The view from India

What's on the minds of CEOs in India?

20th CEO Survey
Being Fit for Growth

1,379

CEOs interviewed in 79 countries

106

CEOs from India

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Preface

'Part of being optimistic is keeping one's head pointed toward the sun, one's feet moving forward.'

– Nelson Mandela

Against the backdrop of uncertain economic growth, emerging protectionist trends and rapid technological changes, CEOs in India continue to be confident about their company's growth prospects in the coming 12 months. In addition to revenue growth, they are embracing the mantra 'cut costs to grow stronger'—to unlock resources and invest to fuel growth. A transformational agenda is on the cards.

Disruptive innovation is a priority for India's CEOs. Closely linked to this is their digital agenda, and the need for talent with unique skillsets in a highly automated world. Innovation, problem solving, leadership, creativity and adaptability—skills that cannot be performed by machines—are increasingly becoming important on the CEO's agenda.

Our findings this year also reveal that India's CEOs continue to be concerned about issues such as uncertain economic growth, over-regulation, and speed of technological change. Like in previous years, inadequate infrastructure and paucity of skills remain top concerns.

The India summary of PwC's 20th CEO Survey focuses on three key themes important for India's CEOs:

- Building a transformation agenda, to make their companies fit for growth
- Crafting a winning business strategy that fits in an increasingly digital world
- Bringing together man and machine to drive efficiencies at the workplace

I would like to take this opportunity to thank the 106 CEOs from India who have shared their insights.

I hope you enjoy reading our analysis.

Shyamal Mukherjee
Chairman, PwC India
Twitter: @ShyamalM_

Chapter 1: What's on the minds of CEOs in India?

CEOs are optimistic
about their growth prospects

71%

'Very confident' about their company's prospects for revenue growth over the next **12 months** vs **38%** for global counterparts

Equal focus on both organic initiatives and cost reduction to fuel growth

Top three global markets, besides India, as key contributors to growth

Three themes highlighted in this year's CEO Survey report

- Being Fit for Growth
- Crafting a strategy that works in a digital world
- Leveraging man and machine

Top CEO concerns

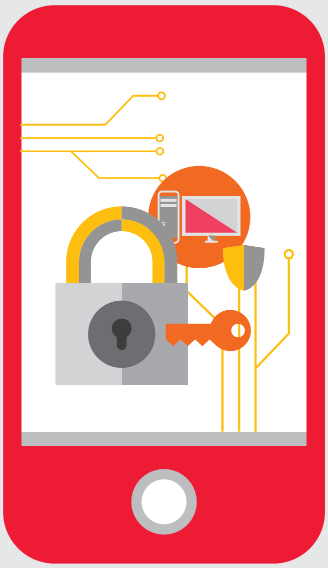
87%	Availability of key skills
82%	Uncertain economic growth
81%	Inadequate basic infrastructure
81%	Over-regulation
77%	Speed of technological change
64%	Protectionism

The skills CEOs consider as important

- Problem solving
- Adaptability
- Leadership
- Creativity and innovation

56% + of the CEOs in India are exploring the benefits of getting humans and machines to work together.

Digital and the CEO in India



81%	Stated that it is important to have digital skills
47%	Believe that in the next five years, disruptive technological innovations will have a significant impact on competition in their industry
77%	Concerned about the speed of technological change
66%	Revealed that they have already added digital training to their organisation’s learning experiences
77%	Mentioned the need to create differentiation in their products and offerings by managing data better

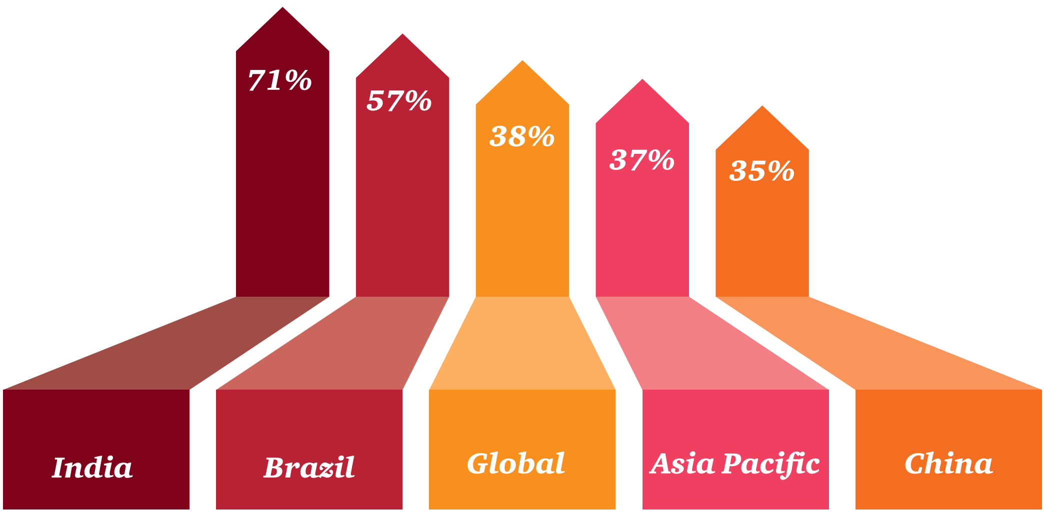
Chapter 2: India's CEOs continue to be confident of their growth prospects

In this year's survey, 71% of India's CEOs are very confident of their company's prospects for revenue growth over the next 12 months as opposed to 64% in the previous year.

In terms of optimism, CEOs in India surpass their global counterparts (38%) and their counterparts in China (35%) and Brazil (57%). In addition, 75% of CEOs in India are very confident of their company's revenue growth prospects over the next three years. The India findings of the survey over the last two years indicate that this has been a consistent trend.

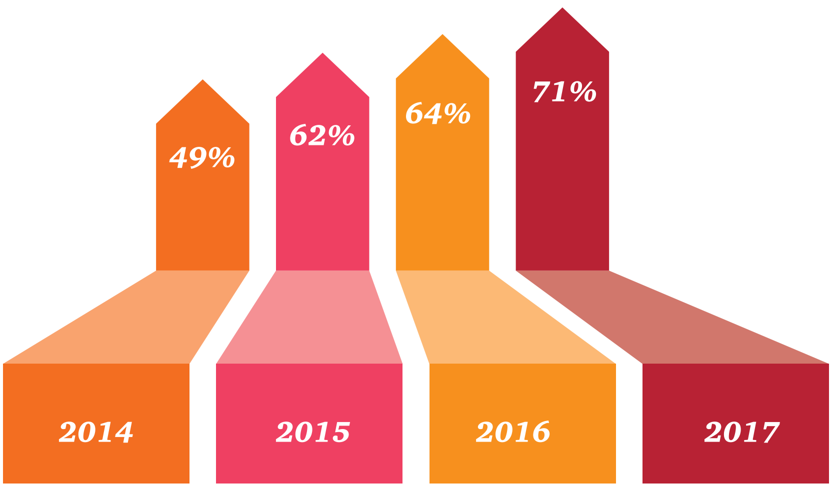
How confident are you about your company's prospects for revenue growth over the next 12 months? (respondents who replied 'very confident')

High optimism among CEOs in India



Source: 20th CEO Survey
Base: All respondents - India (2017) = 106, Global (2017) = 1,379, Asia Pacific (2017) = 493, China (2017) = 130, Brazil (2017) = 42

Steady rise in confidence levels of India's CEOs



Source: 20th CEO Survey, 19th Annual Global CEO Survey, 18th Annual Global CEO Survey, 17th Annual Global CEO Survey
Base: All respondents - India (2017) = 106, India (2016) = 107, India (2015) = 73, India (2014) = 77

In addition to the domestic market, India's CEOs consider select large markets important for their overall growth plans over the next 12 months. This year, outside India, 55% of India's CEOs consider the US as an important destination, followed by China (30%) and the UK (22%). With increasing global protectionism, a few CEOs might be faced with a dilemma—should they continue to globalise or focus on the Indian market?

Why the burgeoning optimism?

Strong growth fundamentals: A favourable demographic profile, rising income levels and urbanisation are some of the key factors that are shaping India's growth story. Today, around 47% of the country's population is below the age of 25 years and the median age is around 27 years. Consumer demand is expected to grow, fuelling India's GDP growth on a sustainable basis.[1] A PwC forecast report predicts that India's contribution to the incremental planet's gross domestic product (GDP) could reach almost 17% this year.[2] To provide quality of life for its growing population, the nation is expected to provide 10–12 million jobs every year in the coming decades.[3] India has witnessed a rising household income as well as massive urbanisation, with 31% of its population now living in cities.[4]

Upcoming policy reforms: Alongside growth in consumer demand, a host of policy reforms, including the Goods and Services Tax (GST), are expected to be rolled out in the near term and are giving CEOs reasons to be optimistic about the overall business environment. Foreign direct investment (FDI) into the country has grown by 53% in the past two years to reach 55 billion USD in FY 2016. Passenger airlines, defence, broadcasting carriage services and pharmaceuticals are some of the sectors that are expected to attract growth capital.[5]

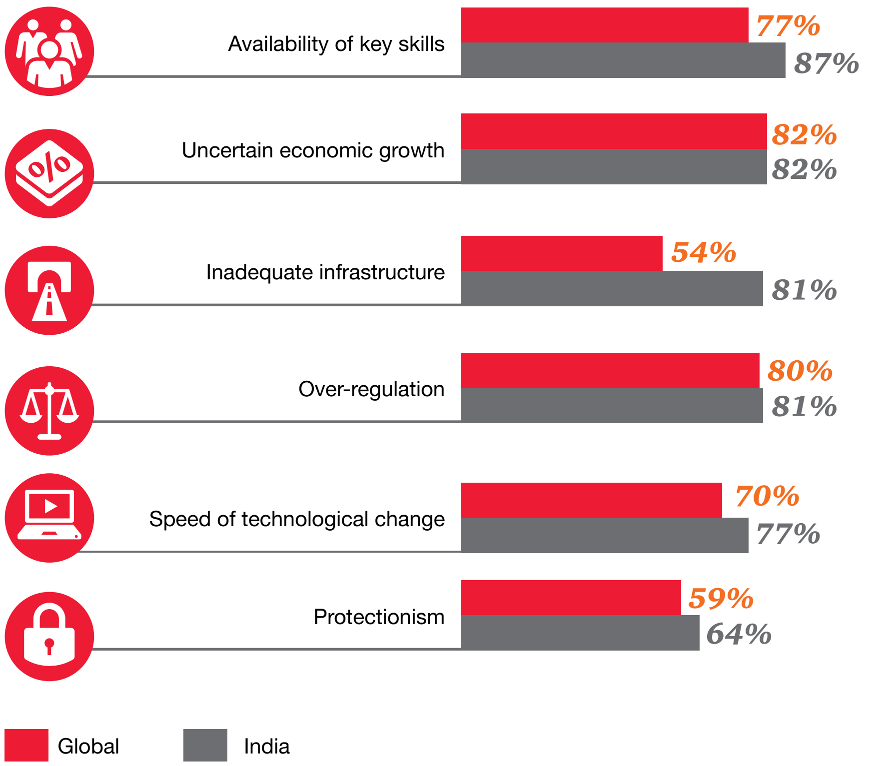
Top CEO concerns

The perceptions of India's CEOs of some of the economic, policy, social and environmental threats to growth are consistent with those of their global counterparts. This year, 82% of CEOs in India are concerned about uncertain economic growth, while 81% are concerned about over-regulation. These concerns, coupled with the threat of protectionist trends and policies, are perceived as acute threats to growth ambitions. This year, 64% of CEOs in India are concerned about protectionism as opposed to 59% globally.

Inadequate infrastructure and lack of availability of key skills in the country—key enablers for growth—continue to be major concerns. Eighty-one per cent of CEOs in India rated inadequate basic infrastructure as a top threat to growth as opposed to 54% of CEOs globally. Further, 87% of India's CEOs rated availability of key skills as a key threat to growth compared to 77% globally.

How concerned are you about the following economic, policy, social, environmental and business threats to your organisation's growth prospects?

Respondents who stated 'somewhat concerned' or 'extremely concerned'



Source: 20th CEO Survey

Base: All respondents - Global (2017) = 1,379, India (2017) = 106

1 *PwC and FICCI. (2016). Shaping consumer trends. Retrieved from http://www.pwc.in/assets/pdfs/publications/2016/shaping-consumer-trends.pdf*

2 *PwC. (2017). Global Economy Watch: Predictions for 2017: globalisation takes a backseat. Retrieved from http://www.pwc.com/gx/en/issues/economy/global-economy-watch/predictions-for-2017.html (last accessed on: 10 February 2017)*

3 *PwC. (2014). Future of India: The Winning Leap. Retrieved from: http://www.pwc.in/future-of-india.html (last accessed on: 10 February 2017)*

4 *PwC and the Express Group. (2017). How smart are our cities. Retrieved from: http://www.pwc.in/assets/pdfs/publications/2017/how-smart-are-our-cities.pdf (last accessed on: 10 February 2017)*

5 *PwC. (2016). Winning in maturing markets. Retrieved from: http://www.pwc.com/gx/en/issues/high-growth-markets/publications/winning-in-maturing-markets.html (last accessed on: 10 February 2017)*

Three key themes on the CEO's agenda

Central to the CEO's agenda is growth in the face of significant uncertainty and rapid change. More than ever before, this calls for building a transformation agenda along three key themes, which are explored in the subsequent sections of this report:

- **Being Fit for Growth:** In this year's survey, 69% of CEOs in India expect to 'cut costs to grow stronger' and reinvest savings into fuelling growth. They might need to adopt a transformative approach to cost management, which connects choices on cost management, capability development, and organisational and cultural evolution. We provide a conceptual framework for such an approach in Chapter 3.
- **Crafting a strategy that fits in an increasingly digital world:** While digital has been a buzzword for a few years, it is increasingly becoming a question of adapting business strategies that fit in a digital world, and building a clearer line of sight into how digital investments will drive top line and/or bottom line results. We explore this aspect in Chapter 4.
- **Leveraging man and machine:** While CEOs in global markets are debating the 'man versus machine' question, their Indian counterparts believe that the two must coexist to fuel growth. In addition, our survey respondents from India reaffirm that specific skill sets such as innovation, problem-solving methodologies and adaptability are critical to future success. We delve into this theme in Chapter 5.

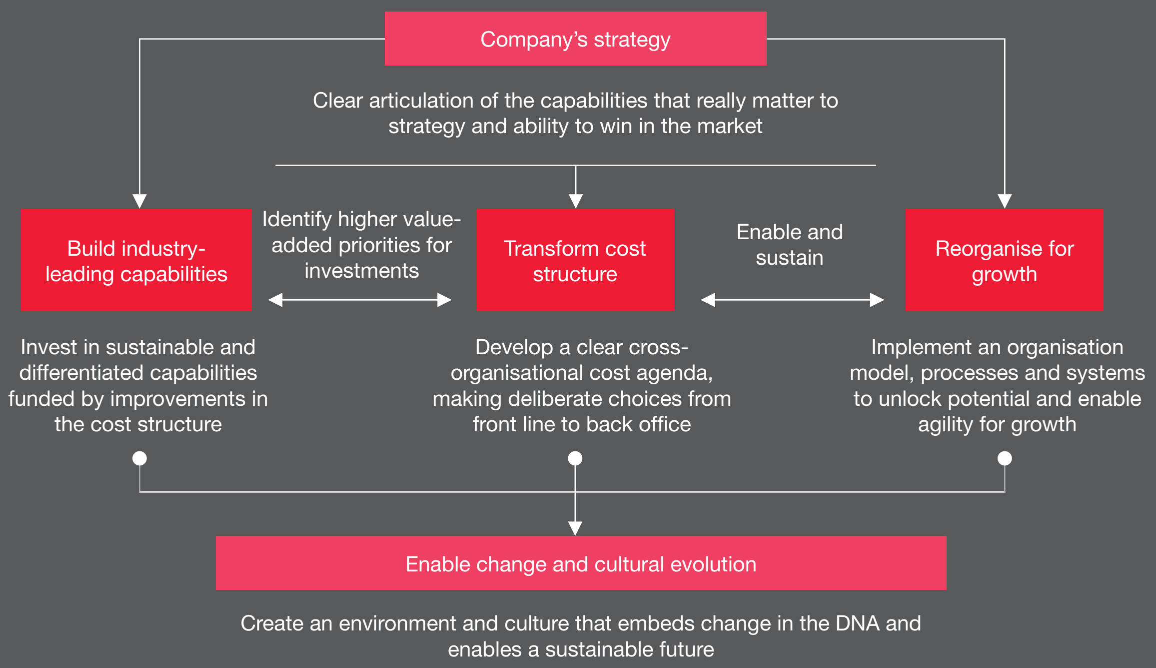
Chapter 3: Being Fit for Growth[6]

In this year's survey, 69% of CEOs in India expect to 'cut costs to grow stronger' and reinvest savings into fuelling growth. They might need to adopt a transformative approach to cost management which connects choices about cost management, capability development, and organisational and cultural evolution.

Our experience of working with hundreds of companies across all business sectors worldwide suggests that fit for growth companies do three things consistently and continuously:

- They focus on building a few differentiating capabilities—the things they do better than any other company.
- They align their cost structure to these capabilities by over-investing in capabilities that matter and under-investing or eliminating costs from others.
- They organise well for future growth.

Fit for Growth framework



6 *Couto, V., Caglar, D., Plansky, J. (2017). Fit for Growth. New Jersey: John Wiley & Sons.*

Focus on building a few differentiated capabilities

In our experience, fit for growth companies have a good sense of a handful of capabilities which will give them the right to surpass competition. A capability is usually a combination of processes, knowledge, tools or skills, which together provide companies a competitive edge. Since a company's most distinctive capabilities are cross-functional and are applied to most products and services, they require a great deal of attention and investment. Even the largest of companies have only three to six distinctive capabilities in their capabilities system.

Align cost structure to key capabilities

Achieving true cost fitness requires companies to appreciate costs as an outcome of the choices they make to invest their resources. In our experience, companies that are fit for growth have lean and deliberate practices when it comes to spending money. They redirect the organisation's resources and investments towards a few differentiating capabilities—the strengths that set them apart from competitors. Based on our observation, companies that become fit for growth do not see cost optimisation as a single, 'big bang' style event. Instead, they make it a continuous process, embedded in the daily fabric of business.

Organise well for future growth

In our experience, fit for growth companies implement an organisation model, processes and systems that unlock potential and provide agility for growth. A well-designed organisation model is critical to enabling growth in two important ways. First, it makes possible and sustains cost reductions that are required to invest in differentiating capabilities. It does this by sharing resources across businesses and functions and by trimming management overheads. Second, a well-designed organisation model can fuel dramatic growth by empowering managers to act like owners of the business. The managers of business units are given explicit financial and operational targets, along with clear decision rights that spell out what they can and cannot do by themselves to reach those targets. They are also given greater control over the resources assigned to them and can deploy these resources more flexibly.

In our observation, a Fit for Growth approach offers noticeable benefits: Companies with higher Fit for Growth index scores (which measures the degree to which a company aligns its resources, organisation and strategy) experience better financial performance.[7]

Overall, we have seen that the Fit for Growth approach has helped companies strengthen core capabilities that differentiate them from their competition, tailor solutions to their unique needs, avoid the pitfalls of the traditional approach of cost cutting by looking at costs objectively and make changes stick by transforming their organisation model and company culture from top to bottom.

7 Strategy& analysis and Capital IQ database

Chapter 4: A strategy that works in a digital world

The term *digital* appears to evoke both excitement as well as a sense of apprehension among CEOs globally. The India cut of this year's survey presents some interesting findings—38% of CEOs in India have observed that over the past five years alone, disruptive technological innovations have had a significant impact on competition within their respective industries; 47% of them believe that in the next five years, disruptive technological innovations will have a significant impact on competition in their industry. Further, 61% of CEOs expect the supply chain to get disrupted (compared to 49% globally) and 77% are concerned about the speed of technological change. Notably, 81% of CEOs in India have stated that it is important to have digital skills, and 66% have already added digital training to their organisations' learning programmes.

The need to have a robust digital strategy

While rapid adoption of technology is not new for corporate India, what is new is the increasing prominence of a 'digital strategy' on the agenda of CEOs. A pertinent question most CEOs are now asking is, 'What ought to be the key constituents of a robust digital strategy?' A few CEOs are *reframing* this question as: 'What should be our business strategy in an increasingly digital world?' The latter question takes digital disruption as a given and makes a stronger ask on how the organisation's business strategy could fit into the new world order. Further, instead of a technology lens, it takes a business lens to the crafting of a digital strategy. It also requires digital investments to demonstrate an impact on the top line and bottom line, delivers a superior customer experience or creates significant differentiation against competition.

In this year's survey, 76% of India's CEOs expressed concerns about rapidly changing customer behaviour, and 77% of CEOs mentioned the need to create differentiation in their products and offerings by managing data better. As per our observation, companies are increasingly asking what business problems will be solved, which customer needs will be met by leveraging digital assets, and how this will create the requisite differentiation, often providing them a right to win in highly competitive industries.

Human-centric design approach

Based on our experience, one of the ways in which companies could differentiate themselves is to take a human-centric design (HCD) approach to designing their digital assets, with a view to improving the experiences of all key stakeholders. This calls for user or customer experience to be at the heart of digital assets and reshaping the entire enterprise and capabilities around the customer and user experience. HCD conveys a distinctive brand identity and creates a tangible emotional connection with customers. It reinforces that connection across many different channels like brick-and-mortar retail stores, websites, mobile apps, connected devices such as wearable monitors, and forms of interaction which are still being developed. Companies that adopt an HCD approach use big data and analytics to gather insights in real time on what people do on each of these channels, and they deploy those insights in real time by providing products and services that respond instantly after sensing and analysing what people need or expect. The operations are set up to react and pivot on these insights with nimbleness and ease. They continually measure the impact of these products and services and set a 'test and learn' agenda that can react quickly and iteratively to feedback from anywhere. Perhaps most importantly, these companies position their digital investments not as costs but as catalysts, using them to build their capabilities, drive their culture and accelerate their progress, creating a virtuous circle where behavioural changes fuel more digital innovation.[8]

8 *Strategy&. (2014). Reimagine your enterprise: Make human-centered design the heart of your digital agenda. Retrieved from http://www.strategyand.pwc.com/reports/reimagine-your-enterprise (last accessed on: 4 April 2017)*

10 critical attributes that fuel your digital growth engine

01 CEO is a champion for digital

02 Business leaders are involved in leveraging digital

03 Business-aligned digital strategy is shared at the C-suite level

04 Business and digital strategies are well communicated

05 Engaging with external sources to gather new ideas

06 Making digital investments for competitive advantage

07 Effective use of data to drive business value

08 Proactive plan for cyber and privacy risks

09 A single, multi-year roadmap

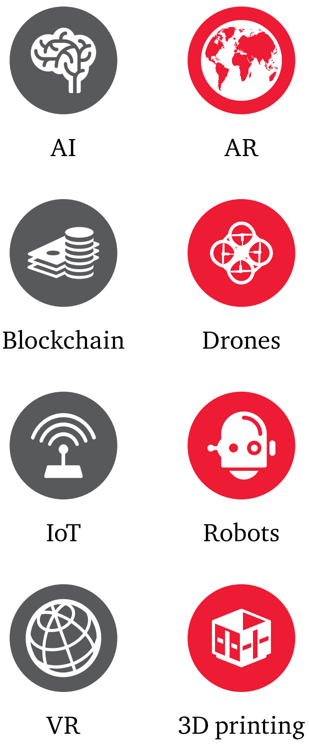
10 Measure outcomes of digital investments

Source: PwC's 7th Digital IQ Survey: The India story

Preparing for digital disruption

After evaluating more than 150 technologies, PwC identified the 'Essential Eight' technologies that businesses should consider in order to stay ahead of the game. They include artificial intelligence (AI), augmented reality (AR), blockchain, drones, the Internet of things (IoT), robots, virtual reality (VR) and 3D printing.

The Essential Eight technologies



Source: Tech breakthroughs megatrend

In our view, these technologies impact five key areas of a company's business model: strategy, customer engagement, operations, people and talent, and compliance.

In India, in the financial services sector, several leading banks are proactively planning to incorporate the blockchain technology. In the healthcare space, AI is being used in diagnostics and clinical trials, and IoT is helping in cost reduction, patient efficacy and rural reach. Technologies such as 3D printing, robots and industrial IoT are playing a pivotal role in the manufacturing industry.[9]

Addressing the risks

While disruptive innovation and digital technologies have blurred market boundaries, issues such as breaches of data privacy and ethics, cyber security breaches affecting business information or critical systems, and IT outages and disruptions are some of the concerns of India's CEOs. Seventy-three per cent of CEOs believe that it is harder for businesses to keep and gain trust in an increasingly digitised world. In fact, 26% of CEOs agreed that confusion over who owns digital assets could negatively impact stakeholder trust.

Our survey reveals that CEOs are taking steps to address these concerns—51% of them have stated that to a large extent, their organisation is addressing the issues of breaches of data privacy and ethics. Further, 54% are resolving the issue of IT outages and disruptions and 48% are addressing cyber security breaches affecting business information or critical systems.

9 *PwC. (2016). Tech breakthroughs megatrend. Retrieved from http://www.pwc.in/publications/tech-breakthroughs-megatrend.html (last accessed on: 15 February 2017)*

Chapter 5: Bringing together man and machine

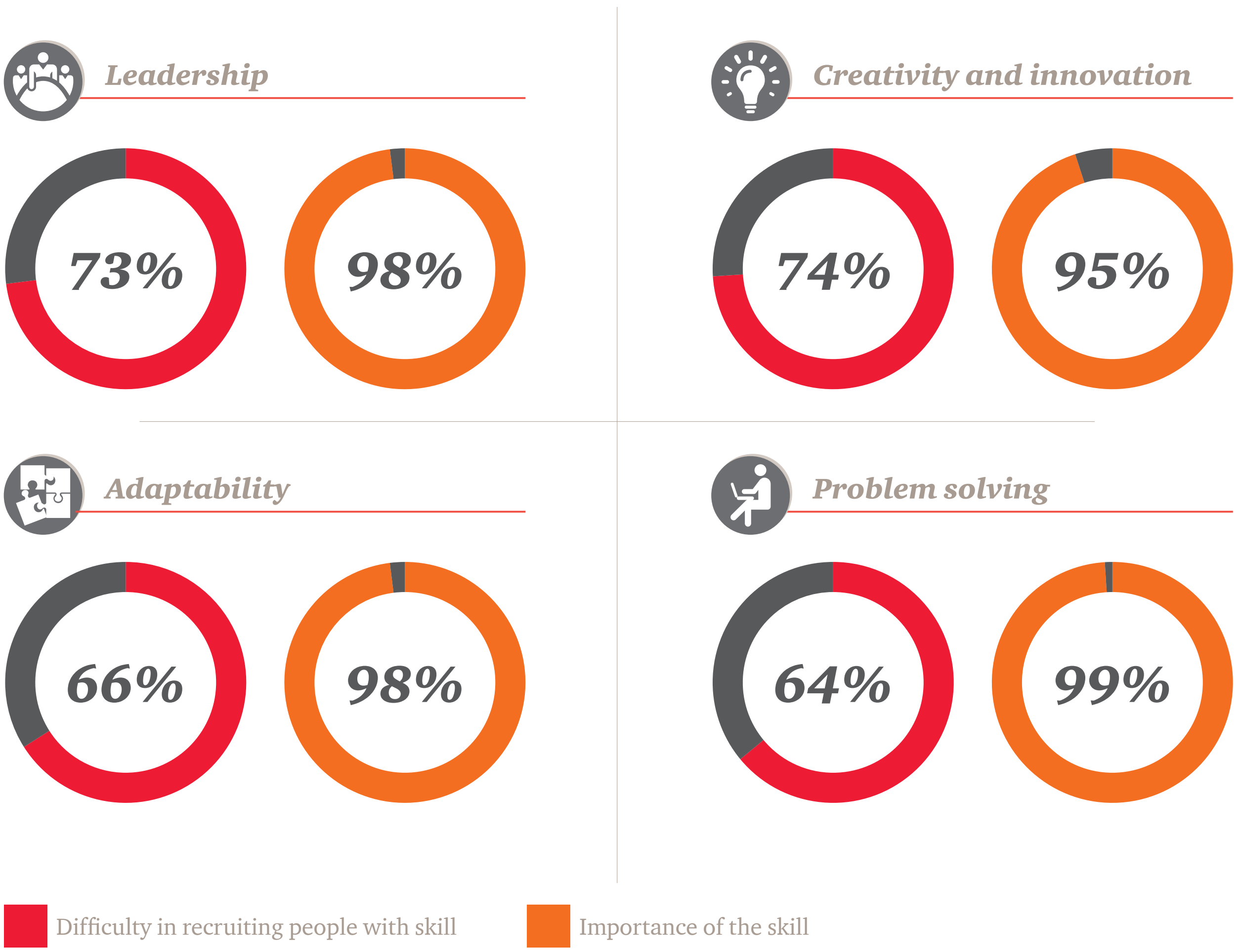
While CEOs in global markets are debating the 'man versus machine' question, their Indian counterparts believe in the coexistence of man and machine to fuel their growth plans. In this year's survey, 56% of CEOs in India are exploring the benefits of humans and machines working together. Unlike their global counterparts, 67% of them expect to increase their company headcount over the next 12 months (nevertheless, to some extent, a potential reduction in headcount is likely on account of automation and other technologies).

In addition, skill sets such as adaptability, leadership, problem solving, creativity and innovation—capabilities that automation and other technologies cannot execute—are gaining prominence on the agenda of CEOs.

There is, however, a gap between aspiration and execution in India. This year, 64% of CEOs have stated that it is difficult for their organisation to recruit people with problem-solving skills. Similarly, 74% find it a challenge to recruit talent that is innovative and creative, and 66% have said that it is difficult to recruit talent that is adaptable. These data points reinstate the fact that availability of a skilled workforce—not just in the area of technical skills required to do the job but also in terms of necessary behavioural and leadership traits—continues to be a pressing issue in India.

Q1: How difficult, if at all, is it for your organisation to recruit people with these skills or characteristics?
Q2: In addition to technical business expertise, how important are the following skills to your organisation?

For Q1, respondents who stated 'somewhat difficult' or 'very difficult' and for Q2, respondents who stated 'somewhat important' or 'very important' were considered.



Source: 20th CEO Survey
Base: All respondents – India (2017) = 106

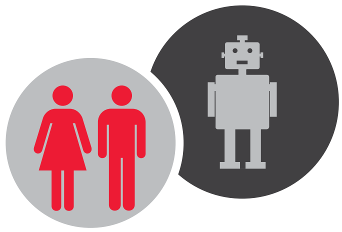
HR strategy in a world of man and machine

Leveraging data analytics and advanced technologies to attract, develop and retain talent is gaining importance—53% of CEOs in India state these pursuits are part of their organisation's talent activities. In addition, 66% have said that they are adding digital training to their learning programmes; 29%, that they are considering the impact of AI on future skill needs; and 69%, that they are using technology to improve the well-being of their people.

The cognitive reapportionment underway between man and machine is leading to interesting changes in workforce structures and dynamics. As repetitive and standardised jobs are taken over by automation, organisational structures in some industries are likely to undergo a shift from a pyramid to a diamond format. This is likely to change expectations from the middle management roles—from supervision and people management to more direct engagement with end customers. Middle managers would need to build a deeper understanding of industry value chains and customer needs, and a larger proportion of them might be in individual contributor roles. In traditional organisations that are adapting to the digital world in a phased manner, the need to manage and nurture the two worlds—the traditional and digital—is becoming a key HR challenge. Workforces are different and the approaches to manage their performance, reward and motivation are quite distinct.

New technologies have paved the way for not only a new stream of companies such as e-commerce and aggregated transport or stay-based models, but also new job categories. Employers will have to determine how to integrate machines into their talent pools and, at the same time, determine how to hire, retain, and develop the talent they need—talent that may need to embrace their machine colleagues rather than fear them.[10] At the same time, there is likely to be a renewed focus on building leaders for this new world and developing capabilities that can never be taken over by machines. Leaders who can be comfortable with ambiguity, have the ability of 'sensemaking' or connecting the dots, can inspire colleagues and teams, and build a strong organisational culture are likely to be the ones who can take their organisations to new heights in the competitive marketplace.

10 *PwC. (2016). Tech breakthroughs megatrends. Retrieved from https://www.pwc.in/assets/pdfs/publications/tech-breakthroughs-megatrend/tech-breakthroughs-megatrend-how-to-prepare-for-its-impact.pdf (last accessed on: 15 February 2017)*



Credits

For further information on the survey content, please contact:

Aashish Mehra
aashish.mehra@strategyand.in.pwc.com

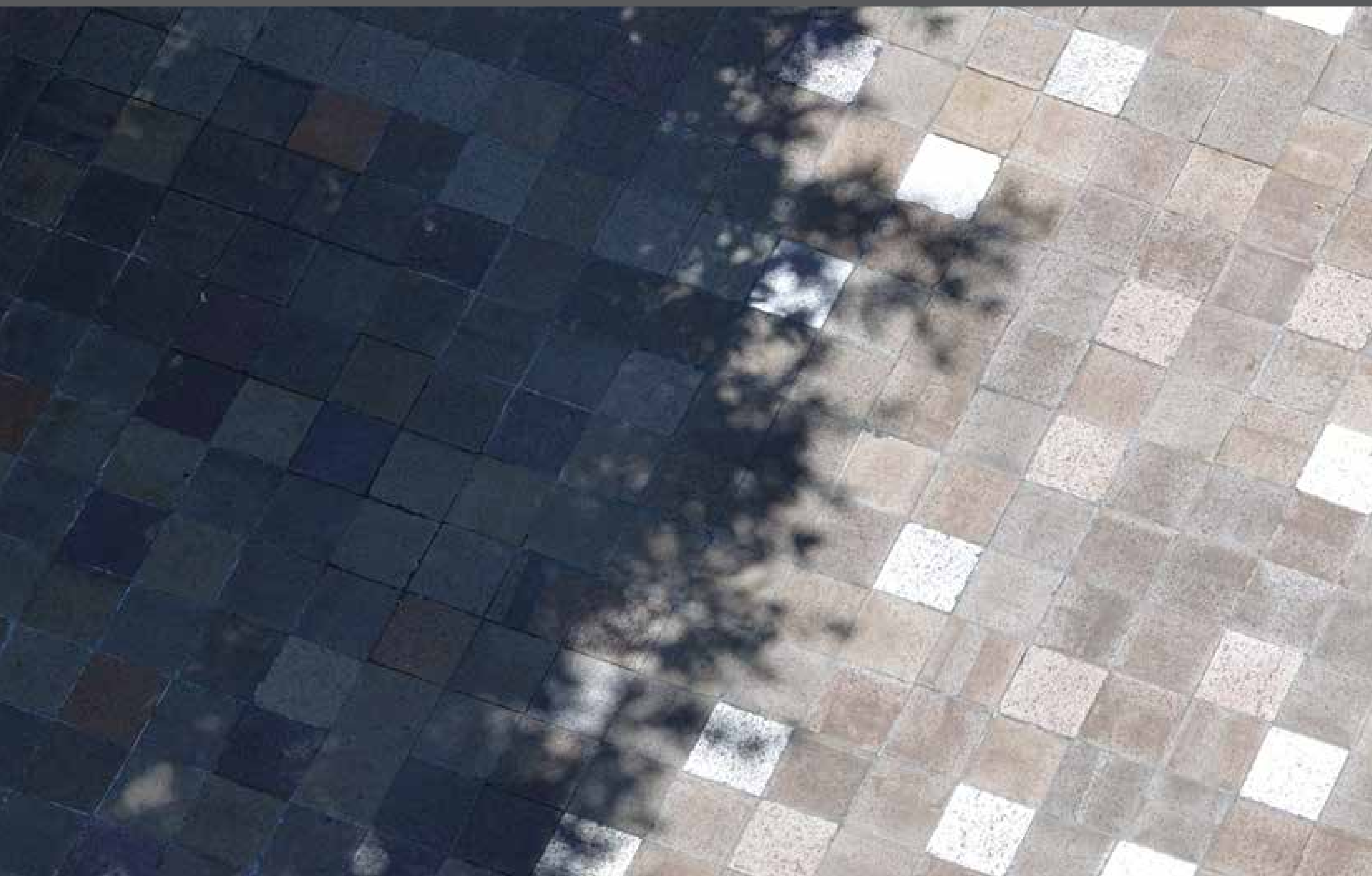
Nayantara Som
nayantara.som@in.pwc.com

We'd also like to thank the following for their guidance and expert insight:
Bharti Gupta Ramola, Padmaja Alaganandan, Shashank Tripathi, Sudhir Singh and Pradyumna Sahu

For media-related enquiries, please contact:

Nandini Chatterjee
nandini.chatterjee@in.pwc.com

Editorial contribution, design and layout, and online promotion:
Dion D'Souza
Trishann Henriques
Pallavi Dhingra
Akshay Wadhawan
Siddhartha Deshaprabhu
Ravish Vishwanathan



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