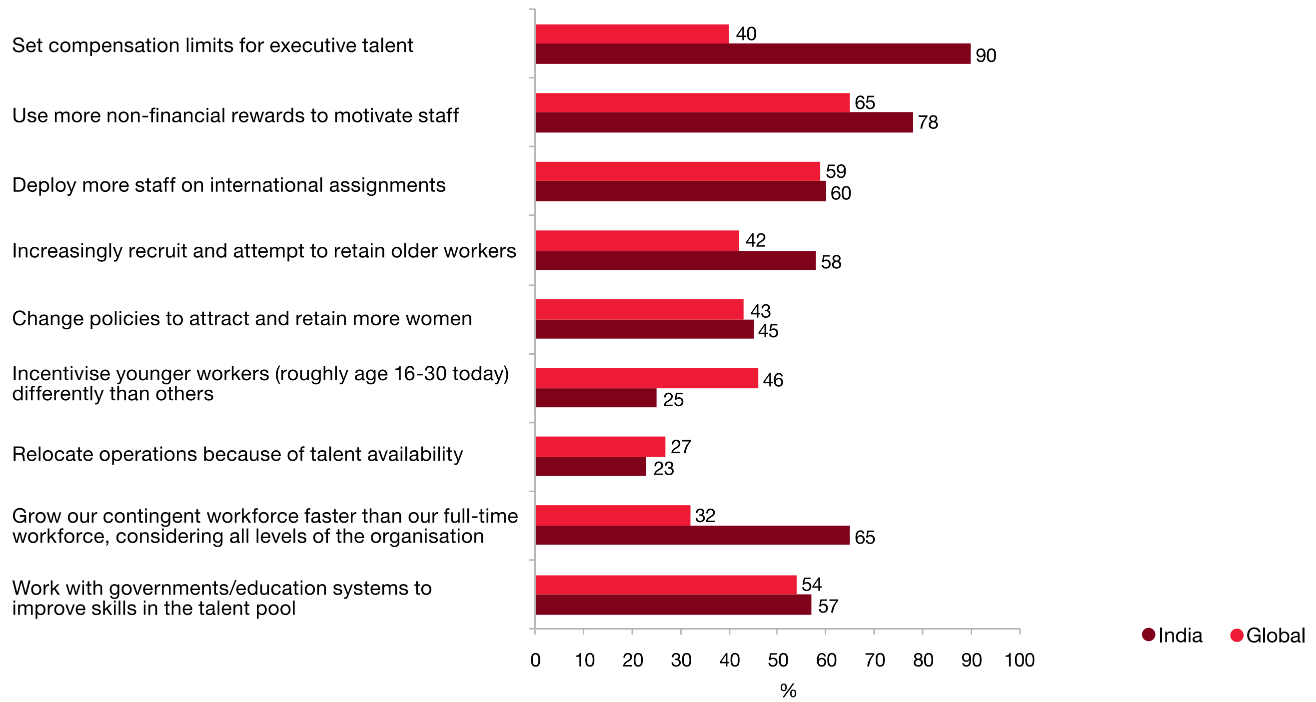
Indian CEOs express above-average concern about hiring and retaining key skilled workers. Of India-based respondents, 72% said they were 'somewhat concerned' or 'very concerned' about the present availability of key skills, compared with 56% globally. In terms of top potential business threats that represent the most significant risks respondents plan to mitigate over the next 12 months, availability of key skills was cited by 44% of Indian CEOs, the highest concern (along with inadequacy of basic physical infrastructure).

Pressures can be seen in Indian CEOs' concerns over their existing workforces. Employee turnover is a major issue, with 77% in India report 'key employees making career changes for personal reasons' as their top talent challenge in the next three years, v. only 39% globally. More than 60% complained that talent with the right technical skills lack flexibility and creativity (compared with just 23% globally), while 60% said they were challenged by competitors poaching their top talent.

Almost all Indian CEOs – 90% of those polled – plan to counter employment shortages by increasing commitments over the next three years to create and foster a skilled workforce. However, there are clearly concerns about a talent pool fit for purpose (see exhibit). For 57% of Indian respondents, there is a limited supply of candidates with the right skills. The right candidates can also mean substantial costs. 'Talent is becoming very expensive,' says Nayar. When asked to what extent strategy could change towards relocation of operations, 23% of Indian CEOs said there could be some or significant change, a similar response to their global counterparts (27%).

Figure 3: Indian CEOs are shifting their talent strategies in different ways than their global peers

Q: To what extent do you plan to change your people strategy in the following ways over the next 12 months



Respondents who stated 'significant' or 'some change'

Base: All respondents (1,201; 60)

One way Indian CEOs are dealing with the talent challenge is to grow their contingent workforces faster than full-time workers. They also have a greater focus on recruiting and retaining older workers – those who have proven their value to an organisation – than their global peers (58% v. 42%). Relatively few Indian CEOs, compared with their global peers, considered retirements of older workers or challenges in recruiting and integrating younger employees as significant issues.

Another way to meet the labour challenge is to offer their employees more innovative rewards packages. Such packages are under increased scrutiny, however, with 60% of Indian CEOs saying regulators' and investors' oversight of reward structures has become a concern. Runaway remuneration, especially at the executive level, has given Indian CEOs much thought. Nine out of 10 Indian CEOs plan to change their people strategy to set compensation limits for executive talent, compared with just 40% of CEOs globally.

More than three-quarters of Indian CEOs (78% v. 65% globally) said they plan to change their people strategy towards motivating staff with more non-financial rewards. Instilling a deeper sense of ownership by spreading employee stock ownership plans (ESOPs) more widely is another important retention tool for CEOs. 'In a high-growth economy like India, many companies are building capacity rapidly and, as a result, become easy targets for talent-poaching,' says Jindal. 'In order to maintain our own retention rates, we've made our ESOP more attractive.'

More Indian CEOs than their global peers (28% v. 19%) thought maintaining the health of the workforce should be among the government's three most important priorities.

Amid the country's talent crunch, many Indian companies have set store in publicly valuing their employees. HCL, for example, launched its 'Employees First, Customers Second' policy in 2005. 'We've said that HCL is in the business of creating value for our employees through our "Employee First" philosophy,' says Nayar, who says he devotes seven hours a week to answering employees' queries and launched a 'reverse blog' in which the CEO posts comments and questions to the workforce.

CEOs say their companies have to be more innovative in recruiting enough good talent. 'Another change that's necessary is that organisations will have to become more adept in tapping the "non-included" workforce,' says Nayar, describing those who, for their own reasons, have made a decision to stop working. 'Women sometimes stop working after marriage, while men may stop working following a divorce or a period of depression,' he observes. 'Sometimes, people just take a break.'

Indian CEOs are just as keen as their global counterparts (57% v. 54%) to work with the government and education systems to improve skills in the talent pool. Skills development that can begin with the youngest potential employees, Nayar points out. 'HCL has chosen primary education as its way of giving back to society,' says Nayar. 'We're very involved in scholarships for the rural poor, sponsorships of teacher training programs, and youth leadership development projects.'

Indian employees also expect a healthcare component in their remuneration packages, given the poor quality and availability of public health facilities. Only about 10% of Indian households have medical insurance, according to government data. Indian CEOs placed a higher priority on healthcare than their global peers, with 93% responding (v. 71% globally) that their company would increase its commitment over the next three years towards maintaining the health of its workforce. More Indian CEOs than their global peers (28% v. 19%) thought maintaining the health of the workforce should be among the government's three most important priorities.

Although a majority of CEOs plan to work with governments to improve the talent pool, only 15% of Indian CEOs thought creating and fostering a skilled workforce should be a government priority, compared with 47% globally. Indian CEOs say the government should stay focused on the basics. 'Infrastructure and law and order are the bare minimum requirements for doing business,' says Nayar. 'And that's what government needs to focus on – providing power, building mass transit systems, and ensuring safety and security.'

The poverty picture

Indian CEOs' intense focus on talent challenges is similar to that of global peers, even if the solutions they are turning to differ modestly. But their attention to the country's broader people concerns – notably poverty and inequality – sets them apart.

India has made steady progress against poverty since the 1980s, with the poverty rate declining at a little under one percentage point per year. According to the World Bank, the percentage of Indians living below US$1.25 a day decreased from 60% in 1981 to 42% in 2005. Even at US$1 a day (in 2005 prices), poverty has declined from 42% to 24% over the same period.

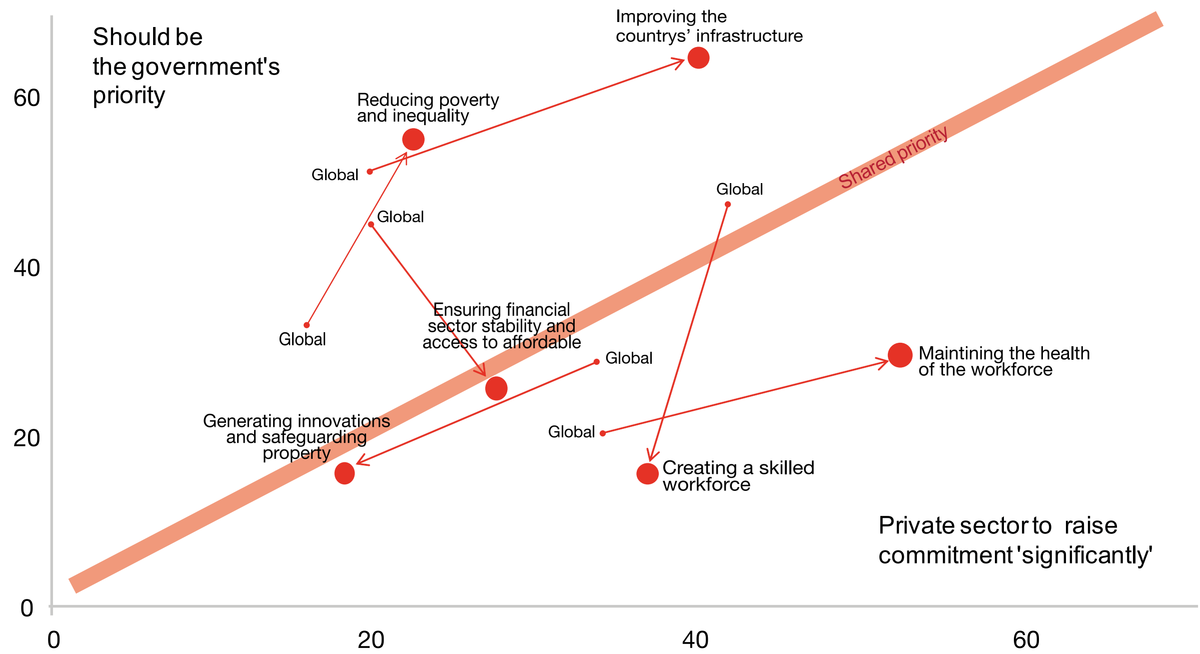
However, there are at least 450 million Indians still mired in poverty. 'In order to improve the lives of a greater number of its poor, India will also have to reduce those basic inequalities – lack of access to education, healthcare and opportunities – that prevent poor people from participating in the growth process,' the World Bank noted in a recent report.

Three-quarters of respondents said their companies would make some or significant increases to their commitments to reduce poverty and inequality over the next three years, compared with 42% of CEOs globally.

CEOs in India appear to be more attuned than their peers elsewhere to the battles against poverty and inequality. Three-quarters of respondents said their companies would make some or significant increases to their commitments to reduce poverty and inequality over the next three years, compared with 42% of CEOs globally (see exhibit). 'Large, profitable companies must do their bit,' says Jindal. 'For example, JSW provides meals to schools in the Bellary district [of Karnataka] that are attended primarily by children from low-income families.'

Figure 4: Shared agendas: After infrastructure issues, Indian CEOs are more focused on people issues than their global peers

Q. How much does your company plan to increase its commitment in the following areas, to improve national competitiveness and social well-being over the next 3 years? Which 3 areas should be the government's priority today?



Base: All respondents (1,201; 60)
Note: CEOs were asked how much their companies plan to increase commitments to achieve these outcomes; and what should be the government's priority. The plot shows percentages of CEOs who chose each of these areas. Multiple choices were allowed.

Companies in India seem willing to take more responsibility to improve conditions. This is not entirely altruism: if 80% of Indian CEOs see their nation having high-growth potential, they need a growing middle class to support that growth. They also expect the government to put a higher priority on reducing poverty and inequality: 55% said that should be among the government's top three concerns, while only 32% of global CEOs gave it such a ranking.

Poverty alleviation has been generally regarded in India as a government concern. However, the private sector has become increasingly involved through such institutions as microfinance and techniques such as bottom-of-the-pyramid marketing. Indian CEOs believe the private sector can play an important part in alleviating poverty and inequality. 'The private sector's involvement in areas such as rural education, assistance to the poor, and disease management is, in my view, a very positive step,' says Nayar.

Conclusion

For global CEOs, India remains a key area of importance: India was named by 18% of CEOs as the most important country for future growth, trailing only China (39% of CEOs), the United States (21%) and Brazil (19%). Also, India, along with China and the US, were seen as the most important future sources for products and raw materials.

Indian CEOs see a bigger role for the private sector than their global peers. One example is in workforce development. Companies are trying to tap into less traditional sources for employees, such as the non-agricultural informal sector. Many of these are extremely poorly paid and have no access to healthcare or other benefits. 'There are a lot of very talented people who are not in the workforce because they live in small towns, or face language barriers, or haven't received a formal education,' says Nayar.

Experts cite India's sharp increase of engineering baccalaureate capacity as an example of the private sector taking over a traditional educational role of government. 'Much of this capacity is due to private, rather than publicly supported colleges, and testifies to the private willingness to invest in human capital even in poor countries,' Ashish Arora at Carnegie Mellon University's School of Public Policy and Management noted in a recent paper.

Poor countries such as India can also benefit from public-private partnerships, CEOs note. Jindal believes PPPs are perhaps the best model for businesses to contribute to social well-being in India. 'PPPs in healthcare, roads, education, ports, airports or railways can be a good alternative to the government going it alone.' Businesses can provide more than cash; they have expertise, and the abilities to execute and manage risks. This is part of what makes PPPs attractive.

'PPPs will take root because most countries don't have a lot of spare cash right now,' says Philip Dilley, Chairman and Director of Arup Group, the global constriction group with extensive interests in India. He expects similar partnerships to evolve in India in particular – where 88% of CEOs responded that the inadequacy of basic infrastructure was a threat to growth. The Indian government aims to increase investment in infrastructure to more than 9% of GDP by 2012.

That level of engagement between public and private sectors, whether through PPPs or other collaborative arrangements, won't come easy. Companies are realising that working with government requires a sustained engagement with investments in relationships and effective governance. And the government also realises they need to do things differently, with new service delivery models, innovative approaches to workforce reform, shared support services and alternative ways to finance services. Nonetheless, when it comes to achieving people-related outcomes in the country, collaboration seems as likely to happen in India as anywhere in the world.

The government also realises they need to do things differently, with new service delivery models, innovative approaches to workforce reform, shared support services and alternative ways to finance services.

Related reading

World Watch: Issue 1 2011 (January 2011)

Need to know what's on the minds of regulators, standard setters, business leaders and others as they set the course for improved governance, reporting, and assurance? The latest edition shares PwC views on today's hot topics and keeps you up-to-date with new developments from around the world.

View: Issue 13 (January 2011)

This issue looks at how US companies are co-opting China's long-term interest in stability and prosperity into their business strategies. Learn about cloud computing's potential to speed innovation and create new revenue opportunities. Find out how customizing healthcare could transform employer benefits in a postreform world. Read about how to narrow the 'trust gap' between companies and shareholders in 'Trust but verify.' Plus: An interview with economist Anatole Kaletsky, who looks at how markets and governments affect our financial future, and much more.

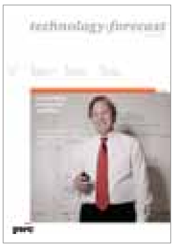
Government CEO Survey (January 2011)

'Rethinking government: doing things differently' assesses the changing relationship between government and business as the world emerges from the depths of global recession. The research for PwC's 14th Annual Global CEO Survey has been deepened by including a selection of interviews with senior decision-makers in governmental organisations across the world. The aim is to better understand the implications for government policy of the views of CEO and so contribute to mutual understanding and productive relationships between the public and private sectors.

The World in 2050: a shift in economic power (January 2011)

The global financial crisis has accelerated the shift in economic power to emerging economies. In the latest in the series of PwC's 'World in 2050' reports, analysis reveals that the E7 emerging economies (China, India, Brazil, Russia, Mexico, Indonesia and Turkey) are set to overtake the G7 economies (US, Japan, Germany, UK, France, Italy and Canada) before 2020.

Technology Forecast: Unleashing enterprise mobility (December 2010)

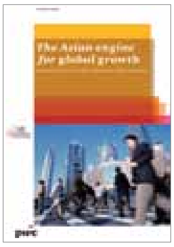


The latest issue of our quarterly Technology Forecast examines how the current generation of smart handhelds implies more opportunities for enterprises than might be obvious at first glance. How do enterprises turn what has been a consumer trend in smart handhelds to their long-term advantage? The first step is to understand how the workforce is changing.

Paying Taxes 2011: The global picture (November 2010)

A joint publication produced by the World Bank, the International Finance Corporation (IFC) and PwC. The study is based on data collected as part of the Doing Business project.

The Asian engine for global growth (November 2010)

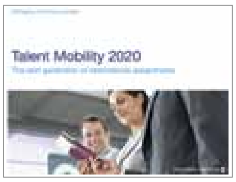


In the wake of the historic financial and economic crisis, tremendous efforts have been made in the public and private sectors across the globe to turn the world economy around. There is no doubt that APEC will have an even greater role and responsibility in global effort to help the world economy to achieve a strong recovery and get back on track for robust growth and further prosperity.

See the future: Top industry clusters in 2040 revealed (September 2010)

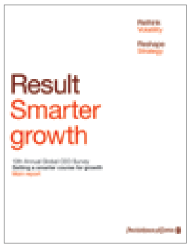
The old economic order is shifting. As the global economy recovers some emerging markets are likely to grow faster than traditional economic powers. At the industry level, these shifts are even more apparent with accelerating capital flows, fundamental demographic changes, and the rise of state capitalism reshaping the world map for many sectors. PwC's Macro Consulting team has developed a tool to map future clusters across the world which this report uses to highlight the geographical locations that will host the largest clusters in five industries.

Talent Mobility 2020: The next generation of international assignments (April 2010)



The year 2020 is only a decade away, yet the way our global workforce is sourced, organized and managed will change radically by that time. An explosion of activity in emerging markets has contributed to a significant increase in the need for companies to move people and source talent from all around the world. In this next installment of Managing tomorrow's people series, the issue of future talent mobility is explored in more detail.

PwC's 13th Annual Global CEO Survey (January 2010)



The 13th Annual Global CEO Survey offers an up-close look at how business leaders have responded to the challenges brought about by the recession, the concerns they are facing and their strategies for positioning their companies for the long-term.

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