Key contacts:

Richard Rekhy
Chief Executive Officer
KPMG in India
T: +91 124 307 4303
E: rrekhy@kpmg.com

Nitin Atroley
Partner and Head
Sales and Markets
KPMG in India
T: +91 124 307 4887
E: nitinatroley@kpmg.com

KPMG.com/in

Follow us on:
kpmg.com/in/socialmedia

Printed in India. (020_THL0716)

KPMG

Now or never

India CEO Outlook 2016

August 2016

KPMG.com/in

From the CEO

The contemporary business landscape is governed by 'transformation' that serves more as a compass to guide us through challenges within and beyond borders. Owing to the constant metamorphosis of industries and regulations, the Indian economy seems to have performed exceedingly well, compared to the rest of the world.

A clear reflection of this progress is the fact that all around the world, Chief Executive Officers (CEOs), including me, are confident about the country's strong performance in the near future, with several vying for a share of its thriving industries.

KPMG International's CEO Outlook Survey 2016 mirrors this very optimism surrounding India's positive growth and self-assured outlook. Backed by the views of over 1,250 CEOs from Europe, Asia Pacific and the U.S., the survey report presents an exhaustive view of the leading issues and challenges that CEOs in India are constantly trying to override.

While there are opportunities in India, companies need to strike a critical balance between evolving their business models, adopting or being prepared for disruptive technologies, entering new and expanding markets, and dealing with issues around cybersecurity, regulations and the environment.

Disruption has become the new normal, and CEOs know this very well. Even though disruptive business models and technology represent a clear threat, CEOs also view them as an opportunity to recast their current businesses, and make them more efficient and productive. In an effort to drive innovation, and emerge as a disruptive force, companies need to aggressively integrate business processes with technology. Disruption will, most likely, challenge existing cybersecurity measures, but that should not deter CEOs from leveraging new technologies. Eventually, businesses will find ways to manage the evolved security challenges.

A result of proactive strategies, organic and inorganic growth and differentiation from the competition, disruptions are ultimately directed towards customer-oriented products and services.

At present, customer expectations pervade all sectors in the economy. The supply side is also witnessing rapid automation and upgradation to achieve quality of delivery at par with global standards. Although automation is seen as a step towards curtailing human intervention in manufacturing and services, it does not completely alienate the human channel. Hence, people transformation is likely to remain pivotal to achieving and imbibing a positive change in business.

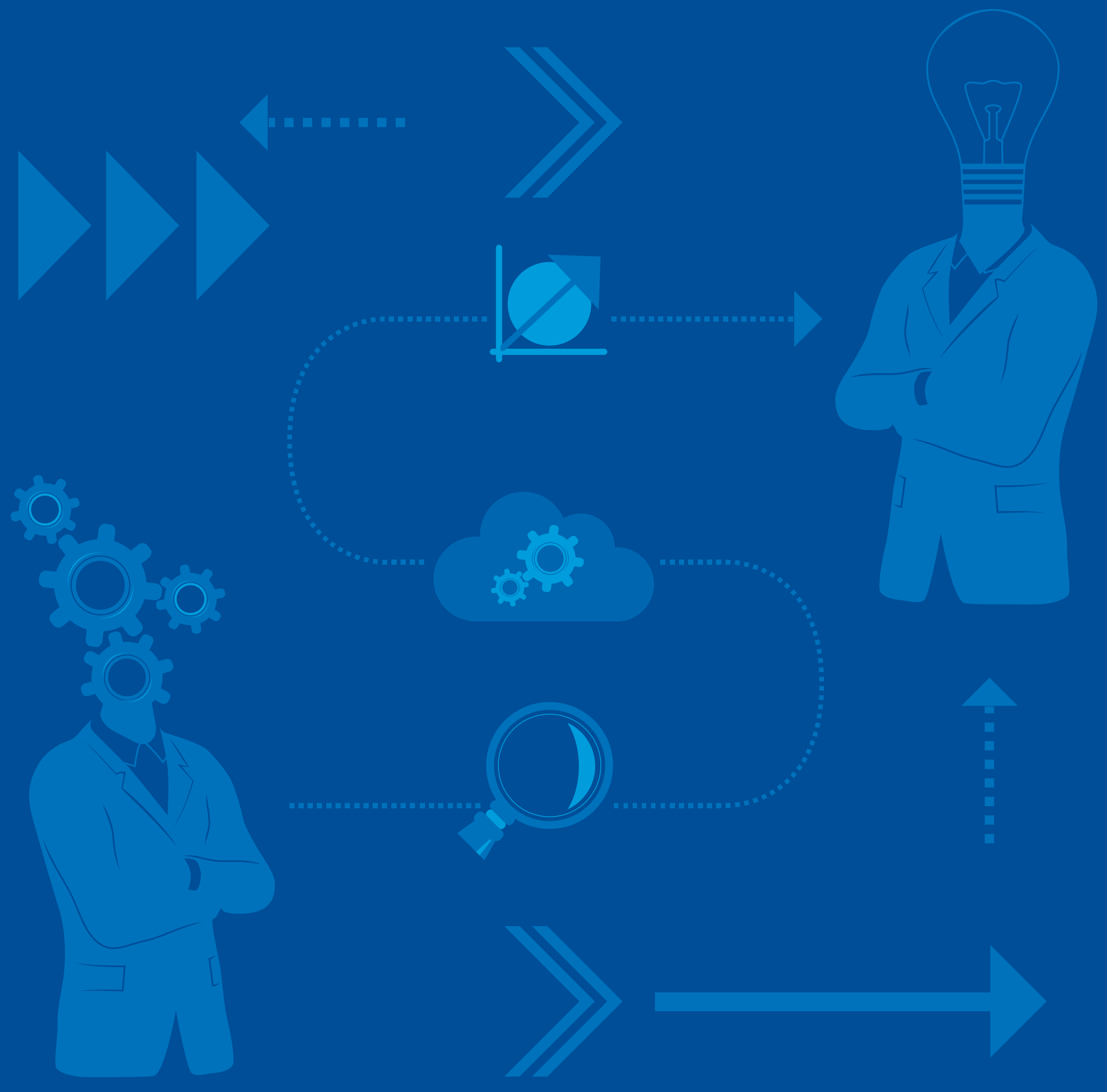
I believe this report offers a direction for all to look forward and adapt to business demands on a recurrent basis. Business outlook is bound to shift with time, placing innovation and change management at the centre of success, and people will always remain at the front and centre of any strategy that is developed by organisations. The challenges thrown up by innovation and change management will require organisations to become more agile and responsive. The ability to hire and retain the best talent to manage these challenges will be a crucial factor of business success. Hence, it is important that the people agenda is given due importance and finds its rightful place on the table. In this war for talent, organisations that are able to manage change and create a positive environment around people will stand out.

CEOs have a clear idea about the opportunities and the path to reach there – automation, transformation, innovation, customer centricity and change management. It's time to seize the initiative – **it's Now or Never!**

Richard Rekhy

Chief Executive Officer

KPMG in India



© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Contents

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Executive summary

Envisaging significant business transformation that can potentially enhance shareholder value, Indian CEOs expect the next three years to be crucial and promising, according to findings published in KPMG International's Global CEO Outlook 2016: Now or never.

In the survey, as many as 1,268 CEOs, including 125 from India, were asked to give their views on the prospects of the economy, with almost equal representation from Europe, Asia Pacific and the U.S.

To provide a more focussed view of the concerns and expectations of Indian CEOs, we present to you the 'India CEO Outlook 2016: Now or never'. Global CEOs are bullish on the prospects for India, making it one of the most favourable destinations for new market growth. They also expect India to outpace China in economic growth, and emerge as the go-to destination for investments in infrastructure, insurance and manufacturing.

In this scenario, CEOs in India acknowledge the need for transformation, as one of their biggest concerns is new entrants disrupting their business models, which could lead to a valuable loss of their share of customer loyalty. Thus, they feel the need to adopt a more customer-oriented approach across functions and pursue real-time tracking of customer preferences to stay updated.

CEOs also realise the potential of technology and how it can act as a game changer. While there may be heavy reliance on technological innovations and big data to understand customer behaviour, there is also increasing awareness on emergence of cybersecurity as one of the foremost threats to business.

Adopting a rather aggressive approach for both organic and inorganic growth, one in two CEOs envisage an acquisition or merger in the near future. They are also of the opinion that government policies can have significant impact on a business. Most CEOs consider management of the regulatory environment as one of their biggest challenges. Regulations around environment, taxation and financial reporting form their top concern, fuelling the need for regulators, and consequent regulations, to keep pace with the changing business environment.

The emphasis on innovation is considered by CEOs as be a necessity rather than a planned activity. Innovation is the answer to a majority of organisational concerns – from bridging skill gaps to penetrating new markets – and is evidently going to be the key word that defines the strategies of companies and the way they exist in the future.

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Key findings

India at the top

India is being perceived as a leading region with great potential for new market growth over the next three years, by both Indian (54 per cent) and global CEOs (38 per cent).

94%

Confidence about the economy

CEOs surveyed are confident about India's growth over the next three years, with almost 90 per cent expressing optimism about the country's growth over the next year. Sixty-three per cent of CEOs feel India is currently at the peak of its development.

92%

Confidence about their own organisations

CEOs surveyed are confident about their company's growth, over the next three years.

46%

Transformation

CEOs are already undertaking organisational restructuring as part of their current strategy execution. In addition, 46 per cent of the CEOs surveyed also believe that they are likely to be transformed into a different business entity in the next three years.

28%

Data driven decision making

CEOs mentioned Data and Analytics (D&A) as being one of the leading investment areas in their organisations over the next three years, which was the highest among all investment areas. However, at present, nearly 50 per cent of the CEOs are not actively using D&A for all business functions.
Around 70 per cent of the CEOs surveyed also believe that their current data practices, with respect to accuracy, effectiveness and ethical use, need improvement.

93%

Innovation is the need of the hour

CEOs surveyed cite innovation as one of the leading three issues on their personal agenda, and a significant majority (74 per cent) says it was important to specifically include innovation in their business strategy with clear targets and objectives.

62%

Better products and services through innovation

CEOs mentioned that improvement in product/service offerings and increased sales are the two key focus areas for innovation, considering that customer centricity is likely to be the key driver for innovation in the near future.

62%

Inorganic growth

CEOs agree that not all competencies can be developed in-house, and that they are likely to consider inorganic growth to drive shareholder value. Fifty-one per cent of them expect to undertake M&A with other firms over the next three years.

50%

Collaboration

CEOs intend to drive shareholder value through collaborative growth for the next three years. Forty-four per cent of the CEOs are already forming new partnerships/alliances to accelerate strategy execution, which may increase in the future as the focus on building competencies expands.

30%

Risk management

CEOs mentioned cyber, geo-political and environmental risks as their leading concerns. In a dynamic and globalised environment, risk management continues to be a critical aspect of business operations.

77%

Cyber risk

CEOs recognise cyber risk management as a key responsibility, with 83 per cent of CEOs not feeling fully prepared in the event of a cyber-attack.

83%

Headcount growth

CEOs surveyed are likely to increase their headcount by less than 10 per cent over the next three years, whereas in the next 12 months, 51 per cent of CEOs perceive that their headcount would largely remain the same.

60%

Automation

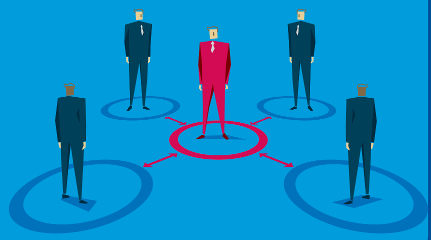
CEOs are focussed on adopting technologies to increase efficiencies in the system, and believe that automation is likely to be adopted, replacing an estimated 5 per cent of their manpower.

Key concerns

Customer centricity

92% CEOs are concerned about the loyalty of their customers, owing to the presence of multiple choices in the market.

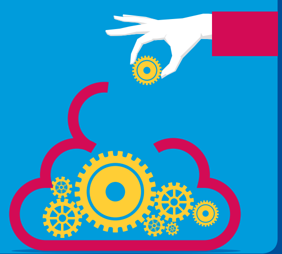
88% CEOs are concerned about the differing needs/wants of millennials changing their businesses.



Technological maturity

82% CEOs worry about losing pace with new technologies.

92% CEOs are concerned about integration of basic automation processes with artificial intelligence and cognitive processes.



Product innovation

92% CEOs are concerned about staying on top of what is next in products/services.

84% CEOs are apprehensive about the relevance of their products/services three years from now.

Competition

81% CEOs have concerns about new entrants disrupting their business models.

91% CEOs are concerned about competitors' ability to take the business away.

66% CEOs worry that their organisations are not disrupting business models in the industry.

Dealing with market forces

91% CEOs feel there is a lack of experience in mission-critical issues.

92% CEOs are concerned about the amount of time spent on thinking about disruptions and innovations.

External factors

91% CEOs share concerns about the impact of global economic forces on their businesses.

92% CEOs are concerned about regulations inhibiting business growth.

Data quality

89% CEOs express concerns about the quality of data they rely on for decision making.

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The next three years

It's Now or Never!

Evolution in technology, geo-political events, and millennial consumers are a few of the several considerations that are motivating CEOs to devise newer ways to make their organisations agile and stay relevant in the market. A significant number of CEOs believe that transformation is now on the anvil, and their business models are likely to considerably evolve either through transformation, collaboration or acquisition.

While the threat that a new competitor could turn an established business model on its head overnight, several CEOs believe that they do not have the necessary information to assess how their customers use their products and services, or where their companies do or do not operate effectively – factors that are making them vulnerable to new age competition. CEOs are now becoming increasingly cognisant of the importance of data and its usage, where they are investing in building D&A capabilities. The whole idea is to gain information about their customers, innovate their products and services, stay relevant and, at the same time, improve efficiencies in their own systems.

Companies are forging partnerships with their competitors, suppliers, complementary service providers, universities, or start-ups. Customers are also becoming an essential part of the innovation process, which is why CEOs are now managing an incredibly complex ecosystem that extends far beyond the boundaries of their business.

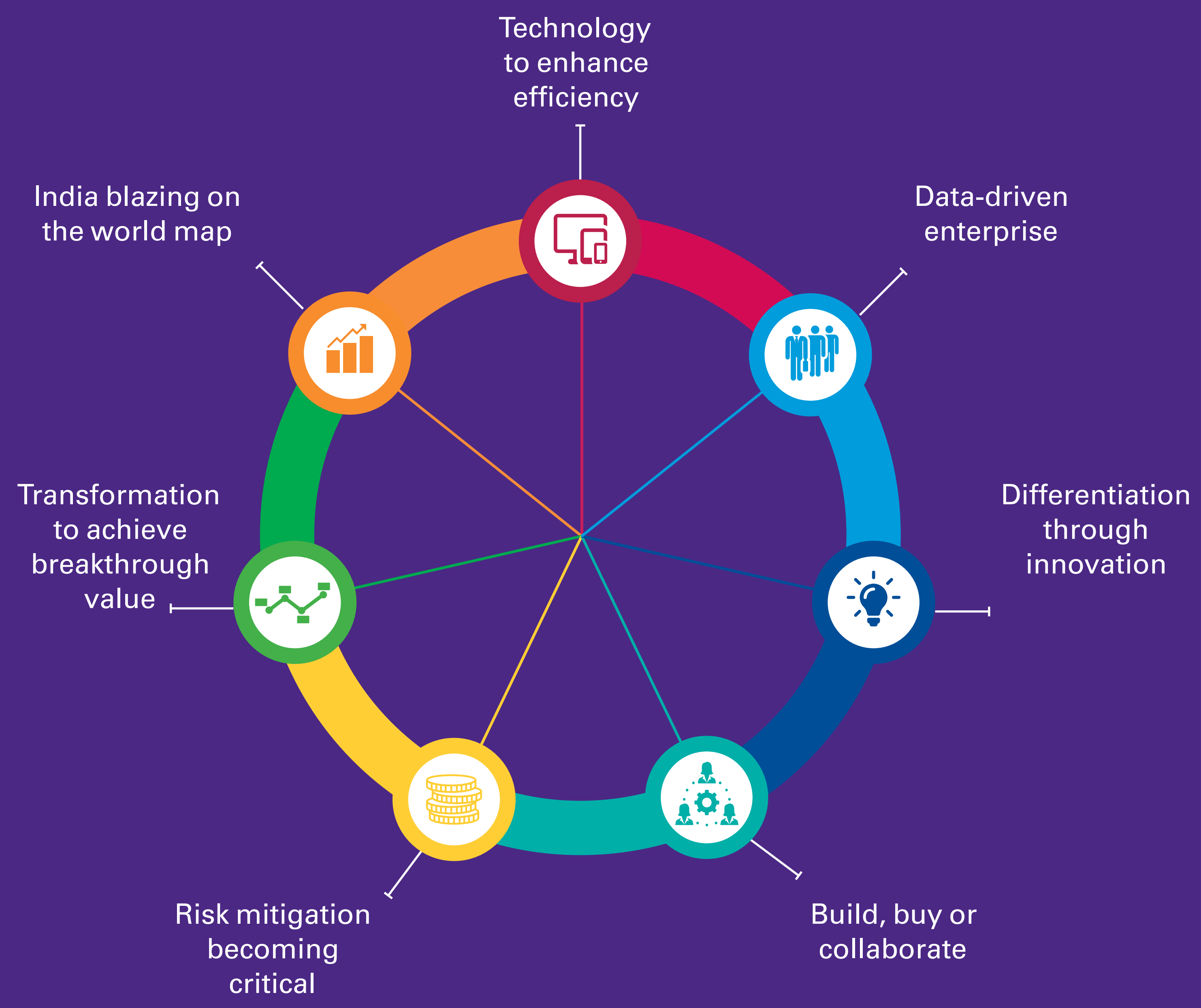
CEOs believe that technological change could be one of the biggest factors impacting growth over the next three years, second only to economic factors. Many CEOs are now making cybersecurity an integral part of their personal agenda, where key concerns lie largely in upgrading their ability to adopt the right technology, and gauge the susceptibility of their organisations to cyber-attacks.

Risk mitigation, as always, remains high on a CEO's agenda. Interestingly, environmental risk has emerged amidst the top three risks for Indian CEOs in the survey, next only to geo-political and technological risks. Regulatory risk continues to be high on the agenda for CEOs, now that the regulatory environment in both domestic and global ecosystems is getting far more stringent than ever. CEOs are clearly aware of the impact of international events on business dynamics in India and on their businesses.

In the midst of this complex business environment, a strong ray of optimism has led to India emerging as the leading destination for new market growth over the next three years. Both global and Indian CEOs anticipate India to continue to outpace global growth. India clearly surpassed China this year, which held the numero uno position in last year's Global CEO survey, by a significant margin amongst Indian CEOs.

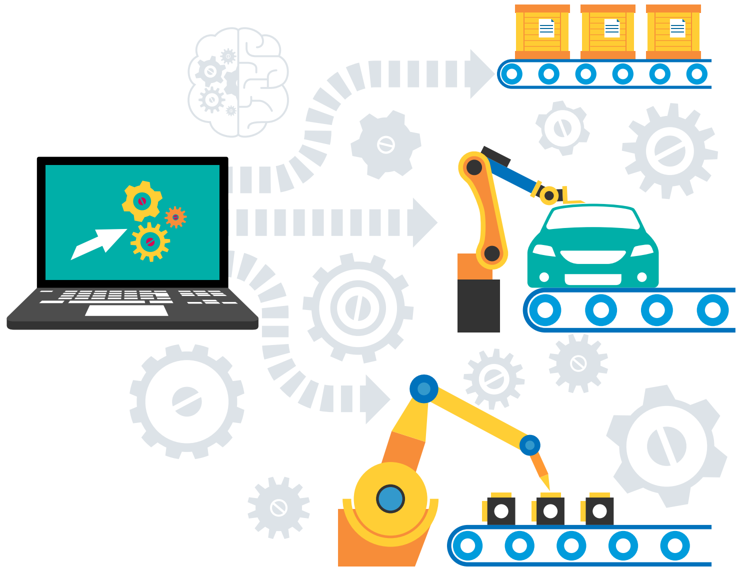
CEOs in India are confident about growth of the economy, as well that of their own organisation. They are preparing themselves in a multitude of ways to help them successfully navigate through the challenging business ecosystem. Transformation, technology and collaboration are high on the CEO agenda to drive innovation and stay relevant for consumers.

Key emerging themes



While the above issues may seem fundamental, their significance is contextual to the current times in their interpretation and search for the right tools and approaches.

Technology to enhance efficiency

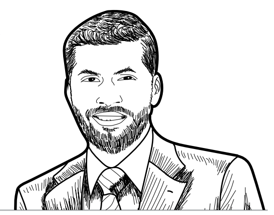


Technology is likely to impact nearly every function of an organisation, helping improve efficiencies through automation and revamping of business processes

In the current era, technology is not a choice, but a way of life. According to KPMG International's Global CEO Outlook Survey 2016, the adoption of technology has clearly emerged as a key focus area for CEOs. Businesses face disruptive forces from many directions — emergence of new technologies and competitors, accelerated innovation, as well as the shortened technology innovation cycle.

Technology serves both as a trigger as well as an enabler of innovation. CEOs expect that over the next three years, technology is likely to have a huge impact on their growth, next only to global economic factors. They agree that almost every function of their businesses is bound to be influenced, with key focus areas for technology adoption in the near term likely to revolve around customer centricity, efficiency enhancement and employee satisfaction. While technology is essential to new product development and innovation, automation is expected to help manage manpower needs by improving operational efficiency.

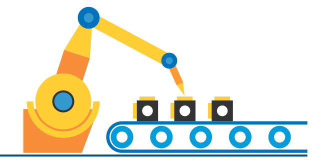
> Extensive awareness is required to understand how technology can help improve operations, because we have not been exposed to this.
>
> **Vikram Kamat**
> Managing Director,
> VITS Hotels and Kamat Restaurants



About 60 per cent of Indian CEOs surveyed believe that automation is expected to replace at least 5 per cent of their manpower needs in the next three years. This is likely to have a significant impact on how we do business.

Anticipating a rapid evolution of the technological landscape, CEOs (82 per cent) are extremely concerned about keeping abreast with new technologies in the market. In addition, the lifecycle of new technologies is decreasing with each passing year, making it challenging for organisations to decide the RoI on any technology and the longevity of the same. Therefore, CEOs are looking to prioritise investments in those areas that could propel long-term organisational growth.

Integration of basic automated business processes with artificial intelligence and cognitive processes remains an important concern for nearly 92 per cent of the surveyed CEOs. Key underlying causes could be the fact that planning for technology in many organisations takes place in silos, rather than at a unified organisational level, paired with a lack of ability to identify the right technology to meet organisational needs.



Factors impacting the growth of companies

21%	Global economic factors
18%	Technology
12%	Current competitors
10%	Reputational/brand risk
9%	New competitors/disruptors
7%	Domestic economic factors
6%	Access to talent
6%	Corporate social responsibility expectations/climate change
6%	Cost of doing business
5%	Geopolitical factors (elections, social unrest, instability)

In this context, although the implementation of disruptive technologies, such as Internet of Things (IoT) and Artificial Intelligence (AI), gets a mention, it does not rank high on the priority list of a CEO's strategic initiatives for the next three years. This seems to indicate prioritisation of automating current business processes over adopting new generation technologies .

Only 17 per cent of CEOs surveyed consider disruptive technology as a top strategic priority for the forthcoming three years, with increasing data analysis capabilities, regulatory risk management and business model transformation taking precedence. In a bid to drive innovation and become a disruptive force, companies are aggressively integrating business processes with technology.

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Top concerns for the next three years

62%
Automation could replace 5 per cent of the workforce

82%
Keeping up-to-date with new technologies

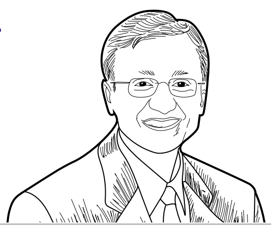
92%
Integration of automated processes with artificial intelligence and cognitive processes

> Clearly, fast growth is no longer only about geographical expansion or new product development. There is a whole new dimension around how CEOs are reinventing the way they use new-age technology concepts such as digital, 3D printing, robotics, cognitive, etc. and build business models around that.

Rachna Nath
Partner and Head,
Digital Consulting, KPMG in India

> Technology is a big differentiator and companies that are proactive have an edge over competition. We embraced technology way back in the 80s and have felt the difference. Today, technology is fundamental and an enabler to successful businesses. It is helping companies generate heaps of data and the key now lies in effectively comprehending the data and make effective use of it in building superior products and providing customer delight.

Anil Rai Gupta
Chairman and Managing Director,
Havells India



© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Data-driven enterprise

CEOs in India are likely to significantly increase their reliance on data-based decisions to improve their business performance

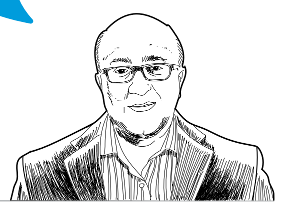
CEOs in India increasingly rely on data as a strategic enabler, driven by their need to make more informed decisions. With a rise in the adoption of analytics, there is a clear desire to harness data for a range of organisational functions. At present, the key areas of data usage in India include driving strategy and change, managing skill shortages and customer acquisitions. However, both the depth and width of usage of data analytics across business functions are likely to increase in the near future.

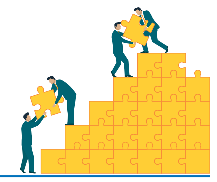
For several organisations, D&A is a means to accomplish tasks more effectively, make their products more valuable, or eliminate prevailing pain points of their customers.

As the volume of data grows exponentially, so do the opportunities to utilise it. Indian CEOs seem to be aligned towards increasing investments in building D&A capabilities in their organisations.

Over a quarter of Indian CEOs (28 per cent, as against 25 per cent of global CEOs) mentioned D&A as one of the top investment areas for the next three years. In fact, it ranks the highest among all investment areas mentioned by Indian CEOs (followed by business model transformation, domestic expansion and managing regulatory environment). Despite having a sizeable percentage of CEOs emphasising on D&A, there is ample scope for widening its usage, as nearly half of the CEOs are not actively using D&A across all of their business functions. However, less than one-third of CEOs surveyed believe that their organisations use D&A effectively. Nonetheless, while CEOs would like to enhance D&A capabilities and its functionalities, they have acknowledged that they are sceptical about data quality (89 per cent) and its reliability.

> The 4Ps of marketing - product, price, place and promotion – are now incomplete without the two new Ds of marketing – **digital and data**
>
> **Rajat Wahi**
> Partner and Head
> Consumer Markets, KPMG in India

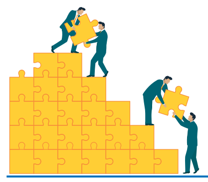




Top investment areas in the next three years

Increasing data analysis capabilities	28%
Regulatory advisory solutions	27%
Business model transformation	27%
Geographic expansion within home country	26%
Expanding facilities	25%
Measurement and analysis of customer experience/needs	19%
New product development	18%
Cyber security solutions	18%
Advertising and marketing/branding	18%
Geographic expansion outside home country	18%
Acquisition of a business, capabilities or assets	16%
Internet of Things, machine to machine technology, Industrial Internet or other aspects of technology	15%
Increased staffing in locations where labour is cheap	15%
Cognitive computing/artificial intelligence	15%
Increased employee compensation and training	14%

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



Interestingly, these concerns exist despite the availability of advanced technologies to capture quality data. Also, about 70 per cent of CEOs believe that their current data practices with respect to accuracy, effectiveness and ethical usage need improvement, especially since many strategic decisions now ride on the output of D&A or algorithms. At the same time, data needs to be utilised without violating privacy.

CEOs believe there is need for improvement in current data practices

89%

of CEOs in India are concerned about the quality of the data used for decision making

Primary use of data and analytics to

Drive strategy and change	48%
Predict/manage skills shortages	47%
Find new customers	46%
Manage risk	44%
Target marketing campaigns	44%
Aid with maintenance and service	42%
Analyse how our products are used	42%
Drive process and cost efficiency	41%
Improve financial reporting	40%
Monitor the market	37%
Develop new products and services	37%
Analyse our existing customers (their needs, value, profitability, likelihood to defect)	37%
Track the RoI on training spend	34%
Analyse branding via social media	34%
Spot fraud	34%

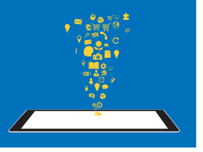
© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

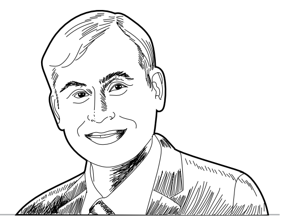
Differentiation through innovation

Driven by changing customer profiles and demands, and the need for differentiation in the market, innovation is one of the top agendas for most CEOs in India as well as globally

Changing competition, customers, and trends have necessitated constant innovation across all fronts — products, operations, manpower management, production and marketing. New markets and opportunities are being constantly created through innovation, making it the cornerstone of competition. Naturally, innovation features among the most important priorities for a large percentage (93 per cent) of CEOs.

> With technology becoming truly disruptive, CEOs need to work smarter and harder for survival. Innovation using technology is the call of the day!
>
> **Akhilesh Tuteja**
> Partner and Head,
> Technology, KPMG in India





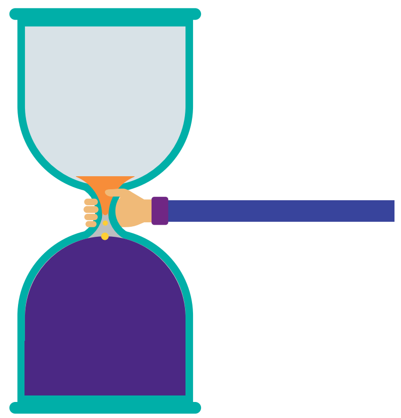
Disruptions are now more frequent, and companies need to be well prepared by shifting objectives and adding new variables. The pace of innovation is expected to continue to accelerate with revolutionised product development, manufacturing processes, automation and new business models. Almost two-thirds (62 per cent) of CEOs surveyed mentioned that improvement in product/service offerings and increased sales are two key focus areas for innovation.

In India, a wave of innovation is truly underway with the emergence of a robust start-up business ecosystem. Start-ups have become, in many ways, the flag bearers of innovation across numerous fields and sectors. Whether it is about new ways of online commerce or new farming techniques, start-ups seem to be leading the way. Collaboration with new and traditional players is likely to become increasingly important.

Some companies have even partnered with their suppliers and vendors to develop new innovations at the product level, while others are joining forces with start-ups and universities to identify, develop and commercialise new innovations. According to our survey, CEOs are more open to mergers and acquisitions (M&A), and alliances with start-ups and universities, to help them drive their own competencies, and acquire relevant products/services, competencies and skilled manpower.

93%

CEOs consider innovation as one of the top three issues in their personal agenda.



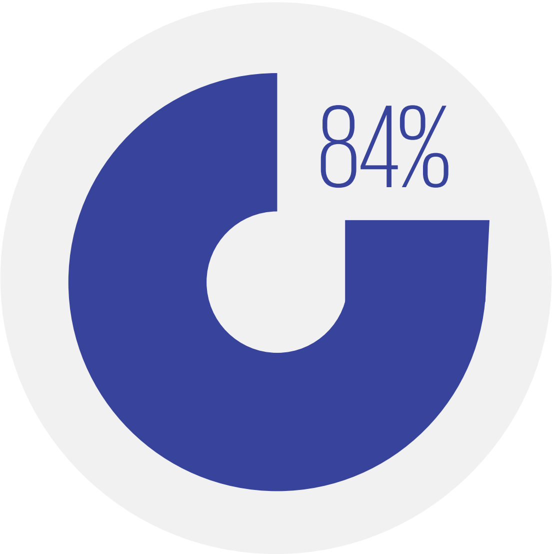
Focus areas for innovation

Product/service offerings	62%
Sales and marketing	62%
Interactions with customers (e.g., targeted messaging, social media reviews)	60%
Productivity/efficiency (e.g., in operations, finance, HR)	59%
Interactions with partners/vendors (e.g., supply chain)	55%
Employee satisfaction	51%
Non-financial reporting	49%
We don't use disruptive technologies	2%

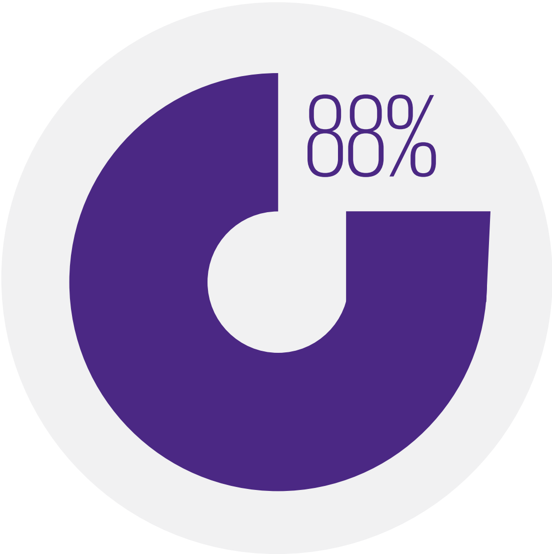
All these focus areas are driven by the need for CEOs to be ahead of the curve in offering market relevant products. This is highlighted by the fact that 92 per cent of CEOs surveyed are highly concerned about whether their organisations have a firm grip of what is next in services/products. This concern is being magnified by the needs and wants of a new customer segment — the 'millennials'. Eighty-eight per cent of CEOs surveyed responded that they are concerned about the different needs and wants of 'millennials' and the impact that they might have on their businesses. In all, a high percentage (84 per cent) of CEOs are concerned about the relevance of their offerings three years from now. Therefore, customers are now increasingly becoming an essential part of the innovation process.

In light of this, it is somewhat counter-intuitive that new product development is not likely to be among the leading three areas attracting significant resources/investments in the next three years. Moreover, in India, innovation is still largely adopted as a reaction to the challenges faced, as 35 per cent of CEOs undertake innovation in an ad hoc manner. The need for continuous innovation calls for replacing conventional investment priorities.

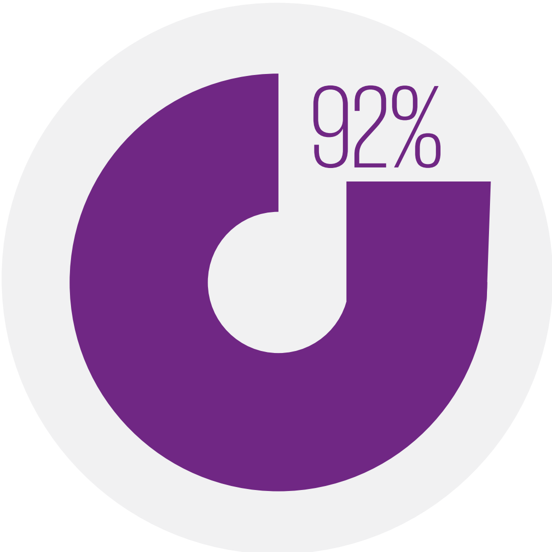
CEOs concerned about the relevance of their offerings three years from now



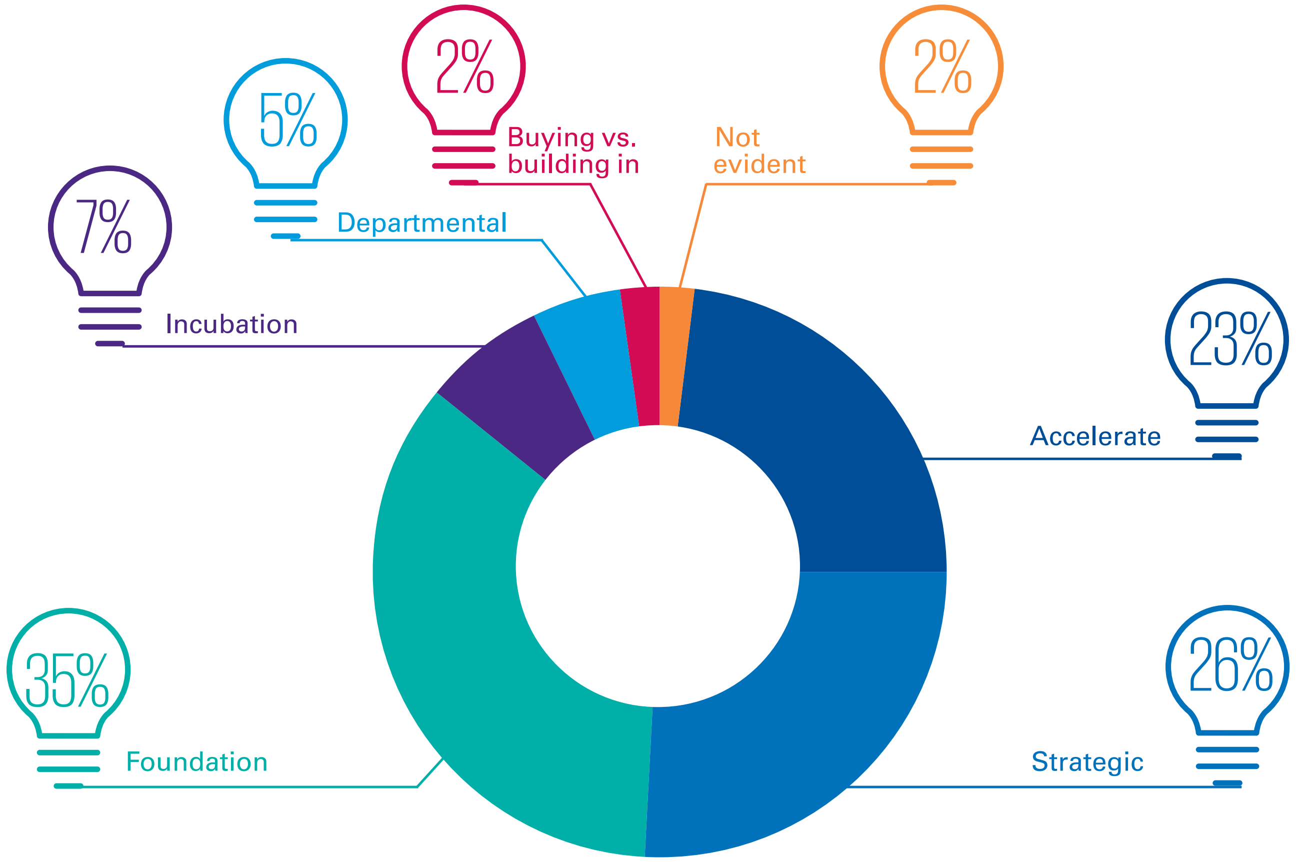
CEOs concerned about the changing needs of millennials and their impact on businesses



CEOs concerned about whether their organisations can keep pace with the imminent challenges in products/services



Organisational approach to innovation in India



Accelerate: Innovation is best described as occurring regularly with a defined approach, available tools, processes and resources to help innovate a role with some direction by the leadership

Strategic: Innovation is best described as embedded in everything that is done (relentless and continual), with strategic objectives, a defined approach, resources, leadership and innovation efforts

Foundation: Innovation is an ad hoc requirement, occurring on some projects or within some departments; however, no repeatable approaches, formulas or standardised tools and resources are used. There is room for improvement

Incubation: Innovation is best described as 'grass roots', with innovation efforts unpredictable, uncontrolled and reactive; however, an organisation is eager to be more innovative

Departmental: Innovation takes place in silos, with little cross-pollination of intellectual property and best practices

Buying vs. building in: Lack of internal resources or intellectual property that requires innovation to be adopted via alliances or acquisitions

Not evident: Lack of conscious approach toward innovation, which is not high on the leadership agenda

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Build, buy or collaborate

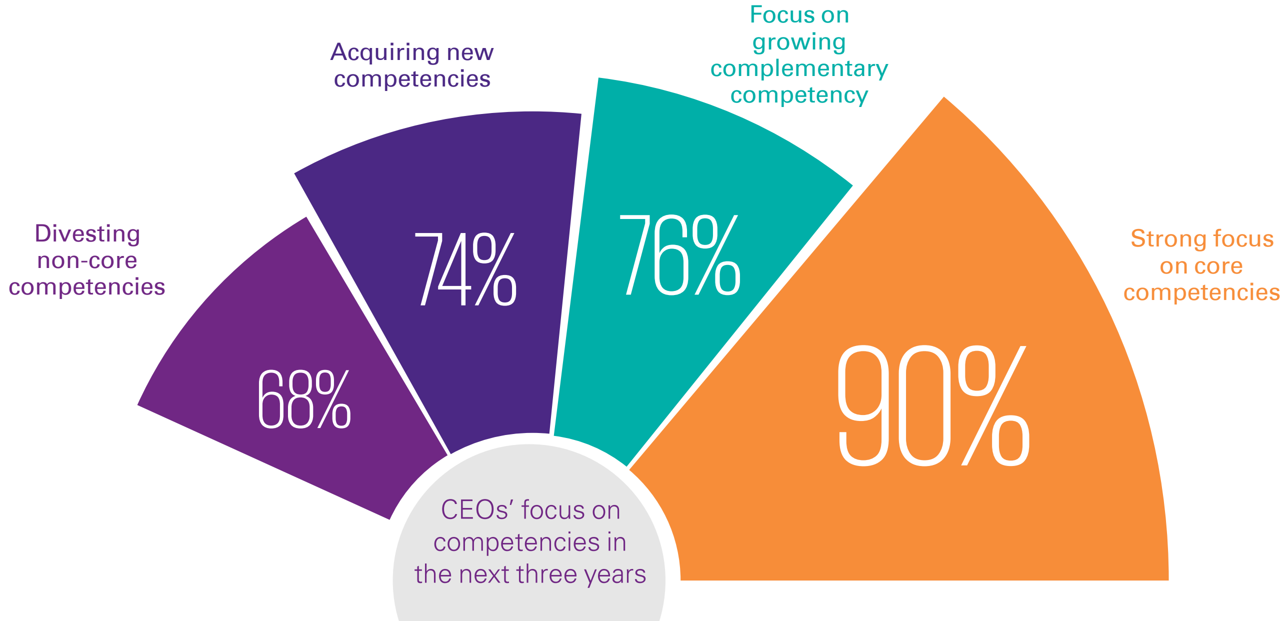
Inorganic growth and alliances are likely to be used as tools to acquire capabilities, complement competencies, achieve geographic expansion and drive shareholder value

As business ventures emerge in new economic areas, such as social media analytics, cloud, mobility and big data, companies are likely to strengthen their portfolios by acquiring established ventures, which have high growth potential.

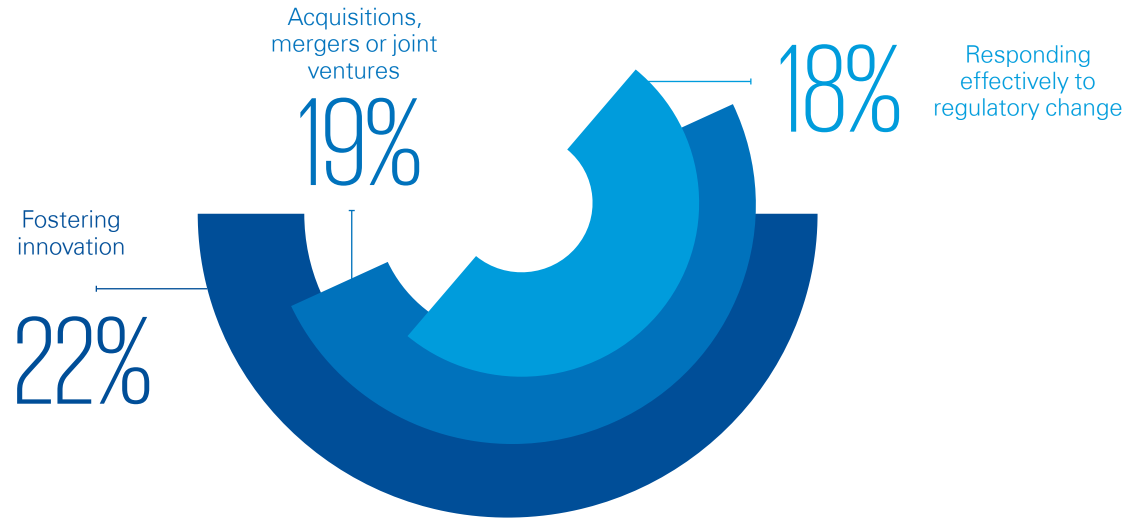
CEOs are fully cognisant of the fact that organic strategies may not be adequate to achieve their growth targets. Consequently, they are increasingly trying to leverage the expertise and capabilities that exist externally to complement their organisational strengths. Sixty-two per cent of CEOs surveyed are likely to consider inorganic growth to drive shareholder value, with M&A being one of the top three strategic priorities for CEOs, going forward.

More than half of the CEOs surveyed expect to undertake M&A over the next three years. Almost 50 per cent of the CEOs are open to buying out/fostering collaborations with other players to gain competitive advantage. This mind-set is largely a result of the need to access transformational technologies and capabilities that are not part of an organisation's core competency. To take full advantage of technologies that give their products and services a competitive edge, CEOs are creating a network of alliances and looking at converging the required technology and talent.

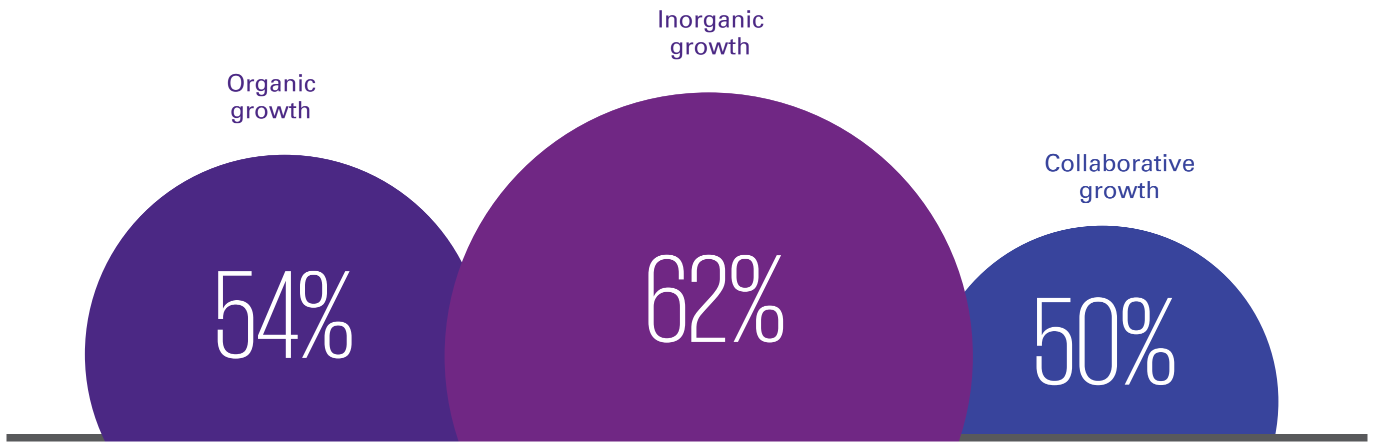
The fight for talent may also prompt CEOs to consider acquisitions, as 18 per cent of CEOs surveyed are expected to employ strategic acquisitions in key areas to manage skill gaps over the next three years.



Top three strategic priorities for CEOs in the next three years



Strategy to drive shareholder value

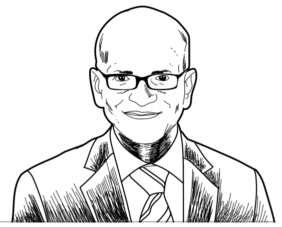


Owing to the dynamism of the marketplace and the competencies required to win, many CEOs are turning to collaboration, since no company can have all three attributes across the innovation spectrum — speed, leading technologies and forward-thinking minds. CEOs are relying on collaboration to drive shareholder value in the coming years. Synergistic associations with various types of organisations (not just businesses) are also being pursued for developing competitive advantages.

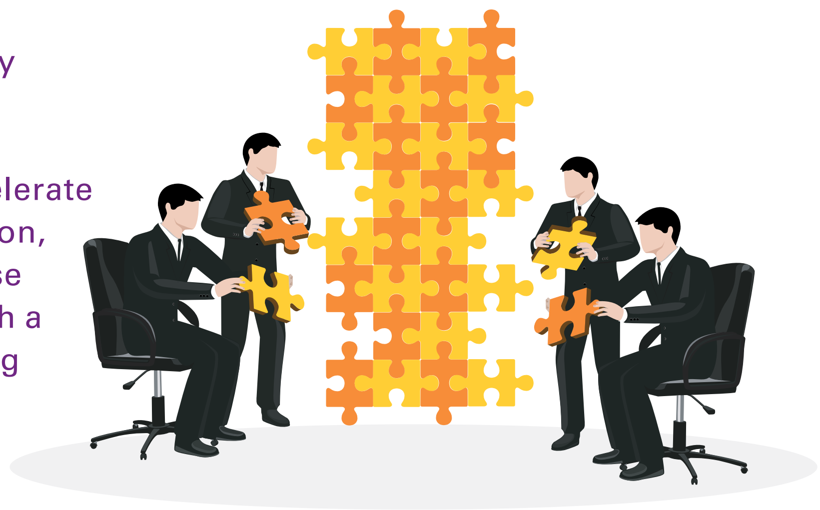
> Inorganic growth is a continuous process and should ideally not be a substitute for organic growth initiatives, but should be complementary and help to dominate a market or a product line and data.
>
> **Vikram Hosangady**
> Partner and Head,
> Deal Advisory, KPMG in India

Thirty-seven per cent of CEOs surveyed deem their organisations to be highly capable of connecting in a beneficial way with start-ups. Similarly, 34 per cent consider their organisations to be highly capable of connecting with universities.

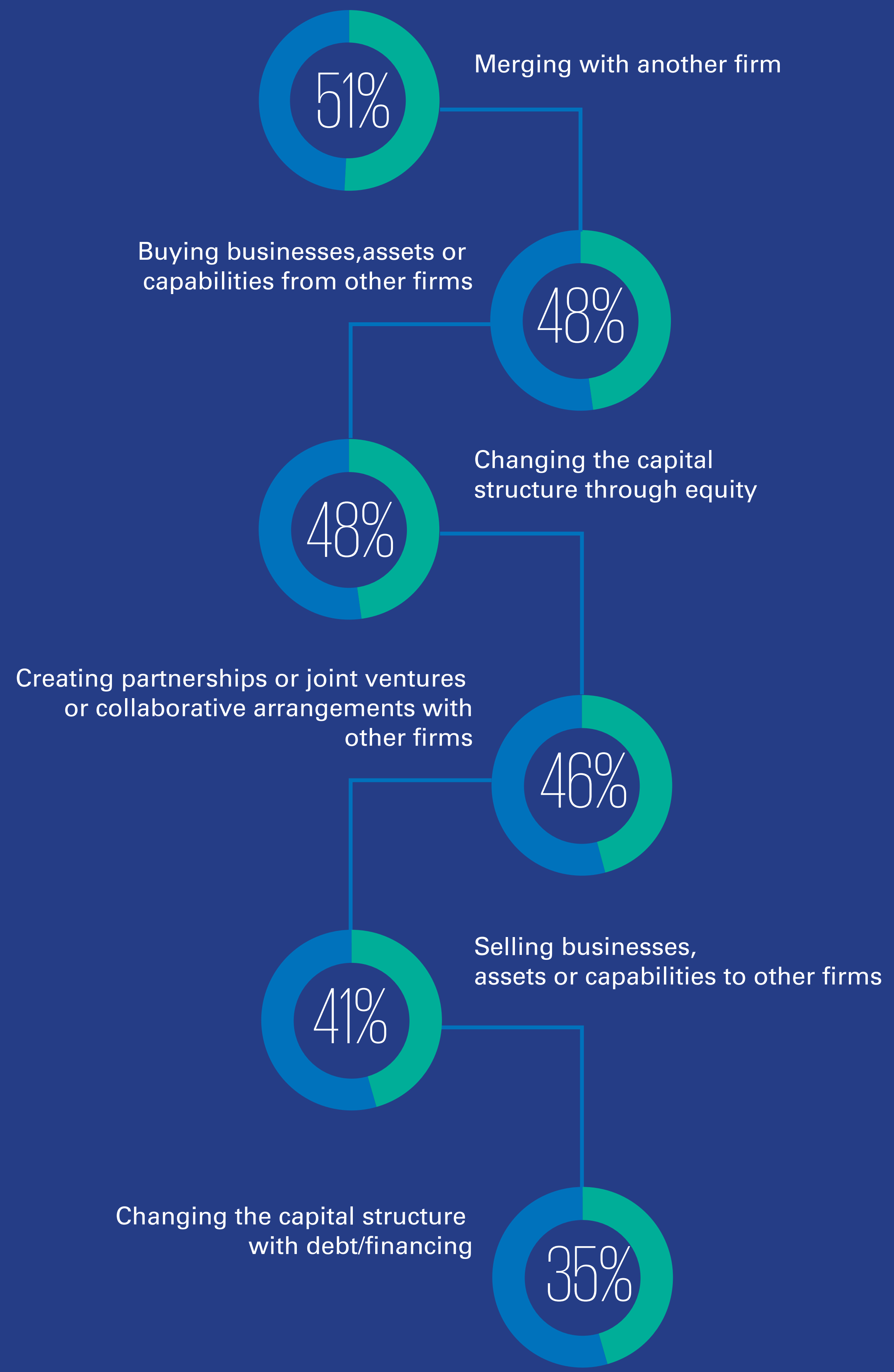
> Today, India has become a bright spot among the emerging economies. There is visible improvement in investors' confidence and sentiment, supported by pro-business policies.
>
> As global companies look to expand in India, inorganic growth through M&A, strategic asset buy-outs, etc. is bound to gain traction.
>
> **Girish Vanvari**
> Partner and Head,
> Tax, KPMG in India



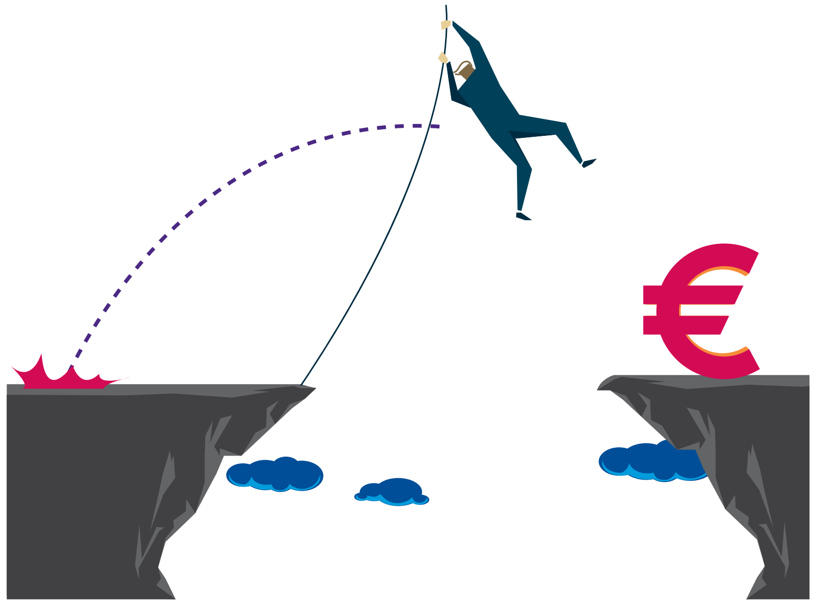
44% CEOs are already forming new partnerships/ alliances to accelerate strategy execution, this may increase in the future with a focus on building competencies



A multi-pronged approach to build, buy or collaborate



Risk mitigation gaining criticality



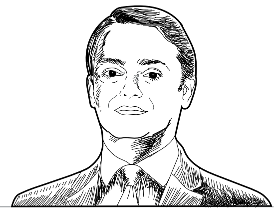
In a dynamic and globalised environment, risk management continues to gain focus within business operations

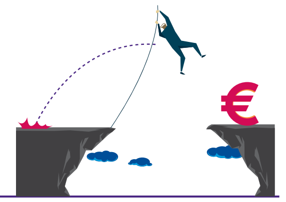
Several CEOs acknowledge that risk management is a high priority on their agenda for creating lasting value and growth for their organisations. While 80 per cent of CEOs surveyed stated that they are taking the right measures to manage risks and grow their businesses, they also concede that there are multiple risks that need more stringent attention than before.

Interestingly, for Indian CEOs, environmental risk has emerged as the top risk area, which is not the case with CEOs globally. One possible reason could be the growing vigilance of environmental laws in India, prompting many manufacturing-led organisations to streamline their operations. Further, with an increasing global focus on environment protection, new treaties such as the COP 21., are likely to impact manufacturing operations worldwide.

Similarly, dealing with regulatory changes is another top risk for Indian CEOs. It is a likely consequence of greater emphasis on managing the dynamic regulatory environment and strict enforcement by authorities, not only in India, but also globally. Twenty-seven per cent of CEOs surveyed mentioned 'regulatory' as one of the significant investment areas in the near future. For instance, with the impending introduction of the Goods and Services Tax (GST), taxation regulations could change significantly within India. Rapidly evolving rules around data transmission and storage are compelling companies to maintain large compliance and government outreach teams to decipher a confusing array of country-by-country regulations. At the same time, increasing levels of fraud and espionage have made regulators around the world stricter than ever. Indian markets have been subjected to such regulations in the recent past.

> "Companies are facing the pressures of not only navigating an intense regulatory environment but also finding ways of growing profitably. Given the global expansion and supply chain interdependencies, managing the risk and regulatory landscape is truly going to be a balancing act.
>
> **Mritunjay Kapur**
> Partner and Head,
> Risk Consulting, KPMG in India





Key risks CEOs in India are concerned about...

Environmental risk

29% CEOs opine that environmental risk is high on Indian CEOs' agenda compared to their global counterparts (23%)

Regulatory risk

92% CEOs are concerned that regulations would inhibit their growth (95% for CEOs globally)

27% CEOs mentioned 'regulatory' to be one of the significant investment areas, owing to an increasing dependence on other geographies and regulatory developments

Geo-political risk

91% CEOs are concerned about the impact of global economic factors on their businesses (88% for CEOs globally)

30% CEOs mentioned geo-political factors as one of the top risk areas for Indian CEOs

Cyber risk

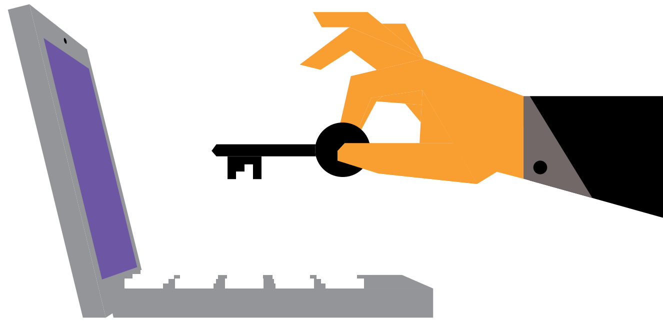
17% CEOs believe their organisations are well prepared to tackle cyber risks (25% for CEOs globally)

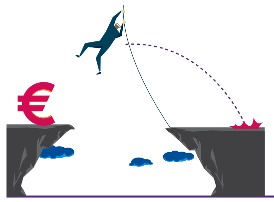
77% CEOs believe that cyber risk management is now a key responsibility for them

The dynamic nature of geopolitical developments are also on top of the minds of the CEOs surveyed. India is highly dependent on international markets for growth, making businesses vulnerable to geopolitical developments in international markets. While companies have no control on events triggering geopolitical risks, a robust monitoring mechanism and risk mitigation plan is essential to navigate through any such developments.

Greater dependence on technology, the advent of digitisation and cloud-based tools has brought cybersecurity into focus, which is also a critical risk, as voted by the CEOs surveyed. Companies recognise the need to be agile to deal with the unexpected. Often organisations that deal with the unexpected in a business sense have effective governance and are better prepared for cyber events. But most Indian CEOs (77 per cent) do not consider themselves to be fully prepared for an adverse cyber event. Unsurprisingly, cyber risk management is now a key responsibility for a large percentage of the CEOs surveyed.

Among other measures, D&A is being adopted by organisations to mitigate organisational risks, specifically in the areas of fraud prevention and market monitoring





Key risks CEOs in India are concerned about...

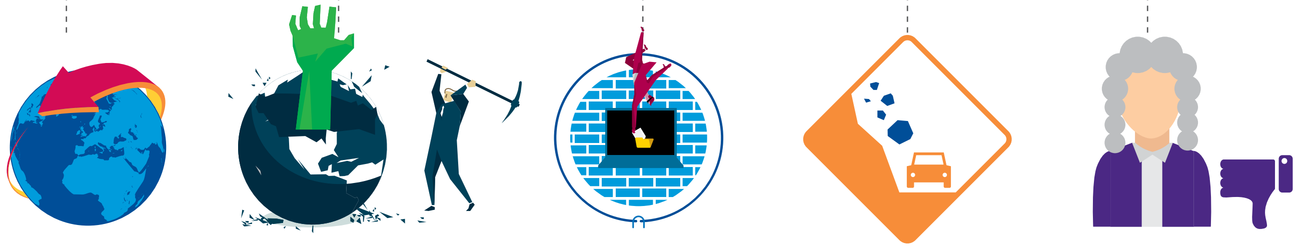
30% Geo political risk

29% Environmental risk

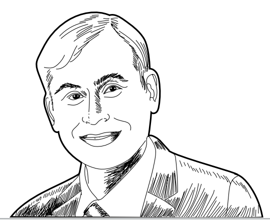
28% Emerging technology risk

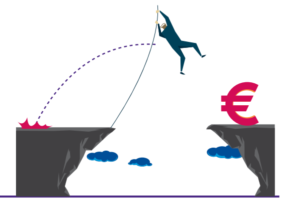
26% Supply chain risk

26% Regulatory risk



> Cyber attacks are real and are likely to cause unprecedented damages. While preventing these attacks remains a priority and a proven strategy, the speed of response to newly crafted attacks will create differentiation.
>
> **Akhilesh Tuteja**
> Partner and Head,
> Technology, KPMG in India

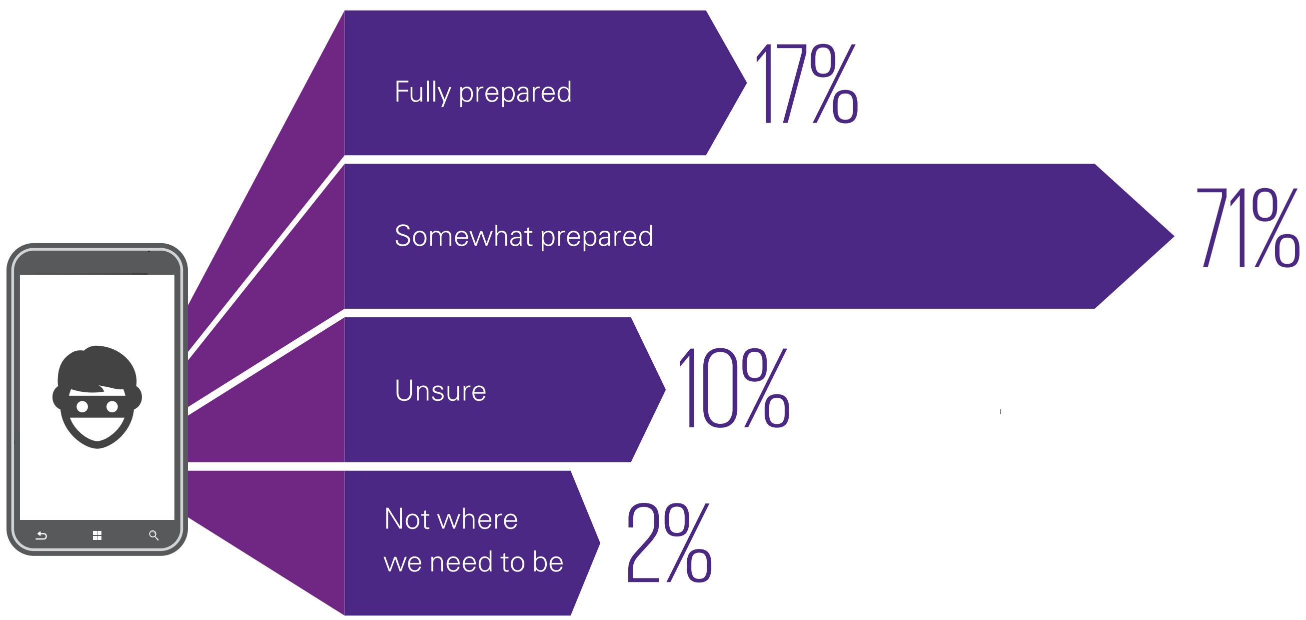




To be able to thrive in the current business environment, it is essential for companies to build cybersecurity capabilities across business operations. People in all parts of the organisation need to understand cyber issues and their impact on organisational performance. Each major decision needs to be looked at through the cybersecurity lens. A business development manager should consider the security implications of an M&A deal before it is sealed, to make sure that the M&A initiative does not expose the company to data breaches or regulatory violations. Similarly, marketing executives must be aware of privacy regulations and customer preferences when using insights from data analytics for marketing campaigns. The data and analytics team needs to develop secure systems to protect the company's data from fraudsters. Although, not considered as a major risk item by the CEOs, there is an omnipresent threat of a new competitor turning an established business model on its head overnight.

> A key issue is balance between growth and compliance. We are aggressively growing around the world and yet are highly concerned about the regulatory and the compliance environments in which we operate.
>
> **Warren Harris**
> Chief Executive Officer and Managing Director,
> Tata Technologies

How prepared is your company for a cyber event?



Transformation to achieve breakthrough value

Transformation is part of the strategic agenda for most CEOs, which has become the need of the hour for most organisations.

The omnipresent need for customer centricity and technological innovations, among others, has made transformation a key item on the CEO's agenda. CEOs have recognised that changing the elements of their businesses on a continuous basis — proactively and reactively — is perhaps the only way to remain relevant in the market. As such, 46 per cent of CEOs surveyed are already undertaking organisational restructuring as part of their current strategy execution.

Organisations are ensuring that their offerings are market relevant, which remain at the heart of transformation needs. Eighty-four per cent of CEOs surveyed are concerned about the relevance of their existing products/services in future, while 92 per cent are concerned about staying on top of new products/services. Combined with these are concerns around understanding the needs of 'millennials' for 88 per cent of CEOs surveyed. For a very large portion (91 per cent) of CEOs surveyed, losing business to competitors is one of the top challenges.

Transformations are expected to be multi-dimensional, aimed at the ultimate goal of making an organisation leaner and more agile in adapting to market changes. CEOs are aiming at streamlining processes, eliminating red tape and undertaking overall restructuring. The intent and focus on transformation is evident in the fact that 54 per cent of CEOs surveyed believe that they are likely to be transformed into a different business entity in the next three years.

CEOs also want to insulate their businesses from disruptive competitive models. Eighty-one per cent of CEOs surveyed are concerned about entrants with new business models.

Although, business models and technology disruptions represent a threat, they also offer an opportunity for CEOs to continually reinvent their businesses. To do so, they must establish and maintain an organisation with an environment that encourages, embraces, and rewards change and innovation while continually adapting to take advantage of new ideas and customer expectations. Transformation is a continuous flow of incremental steps, which allows for quick adjustments and corrections, and speed-to-market. The appetite for transformation varies by region. For instance, Asia Pacific has become a hotbed of change with a combination of new entrants and technology companies, constantly building new markets with new business models by leveraging disruptive technologies.

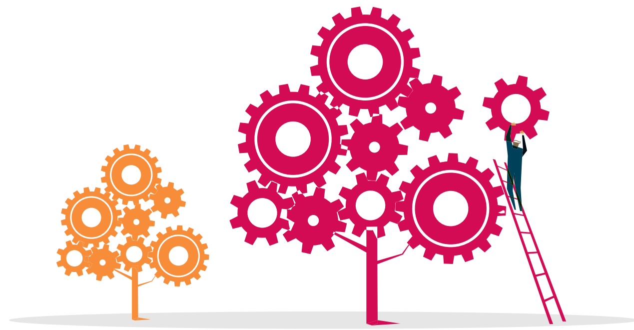
> Successful CEOs are the ones who keep customer centricity at the forefront of their growth and transformation agenda.
>
> **Gaurav Moda**
> Partner,
> KPMG in India

81% CEOs are concerned about entrants with new business models

> The changing regulatory environment, along with digital and automation opportunities, is likely to compel organisations to look for large scale transformation.
>
> **S.V. Sukumar**
> Partner,
> Strategy and Operations, KPMG in India

91% CEOs are concerned about competitors' ability to take away their business

46% Organisations likely to be transformed into significantly different entities over the next three years



© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

India blazing on the world map

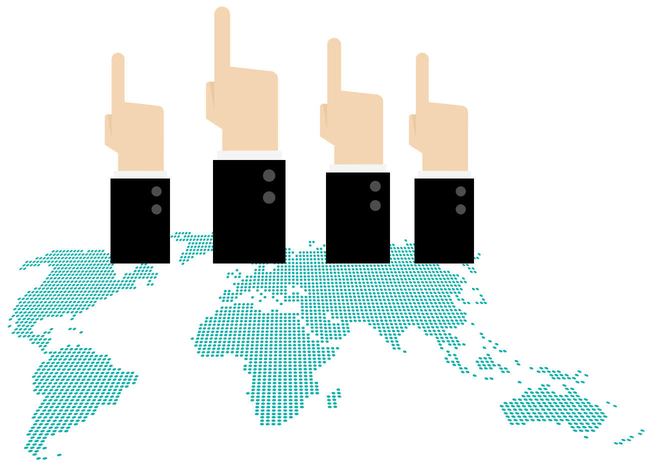
India is perceived as one of the top regions for new market growth potential by global and Indian CEOs surpassing China

While the global economy is still recovering from the lingering effects of economic slowdown in the last few years, it has had to cope with new challenges in the form of low oil prices and slowdown of the Chinese economy. These factors have combined to restrict the global economic growth and are further expected to influence the fortunes of most nations. In this scenario, there are a few bright spots — none brighter than India — that act as beacons of hope for the world economy.

Currently, at over 7 per cent, the Indian economy's growth levels are unmatched by any major economy in the world. This surge in economic growth is expected to continue over the short to medium-term, making India the go-to destination for investments worldwide. A clear indication of this reflects in the foreign direct investment (FDI) it received in 2015, which outpaced that of China. Such sentiments are apparent from the global survey, according to which 44 per cent of CEOs from the U.S. believe that India has the greatest potential for market growth over the next three years. Thirty-four per cent of British CEOs and 37 per cent of French CEOs see India as the country having the maximum potential for new market growth.

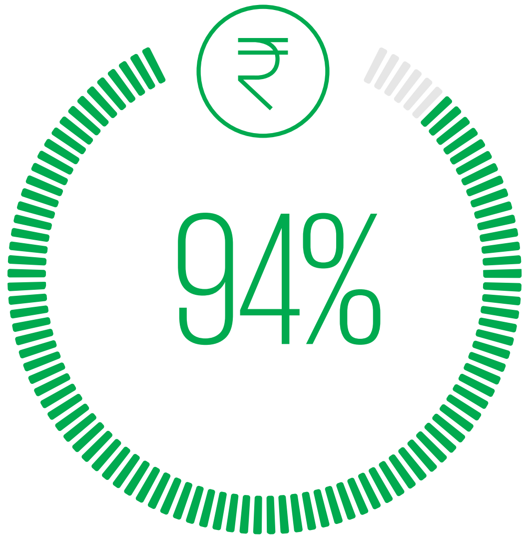
India is on its second major round of economic reforms post-1991, when the country opened its economy for foreign investment. The country has the demographic dividend of a young population. Given this scenario, Indian CEOs are projecting higher revenue growth over the next three years than their global counterparts. This further substantiates the optimistic growth outlook for the economy. In fact, 94 per cent of Indian CEOs are confident about India's growth in the next three years. Moreover, 54 per cent of Indian CEOs rate India to have the greatest potential for new market growth around the globe, surpassing China (15 per cent) by a significant margin. Given the confidence surrounding the Indian market scenario, 26 per cent of CEOs have stated domestic expansion as their key strategy.

India



ranked as top region by Indian and global CEOs, having the greatest potential for new market growth over the next three years

CEOs in India are confident about India's growth prospects in the next three years

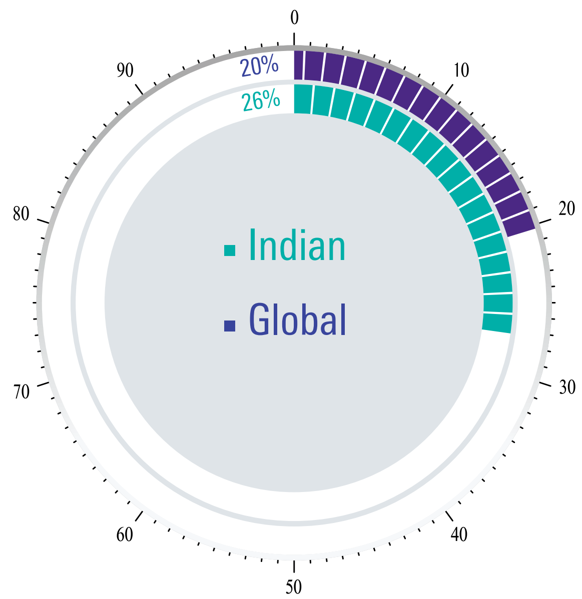


India has taken several steps to showcase its progressive mind-set, such as the 'Ease of Doing Business' initiative, focussed tax reforms, encouraging start-ups and entrepreneurship, in order to create a favourable business ecosystem. The 'Make in India' initiative is aimed at enabling India to emerge as a global manufacturing hub. There is a concentrated push to develop infrastructure so that the country can attract increasing investments from abroad. Roads, railways, power, ports and all key elements of core infrastructure are being enhanced in a unified and structured manner. As per the survey, India ranks the highest in areas of infrastructure, insurance and manufacturing investments by global CEOs, giving the country (38 per cent CEOs) a slight edge over China (34 per cent CEOs).

The 'Digital India' initiative aligns the country with the fourth industrial revolution, focussing on building robust digital capabilities and creating meaningful prospects for investments. India's digital infrastructure is emerging significantly. For instance, with more than one billion biometric signatures, the country boasts the world's biggest biometric database. The spread of technology is palpable: Indian Railways sells about 70 per cent of its tickets online, making it one of the largest e-commerce websites in the world. Such advancements have planted India firmly in the minds of CEOs worldwide. German CEOs see Western Europe, India and Brazil as the markets with the most potential for growth over the next three years; Spanish CEOs have rated India as the second best hotspot for growth (35 per cent).

The world has recognised India's potential and sees long-term value in becoming a part of India's growth story.

Geographic expansion within their home country in the next three years is one of the areas in which 26% of CEOs would be devoting resources



© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

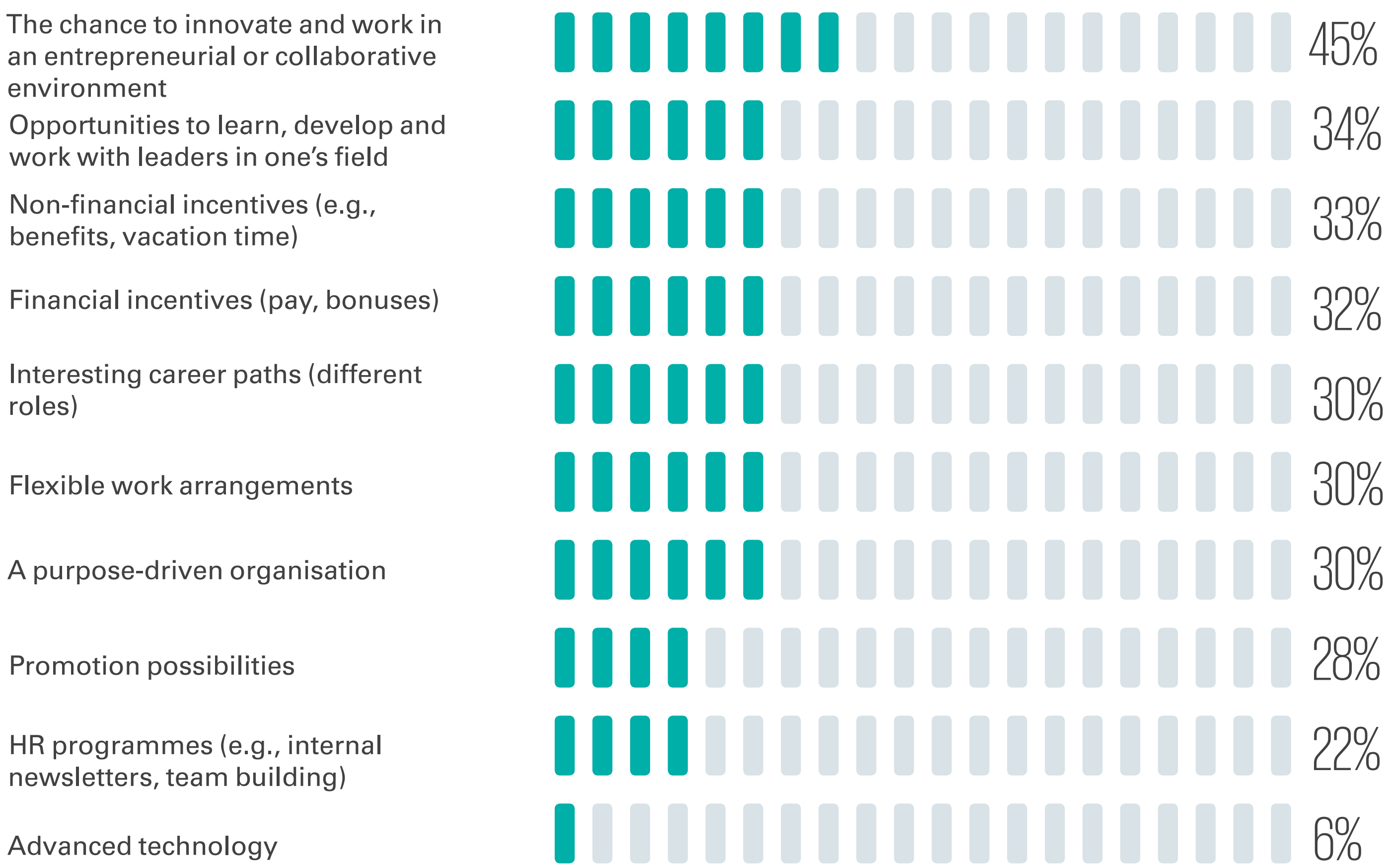
People and culture

CEOs are focussed on talent management by creating developmental opportunities for employees

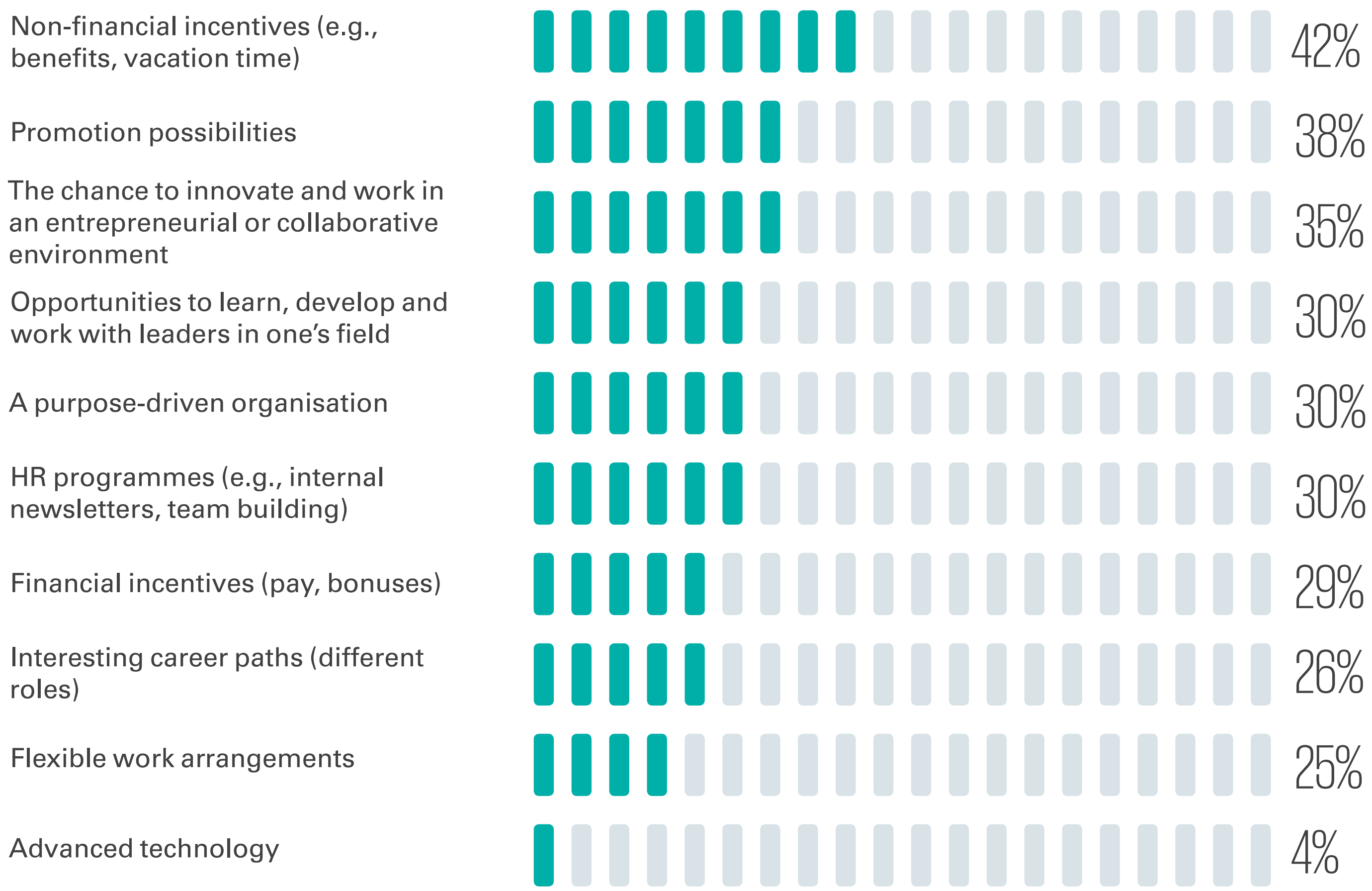
Attracting and retaining talent has become one of the top priorities for CEOs. With technological disruption and digitisation, the world has become a smaller place, combined with a plethora of opportunities for people to choose from. Thus, it has become vital for organisations to formulate effective strategies to attract talented individuals.

According to the results of the survey, the top-three strategies that CEOs employ to attract talent are - opportunities to learn, develop and work with people in the same field (35 per cent), flexible work arrangements (30 per cent) and the chance to innovate or work in a collaborative environment (30 per cent).

Responses for the most effective strategies to attract talent



Responses for the most effective strategies to retain talent



Among other things, it is imperative for CEOs to determine how much organisations should invest in their people. To deliver well-executed differentiated experiences, businesses need to focus on the prevalent organisational culture to ensure that there is perfect alignment among employees at all levels, and the aspirations of every single employee are taken care of. Hence, companies need to adopt strategies to keep their employees invigorated. The three leading strategies employed by CEOs in India for retaining talent are - promotion possibilities (42 per cent), non-financial incentives (38 per cent) and the chance to innovate or work in a collaborative environment (35 per cent).

Measures that CEOs will take to manage skills gaps in the next three years

Increase focus on agility and problem solving vs. proven competencies	25%
Focus on automation	23%
Create outposts in high-skills areas (e.g., university clusters, etc.)	22%
Organise internal training	22%
Increase pay	21%
Focus on insourcing/on-shoring	21%
Outsource to domestic companies	19%
Reimburse external training	19%
Focus on engaging/retaining mature workers	19%
Strategic acquisitions in key areas	18%
Hire from new, disruptive companies outside of their core industry	17%
Outsource internationally	16%
Broaden to the widest possible pool of workers (short-term/temporary)	15%
Contract labour	14%
Focus on off-shoring	13%
Hire from competitors	12%
We do not have skills gaps	1%

For talent, CEOs emphasise on developing skills and providing experience that enable their people to better identify and connect with the global market, including customers and competition that are becoming increasingly diverse and complex. Indian CEOs predict that, by and large, they do not foresee major skill gaps in any of the industries in the next three years. To reach that level, it is essential to manage skill gaps in the interim period. The top four measures that CEOs surveyed intend to take in this direction are - increase the focus on agility and problem-solving skills (25 per cent), focus on automation (23 percent), create presence in high skill areas (22 per cent) and organise internal training (22 per cent).

Given the dynamism of the marketplace, it has become increasingly important for companies to hire the right talent for managing global operations and integrating them into new business models. Some of the measures that companies can take with respect to talent management are:

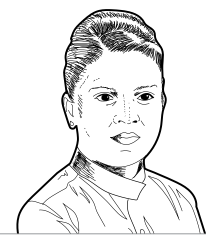
- Develop communication channels and forums across business so that various levels, functions and geographies are connected objectively to reach out to each other. They should not only understand what others do, but also how their inputs are pivotal to the entire value chain of the business.
- Reward collaborative behaviour and break down hierarchies to be able to nurture talent within. While deploying a team, the management needs to pick talent with unique speciality areas, having different sets of ideas that complement each other. For performers to excel, organisations need to clearly identify the role of an individual and the interdependencies between team members.
- Build capabilities and institutionalise a defined global talent identification mechanism, and put in place a robust succession management framework.
- Re-skill employees to adapt to the transforming business environment to remain competitive in the future.

“In any given industry, the key differentiator between the top two players is the quality of workforce. A role by role comparison between the western world and India would reveal a significant gap. For organisations to remain competitive and relevant, it is important that the CXO community takes this challenge of skill development more seriously.

Rahul Patwardhan
Chief Executive Officer,
NIIT Ltd.

“CEOs today are aiming to create irresistible organisations. They are imbibing people or employee centricity to create a culture that supports and grows talent, inclusiveness, personal growth and processes within the organisation to drive better performance and achieve a bigger social impact. Such a purpose-driven organisation will set the tone for talent management and business success.

Vishalli Dongrie
Partner and Head,
People and Change Advisory,
KPMG in India



© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Conclusion

Today, CEOs are navigating through a confluence of quick-changing internal and external dynamics that could result in far reaching outcomes in the years to come. The adoption of technology is now defining the way firms operate. Ever-present risks are taking new forms, while there is also pressure to offer incremental value. Transformation is on the cards, both organic and inorganic, with collaboration emerging as the preferred strategy to outdo the competition.

This is, in many ways, the genesis of new opportunities through unexplored avenues to new markets, new customers and better skill management. Opportunities for growth are rapidly opening up, with India on the path of reforms and development, which are anticipated to benefit those who align themselves with the undercurrents of change, and position themselves for the future.

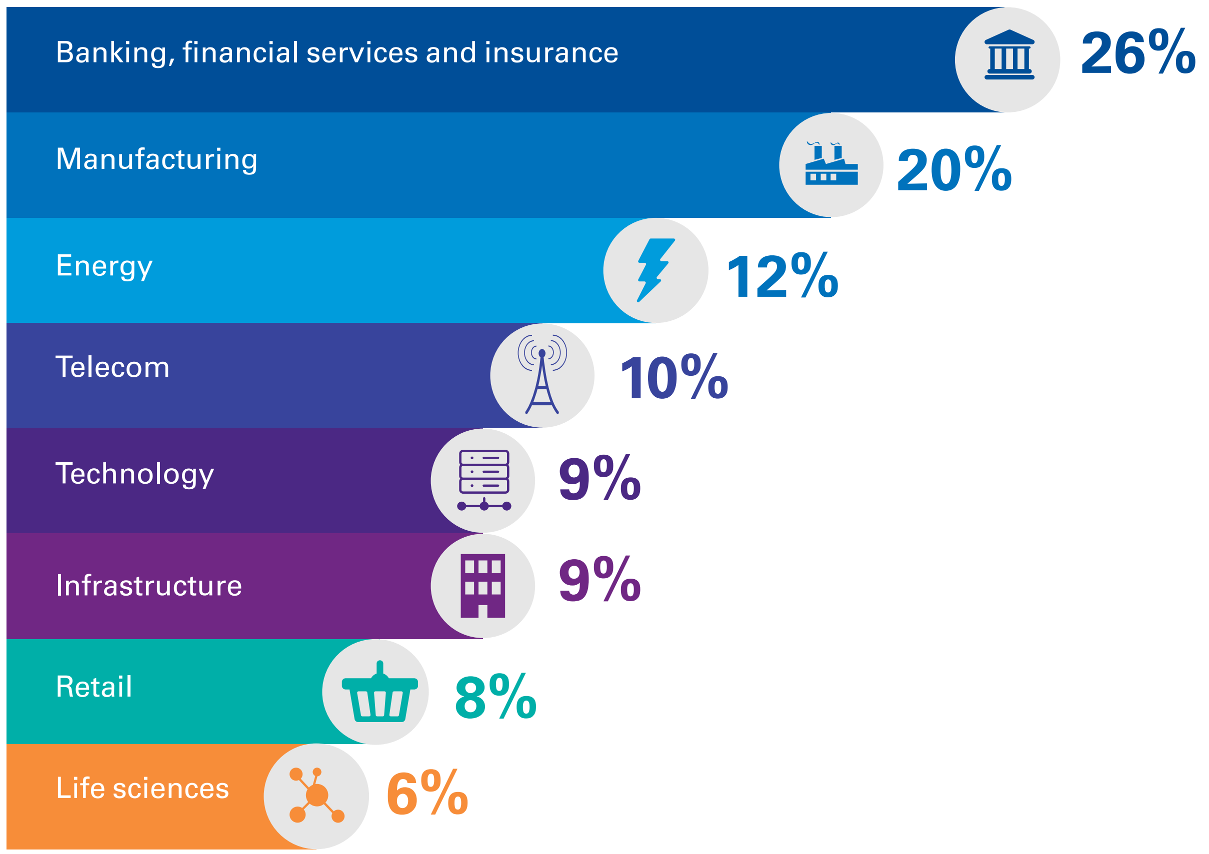
Methodology

The survey data published in this report is based on a survey of 125 CEOs in India, who participated in a global CEO survey conducted by KPMG International. The Global CEO Survey was conducted among 1,268 CEOs from Australia, China, France, Germany, India, Italy, Japan, Spain, U.K. and the U.S. Eight key industries are represented, including automotive, banking, insurance, investment management, healthcare, technology, retail/consumer markets and energy/utilities.

Among the 125 Indian CEOs, 18 per cent were from companies with revenues between USD500 million and USD999 million, 65 per cent from companies with revenues from USD1 billion to USD9.9 billion, and 17 per cent from companies with revenues of USD10 billion or more.

Seventy eight per cent of the CEOs came from public companies and 22 from private companies.

Industries from which the survey respondents hailed



© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.