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Management Capability Index India 2014 Report

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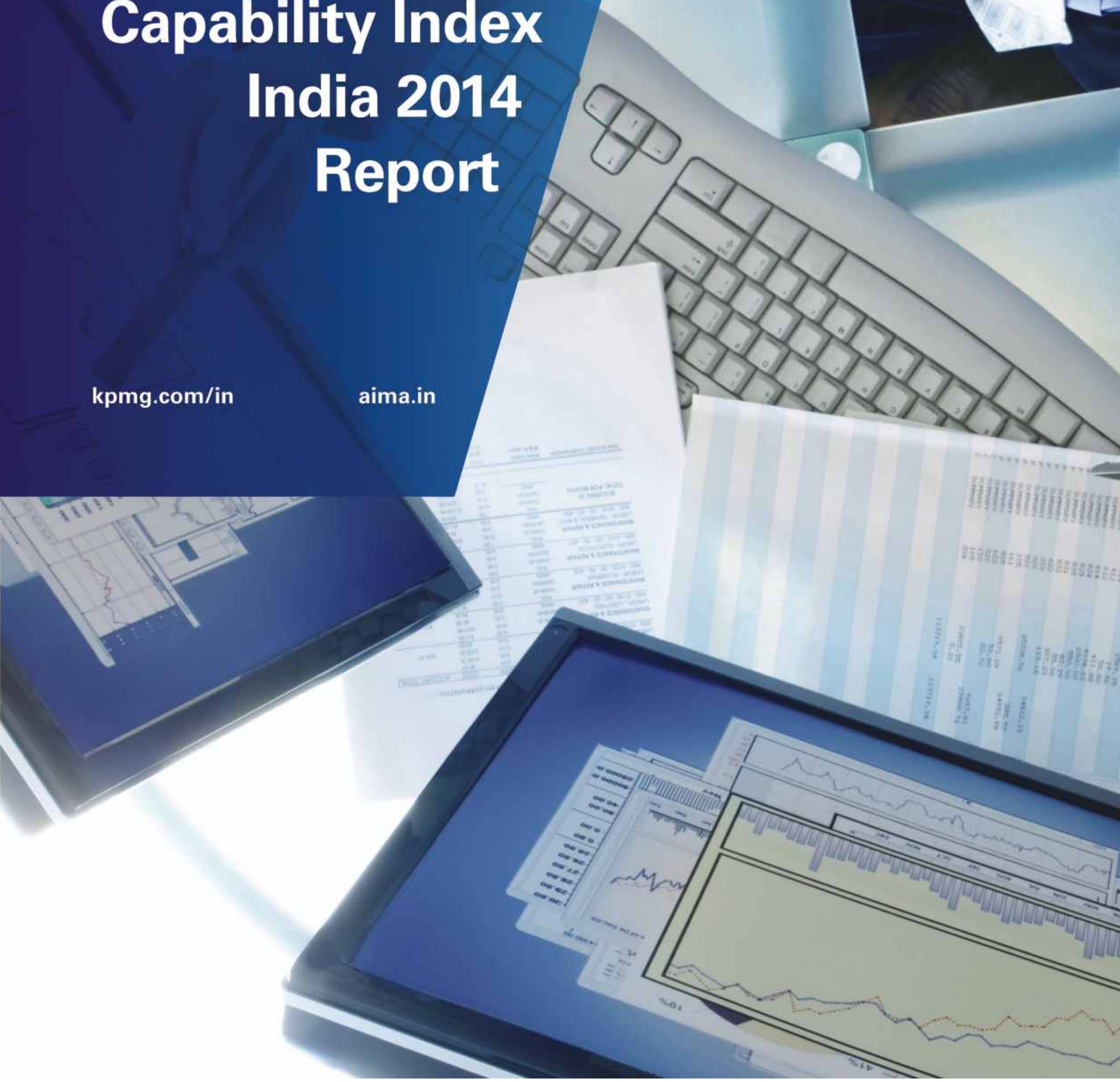

Management Capability Index
India 2014 Report

KPMG India

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Foreword

Preetha Reddy
President
AIMA

"All organisations are perfectly designed to get the results they are now getting. If we want different results, we must change the way we do things."

– Tom Northup, Thought Leader and Founder of Leadership Management Group

The world of business is getting flatter, virtual businesses are emerging as potent competitors, passive consumers are harnessing social media to try their hand at business, and quite clearly it is never ever going to be business as usual. Traditional Y-o-Y growth, and the tried and tested matrices seem archaic in the face of so much change.

AIMA as an apex management forum in the country has always been mindful of emergent trends and the need for behavioural shifts in business. Three years ago, in partnership with AAMO, the Asia-Pacific regional management body, it had introduced the Management Capability Index (MCI) for India - as an effort to measure the management capability of professionals in the country, and as an assessment of the challenges that lie ahead for organisations.

I am pleased that the third MCI Report is being published, and it certainly has interesting and insightful findings. This edition of the MCI India Report was compiled with inputs from over 300 CEOs and managing directors across MNCs, large Indian organisations, SMEs and government agencies across the nation. KPMG has been the knowledge partner in this endeavour, and the study has focussed on gauging the robustness and competitiveness of business performance of corporates and institutions operating in India.

Indian leaders scored highly on corporate governance and integrity. The findings of the report recommend that several Indian firms need to invest much more into building stronger external relationships, and also that the application of technology and knowledge management need greater attention to improve performance. Foreign multinationals lead across several dimensions of the survey, and a crucial point to note is that Indian government establishments, academic institutions and SMEs need a lot more planning and sustained effort to gain a global competitive advantage.

The AIMA – KPMG MCI India 2014 report aims to provide management teams a bird's-eye view of the Indian scenario, as well as likely answers that address management dilemmas and nurture innovation, while continuing to manage day-to-day operations!

Big change begins one step at a time and billion dollar fortunes too begin with one transaction. I do hope that this report brings you a tad closer to your goal for tomorrow, and you have my best wishes for new beginnings and happy times ahead.

Foreword

Nishchae Suri
Partner - Management Consulting
Head of People and Change
KPMG in India

In our constant endeavour to contribute to the growth of our nation, we are happy to share the third edition of the Management Capability Index India 2014 report, in partnership with the All India Management Association (AIMA). This is the first time that AIMA and KPMG in India are collaborating to bring forth this cutting-edge research.

MCI, over the years, has evolved to become a yardstick for measuring and benchmarking management capability across teams and industries worldwide.

Whilst India remains one of the toughest markets in the world for a business to sustain and thrive, it also offers unparalleled opportunities, acting as an incubator for successful next-generation global leaders.

Honing management capability helps enhance organisational performance and growth, and therefore can positively impact economic performance across the economy as a whole. Understanding India's current management capability by measuring and evaluating management performance across a range of key factors is a foundation step that will help place organisations in India on the global map. The MCI survey provides an opportunity for organisations and industries to take stock of their current performance and identify areas for improvement.

This year, over 500 leaders across the country participated in our survey. The findings of our report reveal that there is a marked deficit in organisations when it comes to defining a clear succession plan and developing the leaders of tomorrow. To succeed in this challenging environment, organisations need to have resilient people leadership, fortify relationships with external stakeholders, and leverage new-age technology. Those organisations which can sustain a lean operating structure while innovating and inventing, maybe better positioned to become industry leaders.

We extend our sincere thanks to the business leaders who shared their thoughts with us through this survey. Their active and candid participation was critical to the success of this initiative.

We hope you find this report insightful and helpful in your journey to success.

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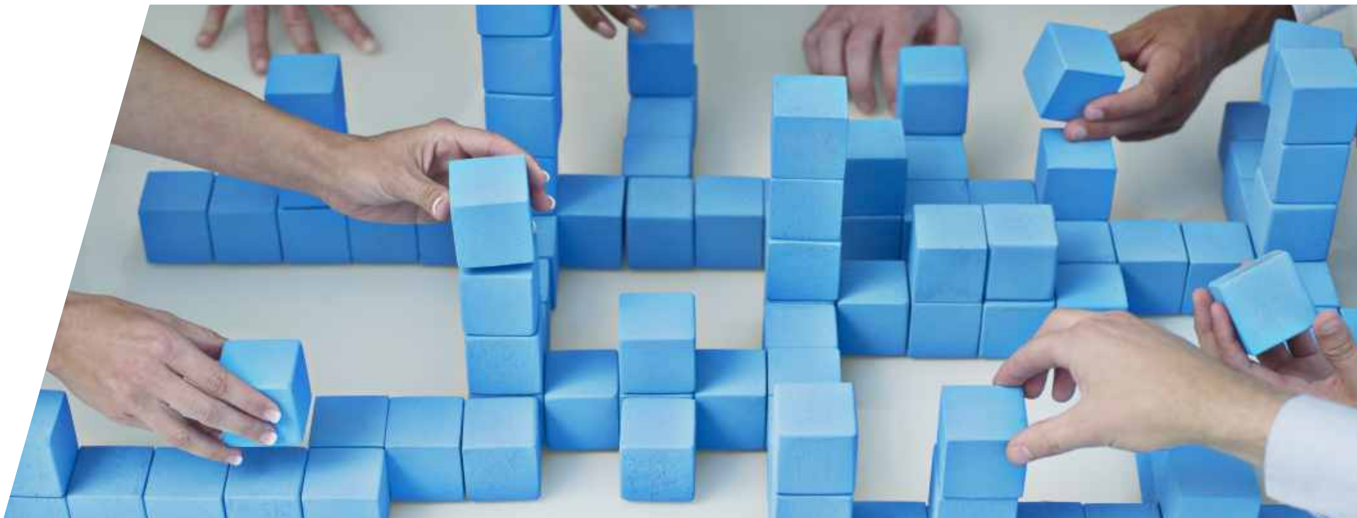


About Management Capability Index (MCI)

The Management Capability Index India 2014 is AIMA's third such initiative, and is the maiden collaboration of AIMA with KPMG in India. MCI survey is used to measure and evaluate management capability across industries and sectors. The survey report aims to provide a platform for measuring the progressive capability of management in todays complex, dynamic external environment.

Management capability is typically demonstrated through business performance and is usually considered to be the result of management leadership and competence in key management practises. We have, after research and analysis, identified 10 major drivers of management capability that have been used to create the index given below.

MCI can help establish a baseline for monitoring management capability performance over a period of time, and provide important insights into the current management capability of organisations across India. The findings of our report can help organisations benchmark their management practises and effectiveness against similar businesses. This report not only discusses the potential indicators of growth in organisations but also apprises the opportunities for further development.

Survey respondents were asked to rate the questions for all given dimensions on a 6-point likert scale ranging from 0 to 5. The combined average rating given by the respondents for each dimension was converted into a score out of 100 for the dimension. This score out of 100 is provided in the executive summary and key findings sections. The dimension analysis is collated on the average of responses on the 6-point likert scale, ranging from 0 to 5.

Scale

Scale Point	Equivalent MCI Score	Description
0	0	No, this is not in place
1	20	Yes, this has just started
2	40	Yes, being practised, but only in parts of the organisation/part of the management, part of the time
3	60	Yes, being practised across most parts of the management team/ organisation most of the time
4	80	Yes, being practised consistently across the management team/ organisation, with further improvements being made
5	100	Yes, fully practised throughout the management team/organisation. Continually refined and improved as 'the way things are done around here'

About Management Capability Index

The evaluation of management performance on individual dimensions has been converted into an index by calculating and averaging the survey responses with prescribed weightages which reflect the relative importance of the 10 dimensions.

The following table presents the individual weightages of the 10 dimensions.

No.	Dimension of MCI	Weightage
1	Visionary and Strategic Leadership	15%
2	Performance Leadership	10%
3	People Leadership	10%
4	Financial Management	10%
5	Innovation in Products and Services	10%
6	Organisation Capability	5%
7	Application of Technology and Knowledge	5%
8	External Relationships	5%
9	Integrity and Corporate Governance	5%
10	Organisation Results and Comparative Performance	25%
	Total	**100%**

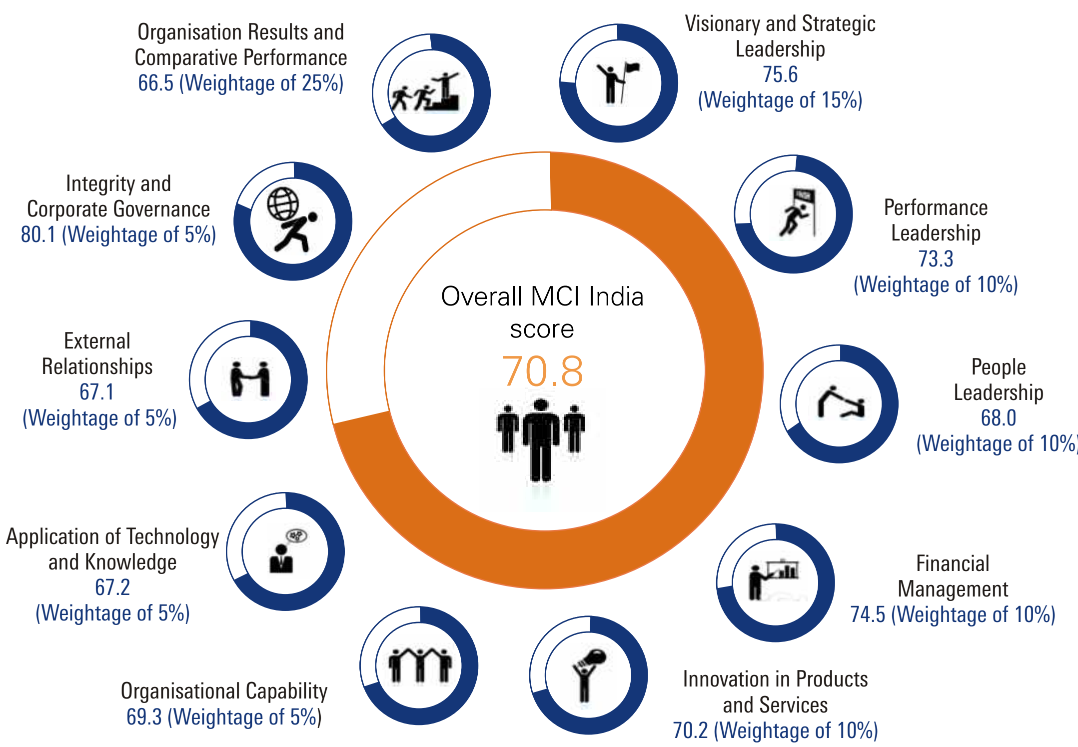
Defining the dimensions of MCI

Dimension	Definition
Visionary and strategic leadership	Articulates a clear and inspiring vision for the organisation and team, and identifies effective ways to move towards the organisation's vision, mission, objectives and goals, while at the same time taking into account the needs of all the stakeholders. Demonstrates a global perspective and understanding of the global markets.
Performance leadership	Attempts to ensure an achievement oriented organisation and team that is able to manage risks and constant changes, while consistently striving for performance excellence and continuous improvement.
People leadership	Makes human resource planning, talent management and development an integral part of the organisation. Maintains an open structure that encourages growth and empowerment of its people.
Financial management	Practises sound and effective financial management of the organisation. Leads and manages the organisation to consistent performance improvements and profitable growth.
Innovation in products and services	Encourages continuous innovation in products and services for creating new value for the organisation.
Organisation capability	Builds a culture of innovation and research with emphasis on continuous improvement and learning, both for the individual and organisation. Maintains a 'boundary-less' organisation with effective application of leading management practises to achieve organisational goals and objectives.
Application Of technology and knowledge	Brings about a knowledge-driven organisation that understands and leverages information technology and knowledge management to improve performance.
External relationships	Builds effective relationships with all stakeholders, and develops and maintains networks and spheres of influence.
Integrity and corporate governance	Consistently adheres to ethical principles, having set specific rules and procedures for making decisions on the organisation's affairs. Has an established standard of ethical behaviour for directors and stakeholders based on trustworthiness and values that are accepted or upheld. Adheres to legislation, regulations and guidelines in administering the business of the organisation.
Organisation results and comparative performance	Recognizes that performance results are the most important measures of management capability. Measures and monitors business performance and goals as the key performance indicators and scorecard of the organisation.

Executive summary

We received an overwhelming response from over 500 respondents, spanning both senior and mid management levels. Out of these, 302 responses from senior management were considered for the survey analysis.

Figure 1: Management Capability Index India 2014



Top areas of strength

4.2	Integrity and Corporate Governance	Management and employees ensure that ethical principles are followed in making decisions on the organisation's affairs
4.2	Integrity and Corporate Governance	Management promotes an established standard of ethical behaviour for the Board, management and employees based on integrity and a code of proper conduct
4.0	Visionary and Strategic Leadership	Organisation strategies, objectives and plans are targeted at the growth of the business and realizing key stakeholder interests

Top areas of concern

2.6	External Relationships	Organisation conducts environment and social audit. (Accounting of social and environmental costs and impacts of economic success)
3.1	Application of Technology and Knowledge	Knowledge within the organisation is well organized and there are strong systems to support its access
3.2	People Leadership	There is a clear focus on leadership development and succession planning
3.2	Organisation Results and Comparative Performance	EVA (Economic Value Added) performance over the past five years

Indicates score on individual questions under dimensions

Key findings

Overview by organisation type

Foreign multinationals seem to have adapted and evolved faster as compared to other types of organisations to the changing environment. Effective leadership complemented with organisational capabilities has likely helped foreign multinationals surpass the MCI India 2014 in all categories.

Leaders from Indian multinationals also seem to be striving hard to match pace with the industry benchmarks.

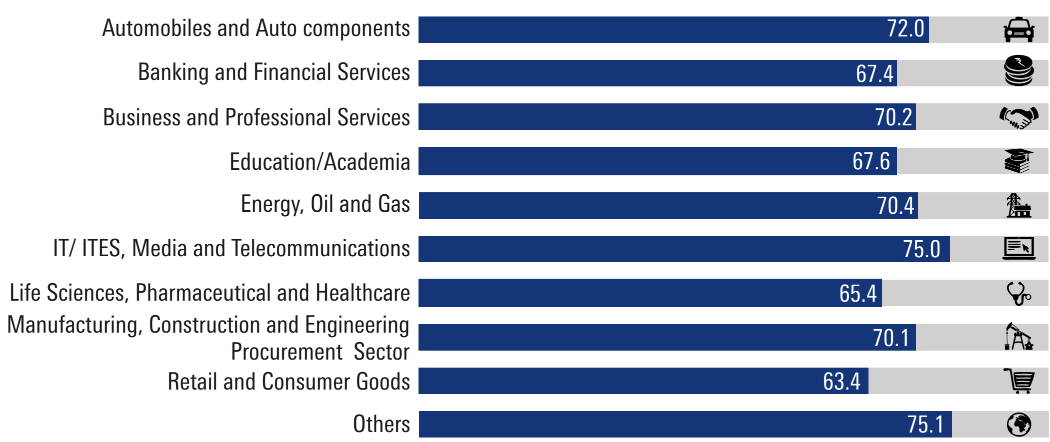
Survey findings suggest that government establishments have a relatively larger scope for improvement with a score of 64 per cent. They are observed to be lagging behind in majority of categories, except for Integrity and corporate governance. SMEs have scope for development in financial management systems, external relationships, and application of technology and knowledge.

Figure 2: Score by organisation type

Overview by industry type

The boom in the Indian IT industry seems to be in sync with the survey responses with leaders from the IT/ ITES, media and telecommunications industries rating their organisations the highest, with a score of 75 per cent. This is attributed to the organisations' relative strength in the dimensions of vision and strategy, people leadership, financial management and innovation in products and services. Retail and consumer goods, life sciences/pharmaceutical and healthcare industry, with a score of 63 per cent and 65 per cent respectively, have scope for further improvement by emulating relevant and leading industry practises.

Figure 3: Score by industry type

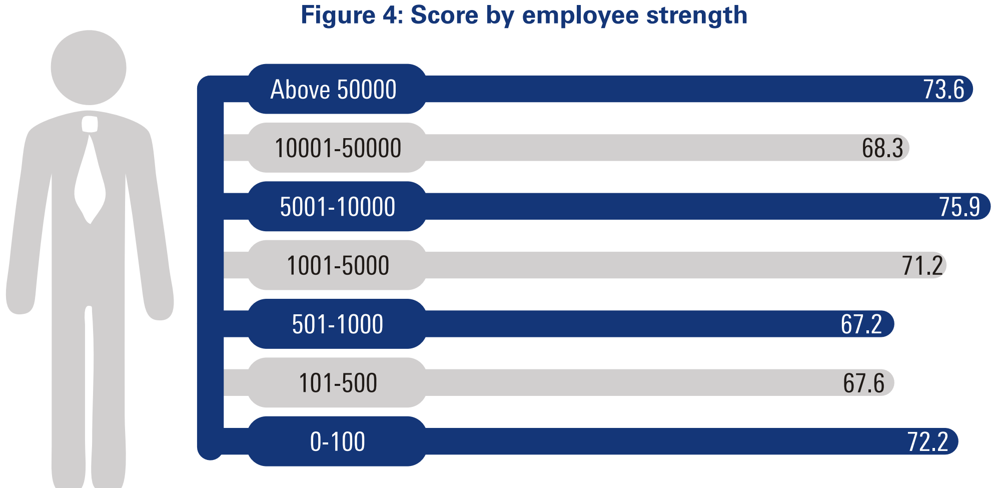


Overview by employee strength

Leaders from organisations with medium employee strength (1001 -10000) have rated their organisations relatively well, with scores in the range of 70 per cent to 76 per cent.

Survey findings suggest that leaders from large employee base organisations i.e., with an employee strength of more than 50000, are also of the view that their respective organisations are equally faring well with a score of around 74 per cent. Higher scores of these organisations can be attributed to the relatively high maturity levels of organisation systems and process along with robust guidelines, as compared to smaller organisations.

Figure 4: Score by employee strength

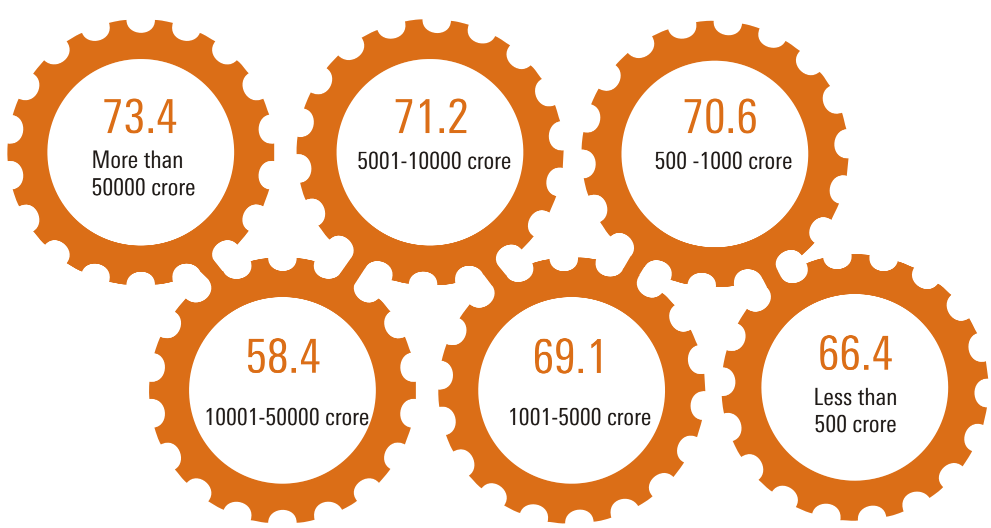


Overview by revenue cap

Organisations with the largest revenue cap i.e. more than 50000 crore are observed to perform relatively better as compared to organisations in other revenue cap segments. The relatively higher score of these organisations could be attributed to well defined structured processes.

It is interesting to observe that leaders of organisations in the mid–large revenue cap segment (10001 to 50000 crore) believe that their organisations have a huge scope for improvement as they are currently performing at less than 60 per cent of their potential.

Figure 5: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Visionary and strategic leadership

Sunil Kant Munjal
Joint Managing Director, Hero MotoCorp Ltd. and Chairman, Hero Corporate Service Ltd.

Success in the twenty-first century business world depends on leaders who are alert and always keen to harness the opportunities that the future offers. Leaders also need to analyse the bigger business scenarios to develop a well-informed and strategic perspective that can be used to optimise organisational performance.

These leaders must not only recognise the strategic opportunities for success, they need to go further and capitalise on them by linking initiatives to organisational goals and objectives. The willingness of the leaders to consistently learn from the past, and their ability to anticipate the future will determine their success.

Introspection holds the key. As organisations become forward-looking, radical and people-oriented, leaders must feel compelled to examine themselves. As awareness dawns, many leaders will find themselves embracing unique styles of leading and pioneering change. Vision, empowerment and execution are all equally vital.

Transformation usually occurs in the following manner, first, leaders spell out concise goals and a stimulating idea of the future, and open new and challenging horizons for the organisation. Second, the leader and team members responsible for catalysing change work through complexities quickly and show resilience. Third, the leader cascades his ideas and vision across the organisation. Where and whenever possible the leader invests in enhancing the skills of team members.

It is a matter of time before change is visible in easily discernible ways. It is all about kicking in a virtuous cycle, and when all this happens seamlessly, businesses bounce back quickly and strongly. A robust growth culture takes shape, and complex changes get embedded as part of strategic planning.

Visionary and strategic leadership

71.3	76.5	75.6
MCI India 2010 Score	MCI India 2011 Score	MCI India 2014 Score

Visionary and strategic leadership can play a pivotal role in the success of organisations. Presence of strategic leadership can provide a structure to business decision-making, facilitate measurement of key business outcomes, and enables communication channels, both inside and outside the organisation. Strategic alignment can help in the coordination and integration of organisational routines to achieve long-term objectives.

Two out of every three leaders surveyed, are of the view that organisations are spending time and effort in the articulation and development of their strategy and vision. They believe that organisations today are making an effort to facilitate the deployment of strategy across the organisation and achieve a common understanding of the building blocks of growth.

Key insights

- Leaders firmly believe that their organisations have an inspiring vision, and that their efforts are focussed towards growth and realization of stakeholder interests. However, the management's ability to understand and take action as a response to the international business environment remains a concern area.
- Foreign and Indian multinationals are observed to lead in the visionary and strategic leadership dimension. These organisations have put significant efforts into creating ownership of their vision through effective and consistent communication. Public sector enterprises are seen to be lagging behind on this dimension. This could be attributed to their relatively slower and centralized decision-making processes.
- Leaders from the IT/ITES, media and telecommunications industries believe that their organisations have the highest capability in this dimension. This may be attributed to the focussed efforts by several Indian IT/ITES, media and telecom organisations to develop and maintain global standards. It is important to note that a major part of the revenue for these organisations come from their international operations. The survey also showed that the retail and consumer goods industry is perceived to be lagging in this dimension.

Figure 6: Results by question

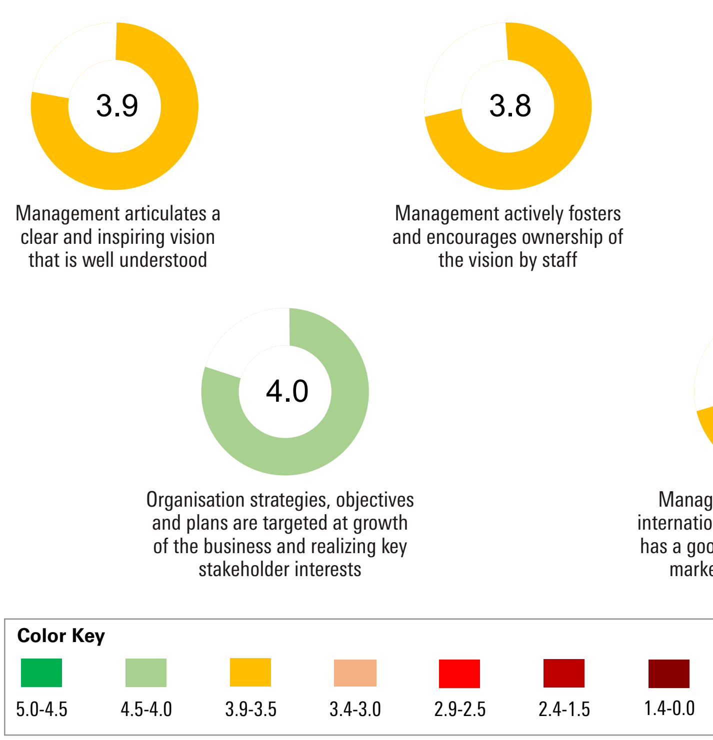
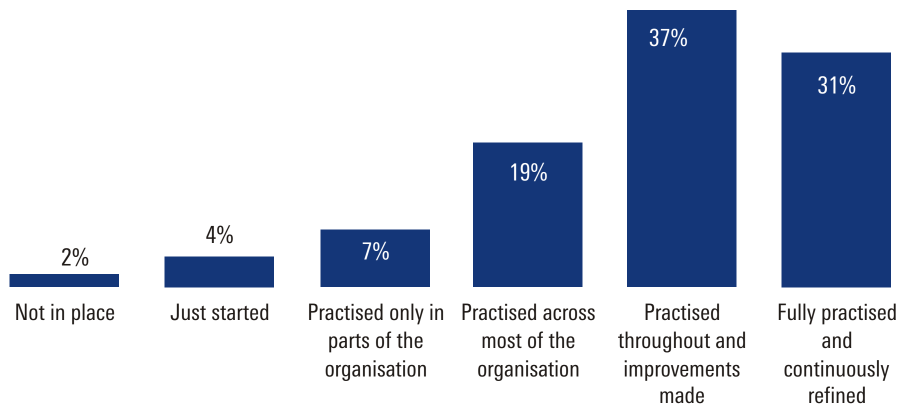


Figure 7: Results by scale



*Graph may not total upto 100% due to rounding

Figure 8: Score by organisation type

Figure 9: Score by employee strength

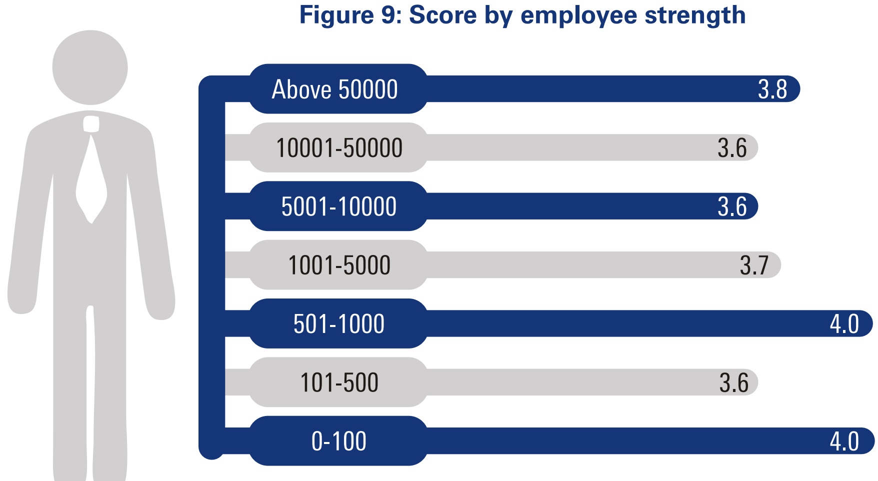
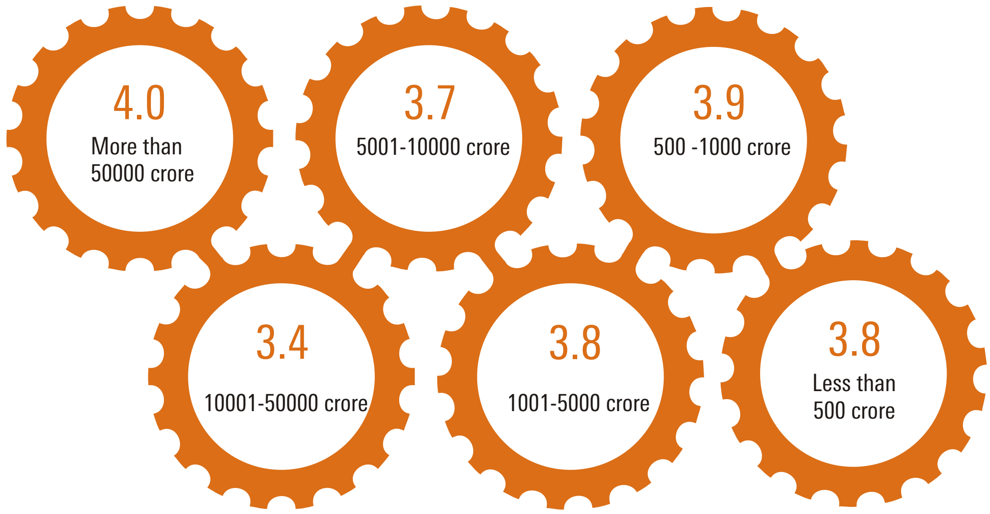
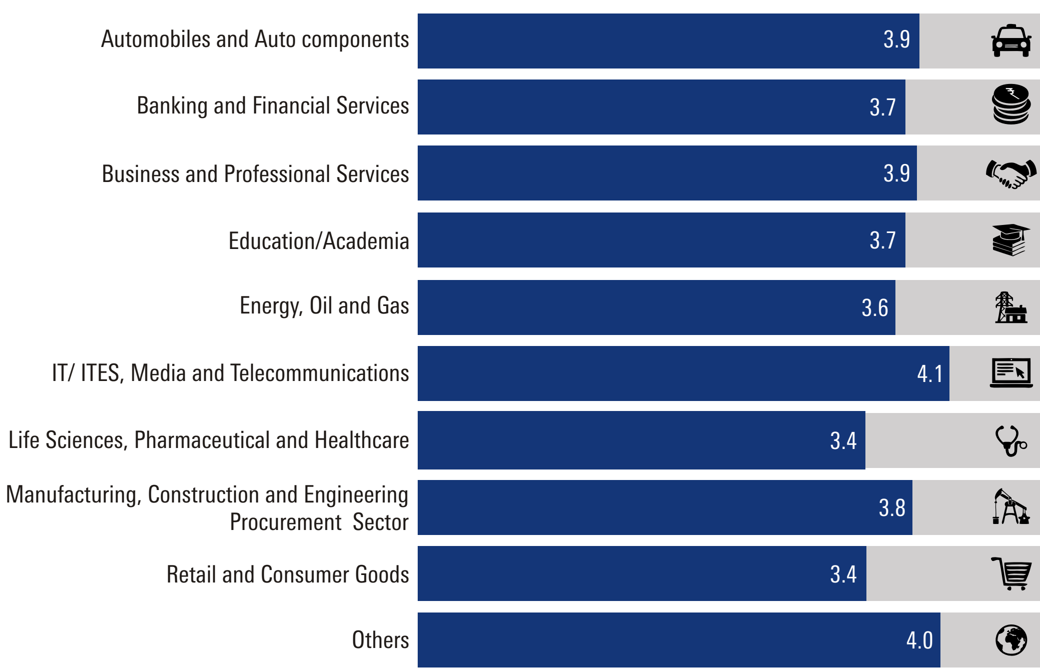


Figure 10: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 11: Score by industry type



Performance leadership

Sanjiv Goenka
Chairman
RP-Sanjiv Goenka Group

There has never been an easy answer to the question “what is leadership?” It is like a challenge of describing a bowl whose characterization and portrayal is not limited to the material from which it is made, but it also includes the hollow and unseen space which defines the shape and capacity of a bowl. (Mauborgne, 1992)

Therefore, the essence of leadership is much more than what we see. It includes the skill of a leader to hear the unspoken with humility and commitment. It also encompasses the value of looking at reality from various angles, and the ability to create an organisation which draws from the unique strength of every member.

The importance of leadership in the conduct of an organisation, society and country has been recognized since time immemorial.

A leader is the one who ‘knows the way, goes the way and shows the way’. He is the one who builds the ship by motivating people to long for the endless immensity of the sea, instead of simply allocating the task of collecting woods. A leader is the one who has the vision, whose actions inspire others to dream more, learn more, do more, and become more.

The world has become more complex and dynamic with industrialization, globalization and technological advancement. This rapid change in the environment, marked by discontinuities and ambiguities, demands for global leaders, who can understand the volatility, uncertainty, complexity and ambiguity (VUCA) of the new age business environment, and adopt a leadership style accordingly.

Performance leaders are visionary and have a degree of emotional intelligence. These leaders recognize the need for change, and exercise the power of leadership by mobilizing resources to achieve a common purpose. They bring about substantial improvement in organisational vitality, employee commitment and motivation, revenue growth, culture, brand and customer satisfaction through people management, process management, strategic management and personal characteristics.

75.4	77.1	73.3
MCI India 2010 Score	MCI India 2011 Score	MCI India 2014 Score

The importance of performance leadership and its contribution to organisational success needs to be emphasized, more so in the current dynamic business environment. It can lay the foundation for achievement, orientation and development of an effective team. Performance leadership can enable organisations to manage risks and continuous change, while striving for excellence and improvement in performance.

While most leaders surveyed believe in sustainable performance, and are trying to outperform competitors with consistent improvements, only 10 per cent believe that it is being fully practised in their organisation. One out of every two leaders surveyed accepted that performance leadership is core for their organisation to thrive in this dynamic environment.

Key insights

- Majority of the leaders surveyed believe that their management attempts to ensure that the organisation is achievement focussed and goal oriented. However, the management's ability to balance risk with achievement, as well as the organisation's competitive performance have emerged as areas of relative concern.
- Leaders from both foreign and Indian multinationals believe that their organisations are high on performance orientation, whereas leaders from public sector enterprises and government establishment think there is significant scope for improvement on this dimension.
- Leaders from IT/ ITES, media and telecommunications industries believe that their organisations have the highest capability in terms of performance leadership. The same does not hold true for life sciences, pharmaceuticals and healthcare, as well as retail and consumer goods industries, as observed from their lower scores.

Figure 12: Results by question

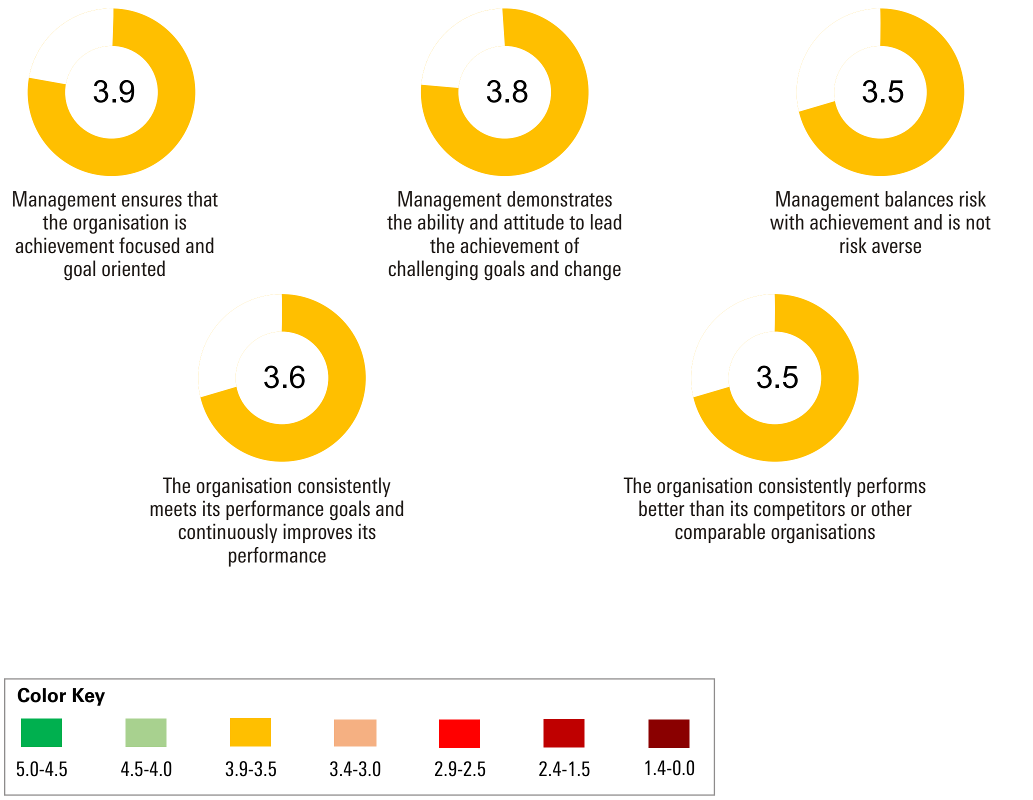


Figure 13: Results by scale

*Graph may not total upto 100% due to rounding

Figure 14: Score by organisation type

Figure 15: Score by employee strength

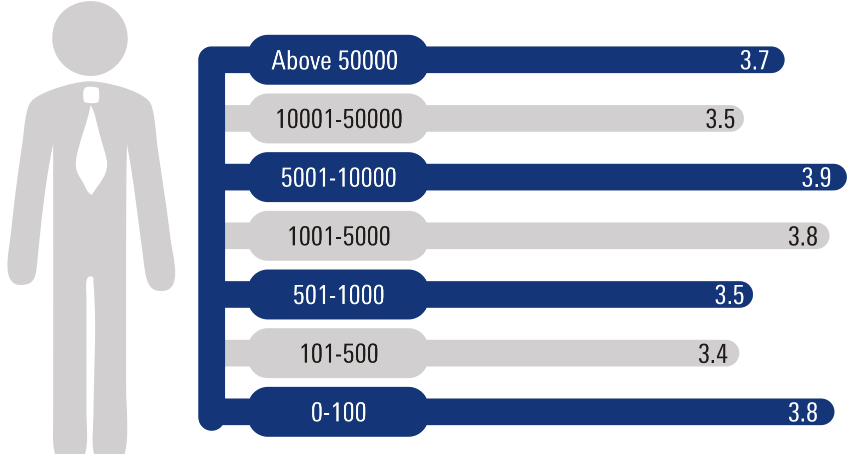
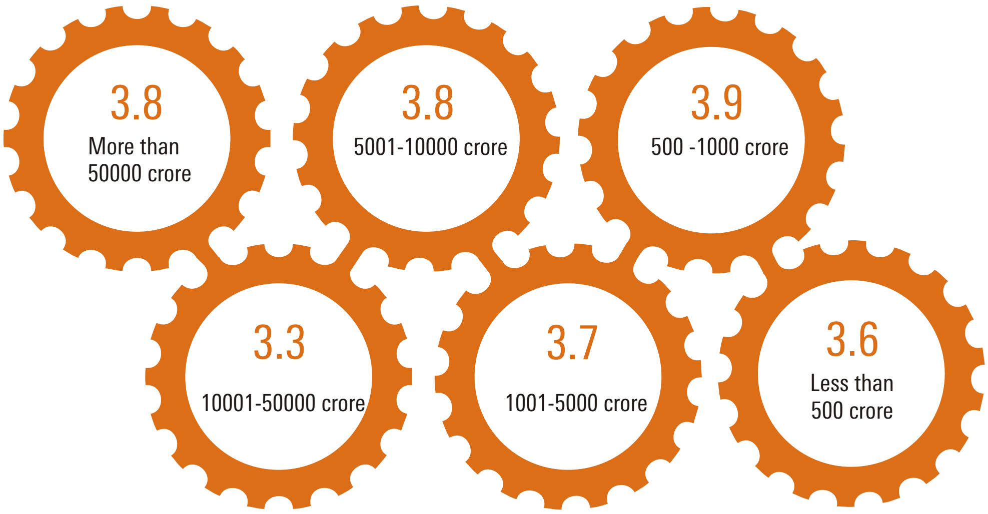
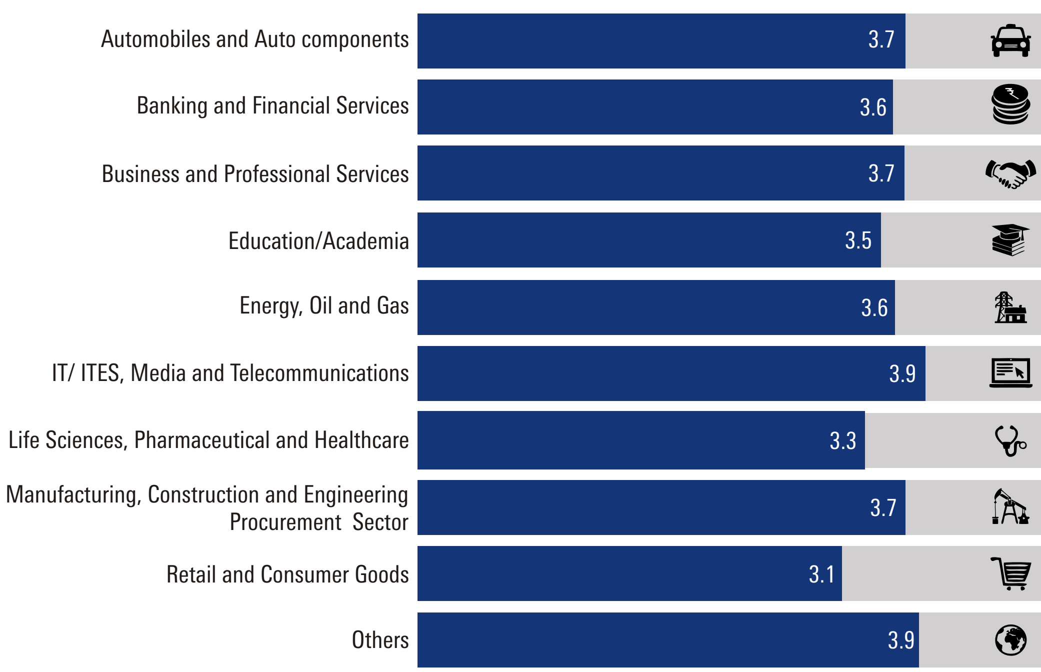


Figure 16: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 17: Score by industry type



People leadership

D Shivakumar
Chairman and CEO
India Region, PepsiCo India Holdings Pvt. Ltd.

A job title is something an organisation gives you but the title of a 'leader' is something people in the organisation give you. This simple concept is not generally understood by managers, and hence they meander into being average; this stops them from being truly good people leaders.

I have worked with some great people leaders and there are five things I see they do better than anyone else.

Great 'people leaders' are institutional builders. They always do what is right for the institution, and thus inspire people to a new level of commitment. Many leaders today are narrowly focussed on what is in it for them. Hence, leaders who build institutions leave behind a rich pipeline of people committed to the institution and its journey.

Great 'people leaders' are open, non-hierarchical, and transparent. In essence, you do not need to second guess them. They encourage honest conversations and thrive on engaging with the truth. In their teams, you will see more truth-telling than whistle blowing. Hence, people feel safe and secure. Because they feel safe and secure, the people give their very best every day.

Great 'people leaders' set high expectations, urge people to go beyond the normal, and thus shape outcomes. They get the best out of people by making them think and dream beyond what is incremental. They do this via coaching, they do this via sharp questions, and they do this by challenging the basic assumptions that their people make. These leaders show more faith in their people than the people may have in themselves.

Great 'people leaders' see themselves as being accountable to their people. They are open in taking feedback from their people, and shape the feedback into energizing the team and propelling it with tailwind. Because they are accountable to their people, they look at their role as contributing to the success of their people. They invariably make bigger leaders out of the people who work for them. Because they are accountable, they practise a rare breed of fairness with their people. Their people feel comfortable that they will get what is rightfully theirs.

Great 'people leaders' are humble. They can stare at reality in the eye, they are humble when they succeed, and have the strength to fail. They are humble, that does not mean they are doormats, they know how good they are and derive pride from it. Because they are humble, they endear themselves to everyone who works with them.

People leaders know that aligning the energy of the people is more than half the job done. They spend enormous time and energy reaching out to people inside and outside the company. Their brand of leadership is personal, yet collective in its delivery for the company.

71.8
MCI India 2010 Score

74.9
MCI India 2011 Score

68.0
MCI India 2014 Score

People leadership plays an essential role in developing an employee-centric culture in an organisation. It supports the achievement of business goals by managing human capital and laying down robust HR strategies. Strategic human resource management emphasizes the importance of organisation design, culture, and individual vis-à-vis team development. It helps address capability needs by helping ensure that the organisation has a skilled, competent, and committed workforce to achieve sustained competitive advantage.

Only 50 per cent of the leaders surveyed agreed that their organisation adequately emphasized people strategy and planning. One in every ten leaders who participated in the survey, stated that people practises in their organisations are either non-existent or nascent.

Key insights

- Developing a pipeline of future leaders and grooming of subordinates by respective mangers was highlighted as a major improvement area in the survey. In the current scenario, succession planning has emerged as one of the biggest challenges faced by the C–suite. The corporate governance norms announced by the Securities and Exchange Board of India (SEBI) also mandate the need for succession planning across the boards of all organisations.
- Leaders from the Human Resources/ CSR/ Sustainability departments have given a higher rating to human resource planning identifying it as an integral part of the annual business planning process, as compared to leaders from other departments. This highlights the growing need to integrate strategic HR planning with mainstream business planning processes.
- The survey findings suggest that foreign multinationals, on account of their people-friendly policies, are observed to be leading in this dimension. It is interesting to note that Indian multinationals fare lower than government establishments, signifying a scope of improvement for them, especially in developing and retaining key talent.
- Leaders from IT/ ITES, media and telecommunications industry are leading in maintaining growth and empowerment of its people. This could be attributed to the maturity of HR strategies and policies required for managing their large employee base. Leaders from the retail and consumer goods, as well as energy, oil and gas industries are relatively lagging behind in this dimension.

Figure 18: Results by question

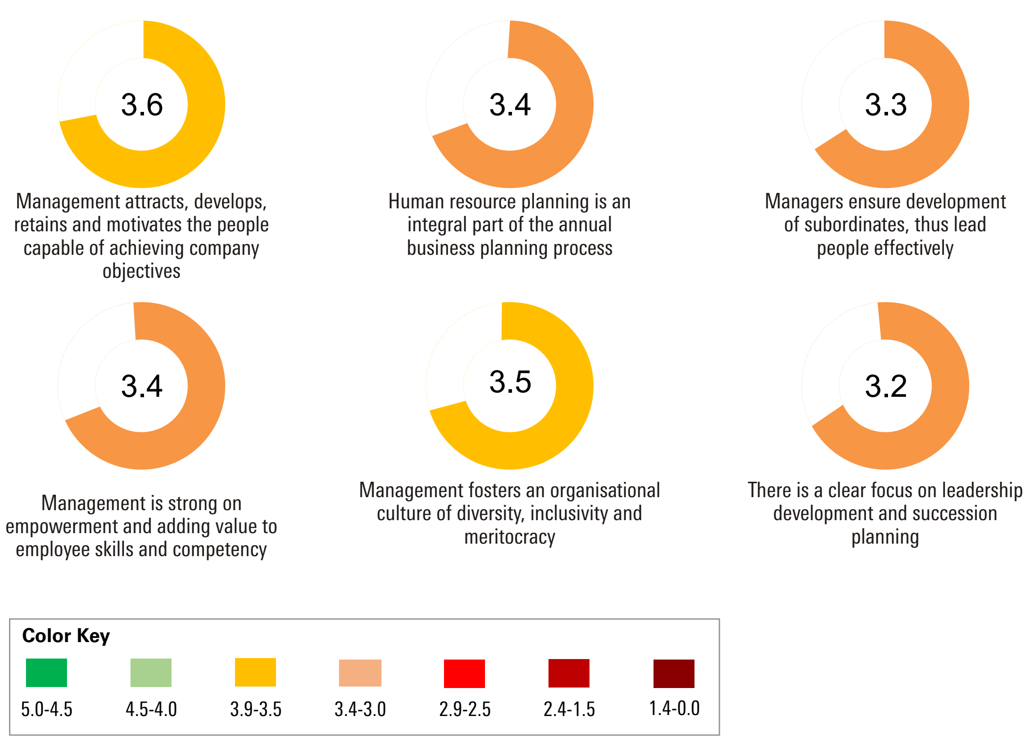
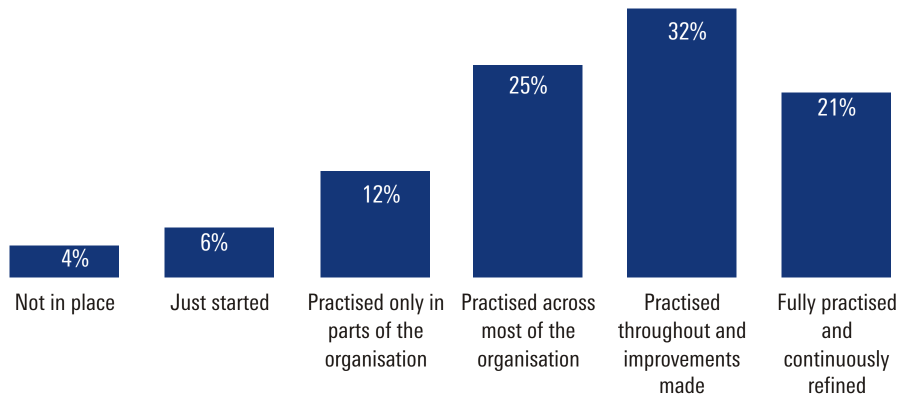


Figure 19: Results by scale



*Graph may not total upto 100% due to rounding

Figure 20: Score by organisation type

Figure 21: Score by employee strength

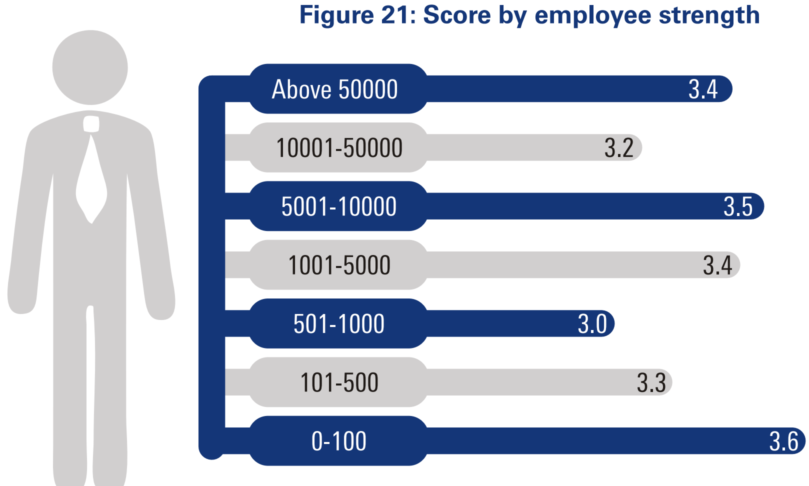
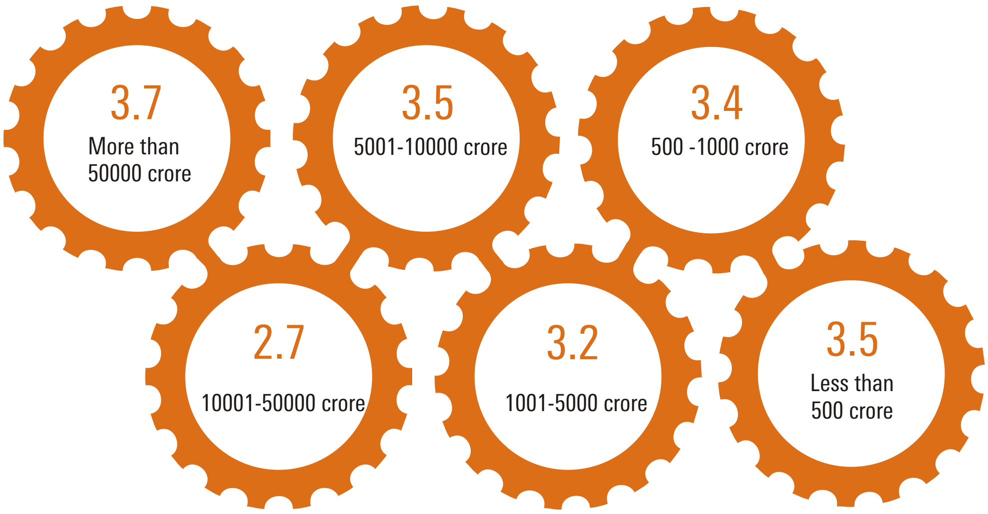
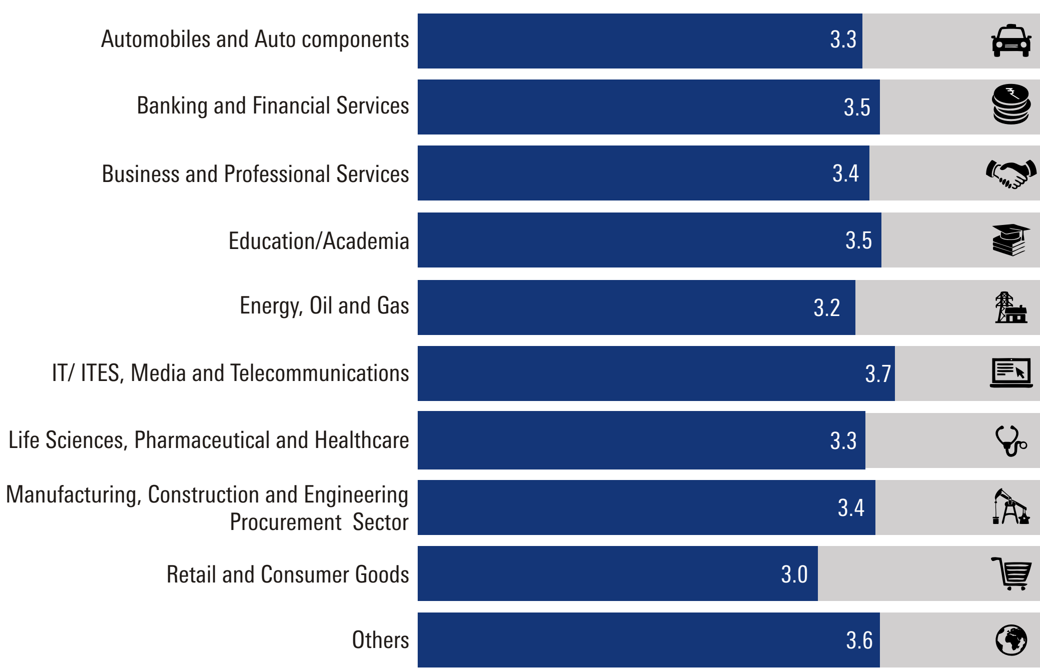


Figure 22: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 23: Score by industry type



Financial management

Shikha Sharma
Managing Director and CEO
Axis Bank

"Beware of little expenses. A small leak will sink a great ship" – Benjamin Franklin

In recent years, with the numerous economic and political changes, the role of finance has changed drastically. The pressures for finance range from internal factors such as cost, operational efficiency, etc. to external factors such as business and economic environment, emerging technologies, and regulatory issues. These factors are continuously changing and subsequently redefining the role of finance in an organisation.

The global business environment is rapidly changing, impacting organisation relationships across borders, and resulting in policy changes such as the adoption of International Finance Reporting Standards (IFRS). The purpose of the IFRS is to bring uniformity in company accounts across the world, and is especially helpful for companies who have dealings in several countries. The fact that IFRS is progressively replacing the national accounting standards of many countries indicates that the finance function in an organisation can no longer have a local outlook.

Along with policy changes, the function of finance within organisations has transformed. Outsourcing as well as finance shared services and other cost cutting methods are increasingly being explored. The focus for in-house retained finance function is now moving from managing and monitoring transactions to 'wealth management' for the organisation.

Emergence of new technologies and continuous improvement in enterprise systems have impacted the landscape of finance too. Finance has systems to aid smarter and quicker decisions; – they just need to catch up on the requisite skill sets. In order to meet this demand, finance teams now need to consist of professionals with different skills. Finance function transformation will now involve more than just structural change; the new analytical and business partnering activities require new skills, mindsets and behaviours.

The very function of finance today, has changed from just handling accounts, working capital, cost control etc. With the recent evolution in the idea of what comes under the finance function is of utmost strategic importance to the CEO. The CFO needs to demonstrate strategic leadership, business acumen, vision, a good grip of the regulatory changes and its impact on business, and an understanding of critical factors to the organisation and potential obstacles. Along with these skills, stakeholder management, customer focus, and operational focus are three additional paradigms going beyond just numbers that are shaping the effectiveness of the finance function.

Finance today has the power and responsibility to participate and contribute to every key decision made by the organisation, be it working closely with the investor relations team for deciding the information to be shared in public or be it making decisions about the next big move of the organisation, ranging from financial risk management to mergers and acquisition (which might or might not be to acquire funds at lower cost and deploy them to the best possible use).

In any organisation these days, the finance arm also focusses on increasing the net worth/valuation of an organisation apart from increasing profits. We have a lot of live examples in front of us in the e-commerce space and for that matter in any other sector.

In order to succeed in the future, the finance function needs to optimize every resource available, focus on rapid changes in the external environment as well as internal environment, and become a function that can take the organisation to greater heights.

74.1	76.7	74.5
MCI India 2010 Score	MCI India 2011 Score	MCI India 2014 Score

Financial prudence, both short and long-term, can be vital for the sustenance, growth, and profitable future of an organisation. It can further help in contextualising the strategic planning process and operational effectiveness. Consistent and transparent in-house financial systems can help strengthen the foundations of success for the organisation.

Two out of every three leaders surveyed stated that their organisations fare well on setting a financial growth-oriented vision, and continuously refine internal systems to exceed the set goals. 80 per cent of the leaders surveyed opined that their organisations have well-defined, robust financial systems in place that enable effective financial management.

Key insights

- Survey findings suggest that leaders lay equal importance on setting goals that support sound development, and on setting up effective control systems that help surpass these growth targets.
- Interestingly, leaders from organisations with an employee base of 100 -1000 rate themselves relatively lower on the growth plans of their organisations as compared to their financial management and control systems.
- Insights from the survey depict that the finance/ commercial/ investor relations/ capital markets department, as well as enterprise leadership comprising of c-suite and directors, give equal importance to defining growth plans and meeting goals at an organisation level. However, leaders from the former category rate the effectiveness of financial systems in the organisation better as compared to the C-suite.
- Leaders from organisations in the life sciences/pharmaceutical and healthcare industry believe that their organisations are relatively lagging behind in showcasing and developing capabilities on this dimension.

Figure 24: Results by question

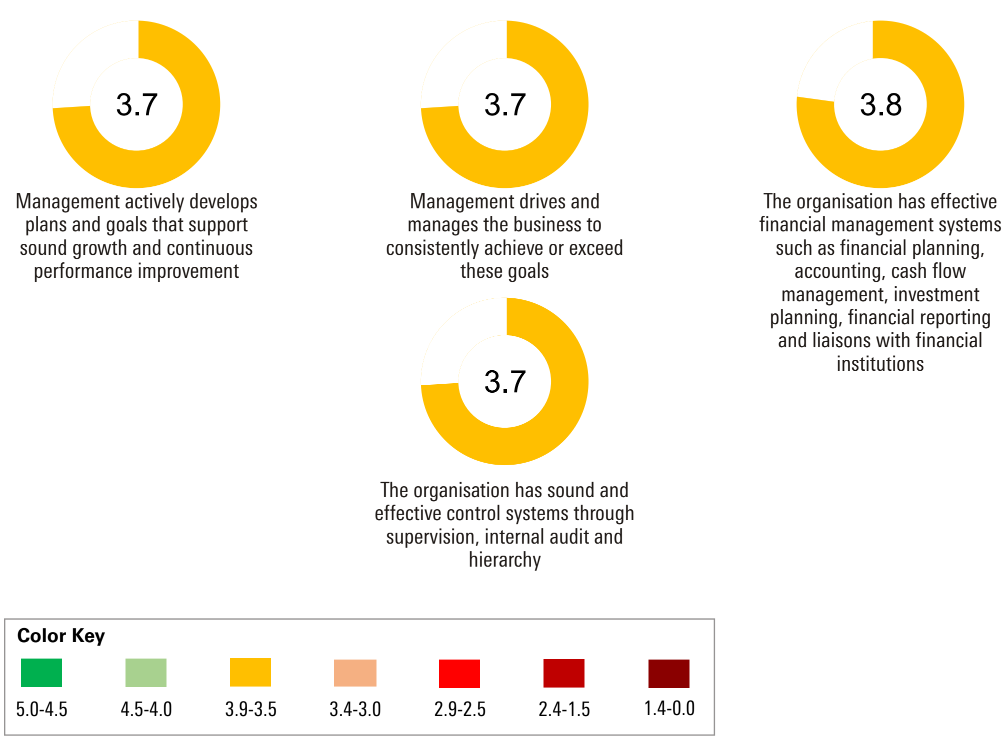
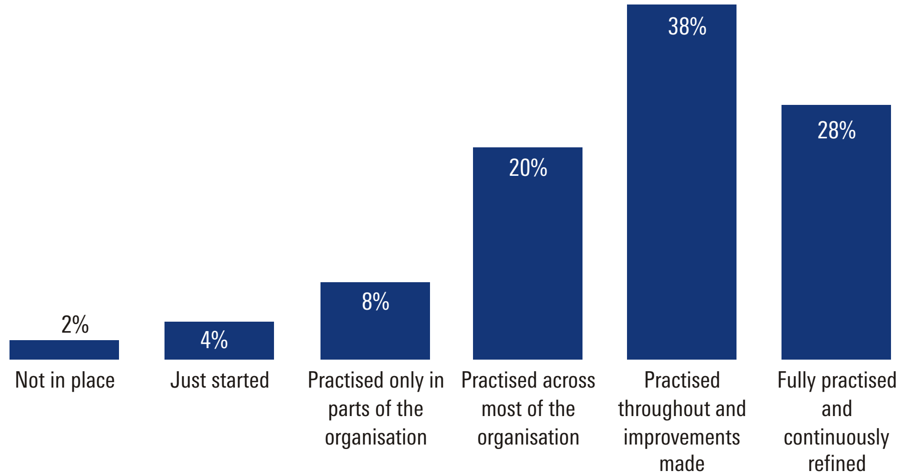


Figure 25: Results by scale



*Graph may not total upto 100% due to rounding

Figure 26: Score by organisation type

Figure 27: Score by employee strength

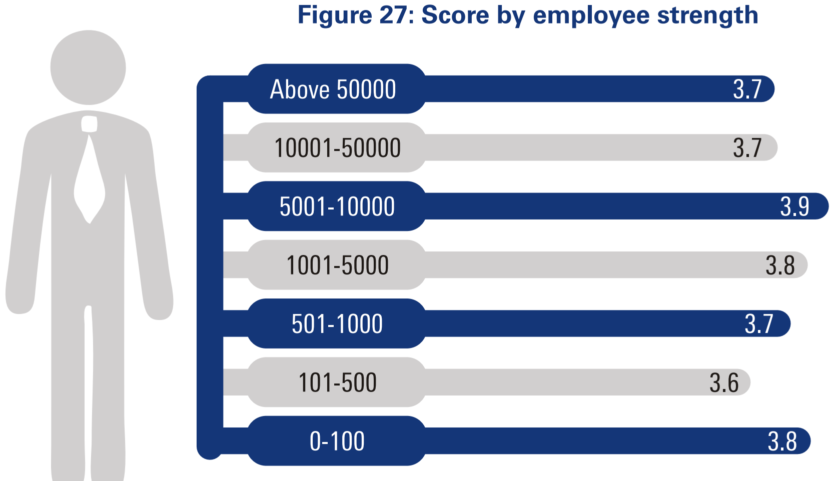
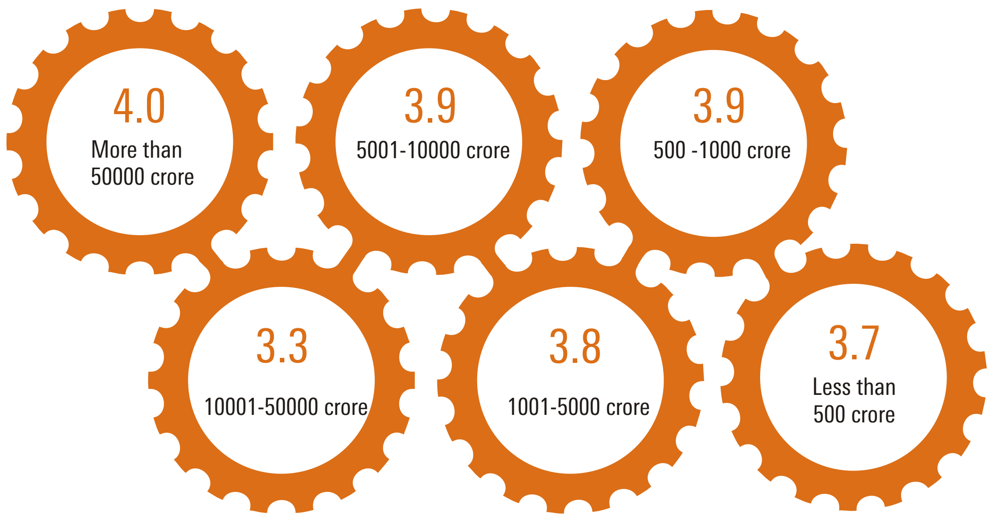
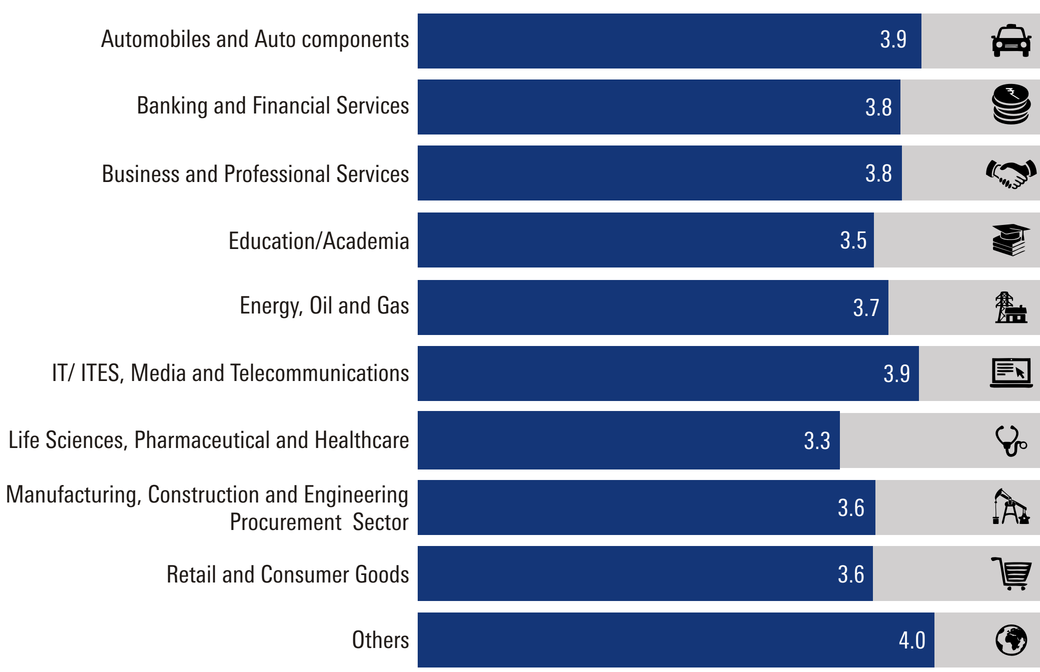


Figure 28: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 29: Score by industry type



Innovation in products and services

Pramod Bhasin
Founder and Vice Chairman
Genpact

Innovation in today's environment has become such a vital tool for progress and often, for sheer survival. This applies to all of us, as people, institutions or organisations. The pace of change has reached remarkable levels. It is virtually impossible to keep track of the technological advances and competitive dynamics across all industries. Yesterday, we knew who our competition was, where they were coming from, and we had a better ability to predict our world. Tomorrow, our competition will come from almost anywhere in the world - think about apps, cloud, global talent, connectivity, 3D printing, China, what could be next?

The major challenge is for organisations, with their checks and balances, metrics, measurements and approval levels, to somehow allow people to innovate, without incurring major losses or taking on big risks. But this is in many senses is an oxymoron, and not necessarily achievable by the same groups of people. Innovation fundamentally requires taking risks, thinking out of the box, sometimes throwing caution to the wind, and making a bet!

Innovation, most of all, is often deeply personal. The stories of the great innovators and leaders of the business world (Steve Jobs, Jack Welch, Edison, and many others) are based on a deep desire to succeed, tremendous ambition, and a faith in their own belief that is often irrational and defies logic. It is based both on enormous self confidence as well as on acute insecurity, and the need to prove oneself. Both can lead to the same result, surprisingly.

There are a few key elements to innovation. The first is the ability and desire to take risks. Most of us are trained from a young age to take the safe route, to not rock the boat. I remember, at a conference Vinod Khosla was asked a question that given the rate of failure of so many ventures, and the improbability of success, why would someone try and do something different? And his answer was simple, that only the improbable was worth trying because only the improbable would make a major impact. In order to take risks, we have to lose our fear of failure, which is the major factor that often holds us back.

Organisations need to identify people who they believe will take risks, will innovate, and try out new products and services. Not everyone in an organisation is meant to be innovative. You really do not want your controller or lawyers or facility managers to be innovative all the time, but identifying a core group that can be innovative is critical. And then allow them to make mistakes. Ask them each week, what did you try and fail at last week, why have you not had more failures? If we do not try we can not innovate, and if we do not fail we have not tried enough. Organisations must know it is okay to fail, and peoples career progression should evaluate their ability to take risks as much as anything else.

Innovation is also about leveraging global knowledge. New ideas are no longer formed only in our own backyards but we can reach out to them across the world. The best solution to an idea may lie in South America, not in the next city, or in Africa. The best ideas in the world are available on the internet and being born every day. Stimulation for innovation comes from watching the ideas coming up all around us and being constantly aware of the amazing progress being made, not just in the Silicon Valley, but in Korea, China, Romania and Brazil.

How can we also encourage people to think out of the box, to question the status quo, and think of areas where we all need solutions to age old problems, and this can be across any sector. Again encouragement, exposure, the ability to take risks, and encouraging the need to think outside the box is a really important element of finding a new way to succeed.

Innovation is a topic about which a lot has been written. Ultimately though it can be deeply personal for everyone, and the organisations that tap into that stream in their employees will build terrific products and services. We must all remember, there is almost an ‘infinite capacity to improve everything’ and that is what keeps us motivated and excited.

Innovation in products and services

74.5	76.2	70.2
MCI India 2010 Score	MCI India 2011 Score	MCI India 2014 Score

In this era of globalization and permeable geographic boundaries where organisations are competing with each other, innovation has become crucial for success. It is a cornerstone for differentiation, and in turn growth and wealth creation. With the shortening of product lifecycles and reduced attention span of consumers, it has become necessary for organisations to drive disruptive innovation across not just in their offerings, but also in their operating models.

The significant dip in score on this dimension can be seen as a clarion call for organisations in India. There is need to plan for interventions that encourage and infuse a culture of innovation and research. There is an urgent requirement for intensive planning, execution, and significant fund allocation for innovation across organisations.

Only 50 per cent of the leaders surveyed stated that their management recognizes innovation as a source of competitive advantage and continuously strives to bring improvements in this dimension.

Key insights

- Leaders acknowledge the need for innovation and organisational efforts that promote a culture of innovation. However, capability building and capital flows for research and development remain an area of significant concern.
- Leaders from foreign multinationals have rated their organisations higher on innovation and research. On the other hand, leaders from government establishments accept that they have significant scope for improvement, and see it as a daunting challenge to match pace with global organisations.
- Survey findings suggest a direct correlation between the employee strength and the capability for innovation. The score in general progressively increases with employee base.
- Leaders from energy, oil and gas, along with retail and consumer goods industries, believe that their organisations have significant potential for improvement when it comes to innovation. It is noteworthy to mention that the government of india is making focused efforts to allocate funds for research and development in renewable and green energy initiatives.

Figure 30: Results by question

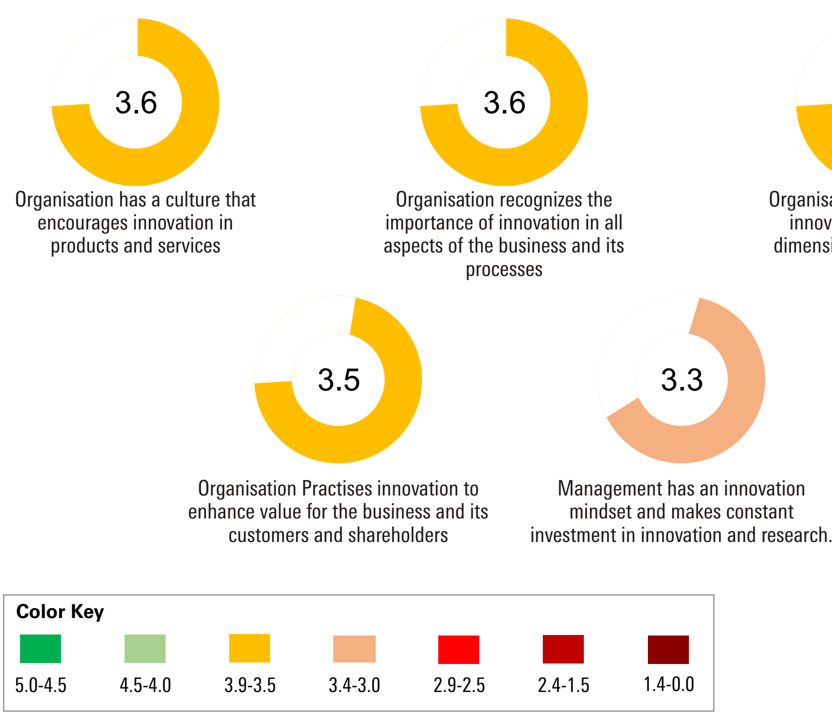
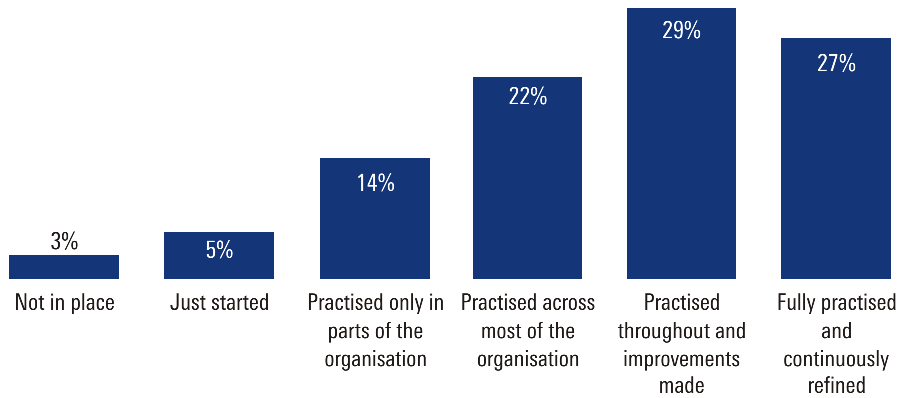


Figure 31: Results by scale



*Graph may not total upto 100% due to rounding

Figure 32: Score by organisation type

Figure 33: Score by employee strength

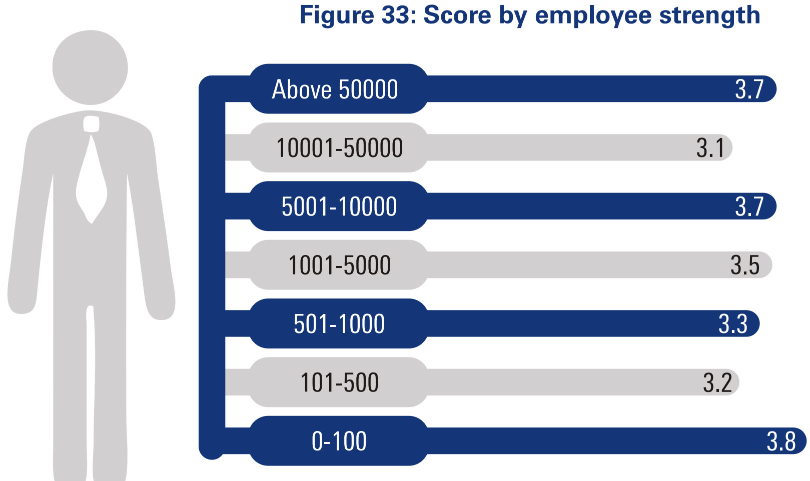
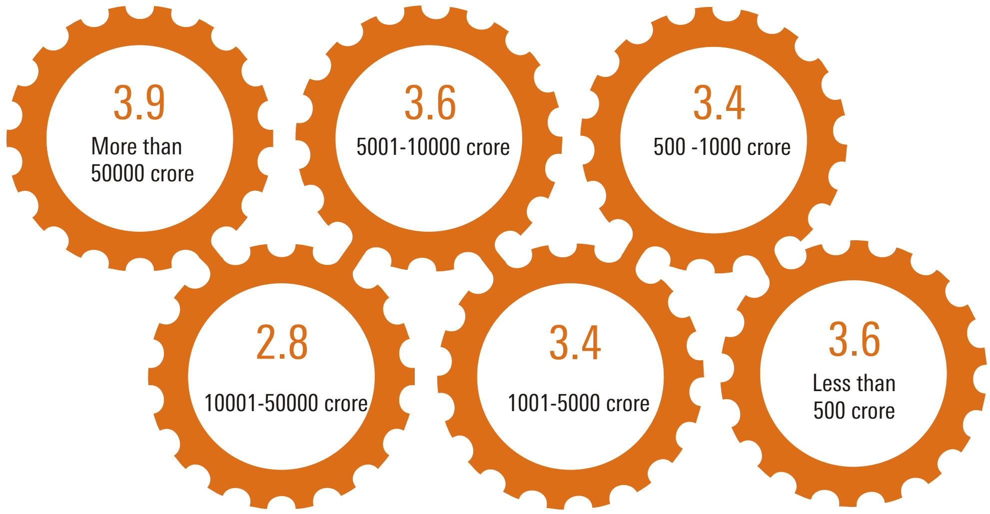
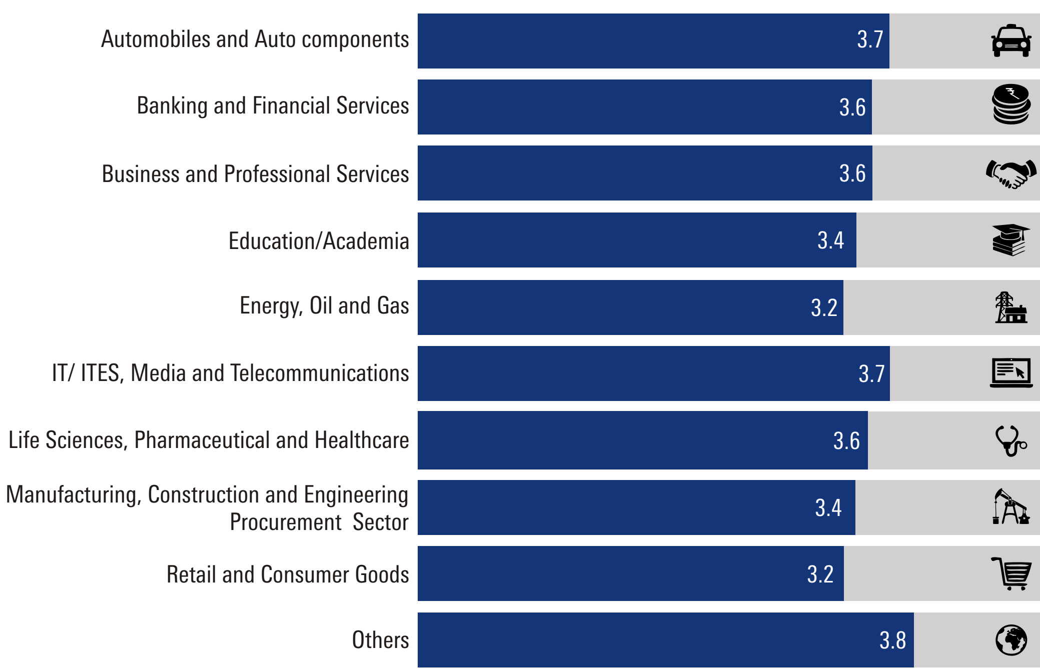


Figure 34: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 35: Score by industry type



Organisation capability

HM Nerurkar
Chairman
TRL Krosaki Refractories Ltd.

At the outset, organisational capability can be simply defined as the ability and capacity of an organisation expressed in terms of its (1) human resources: their number, quality, skills, and experience, (2) physical and material resources: machines, land, buildings, (3) financial resources: money and credit, (4) information resources: pool of knowledge, databases, and (5) Intellectual resources: copyrights, designs, patents, etc..

In the book 'Why the Bottom Line Isn't! How to Build Value through People and Organisation', Ulrich and Smallwood argue that few people care about the management structures or the strategies of the companies they most admire.

People focus on organisation capabilities, such as the ability to innovate and ability, to respond to changing customer needs. These intangible assets can make all the difference when it comes to the firm's market value, they say.

The collective skills, abilities and expertise of an organisation are the outcomes of investments in staffing, training, compensation, communication, and other HR Practises. They represent the ways that people and resources are brought together to accomplish work. They form the identity and personality of the organisation. They are more difficult for competitors to copy than financing, model strategy, products, or technology.

These capabilities give investors greater confidence in future earnings than physical assets.

Companies can gain a competitive advantage by building capabilities such as lean operations and project management, or industry-specific capabilities such as merchandising or underwriting.

There is no magic list of capabilities appropriate to every organisation. However, Ulrich and Smallwood have identified 11 desirable capabilities in a Harvard Business Review article. When an organisation falls below the norm in any of the 11 capabilities, dysfunction and competitive disadvantage will likely ensue. These capabilities are:

- Talent: Ability to attract, motivate, and retain competent and committed people
- Speed: Ability to make important changes fast
- Shared mindset /brand identity: Ability to ensure that customers and employees have positive and consistent images of and experiences with the organisation
- Accountability: Ability to obtain high performance from employees
- Collaboration: Ability to work across boundaries to ensure both efficiency and leverage
- Learning: Ability to generate and generalize ideas with impact
- Leadership: Ability to embed leaders throughout the organisation
- Customer connectivity: Ability to build enduring relationships with the targeted customers
- Strategic unity: Ability to articulate and share a strategic point of view
- Innovation: Ability to do something new in both the content and the process
- Efficiency: Ability to manage costs.

The key mantras

Companies need to be more deliberate in recognizing the capabilities which truly influence business performance, and should align their hiring, training and communication accordingly.

While culture is a strong driver of effective capability building, companies need to focus on certain capabilities for competitive reasons rather than for cultural reasons in order to gain a stronger competitive advantage.

72.0	75.9	69.3
MCI India 2010 Score	MCI India 2011 Score	MCI India 2014 Score

Building organisational capabilities is a key priority today. The need is seen to emanate from organisations' inability to effectively respond to the changing demands of a dynamic business environment. It is as much of a structure challenge as it is a capability issue. Senior leadership in organisations often drive special interventions to overcome such odds. Focussed attention to specific capability building exercises can go a long way in addressing such requirements.

This dimension has high scope of improvement and the survey indicates the need for building stronger systems for continuous learning and development within organisations.

Not surprisingly, two out of every ten leaders surveyed expressed that their organisation is still trying to build the requisite flexibility and responsiveness to excel in their respective business spheres.

Key insights

- Leaders from foreign multinationals believe that their organisations are faring relatively well in this dimension. However, Indian organisations seem to have a long journey to cover in building competence in this dimension. Leaders from Indian organisations have recognized the need for focussed training programmes for building the capabilities that can contribute to a disproportionately incremental value addition to their organisations' business performance.
- Survey findings suggest that leaders from smaller organisations (<100 employees) believe that their organisations are relatively stronger in areas of creating a learning culture within the organisation, and in applying leading industry practises for growth.
- Owners/ promoters have rated their organisational capability relatively higher vis-à-vis responses received from other role holders such as business leaders and head of departments.
- Leaders from government establishments expressed that management commitment to continuous learning, of individuals and organisation as a whole, is relatively lower as compared to all the other dimensions of organisation capability.

Figure 36: Results by question

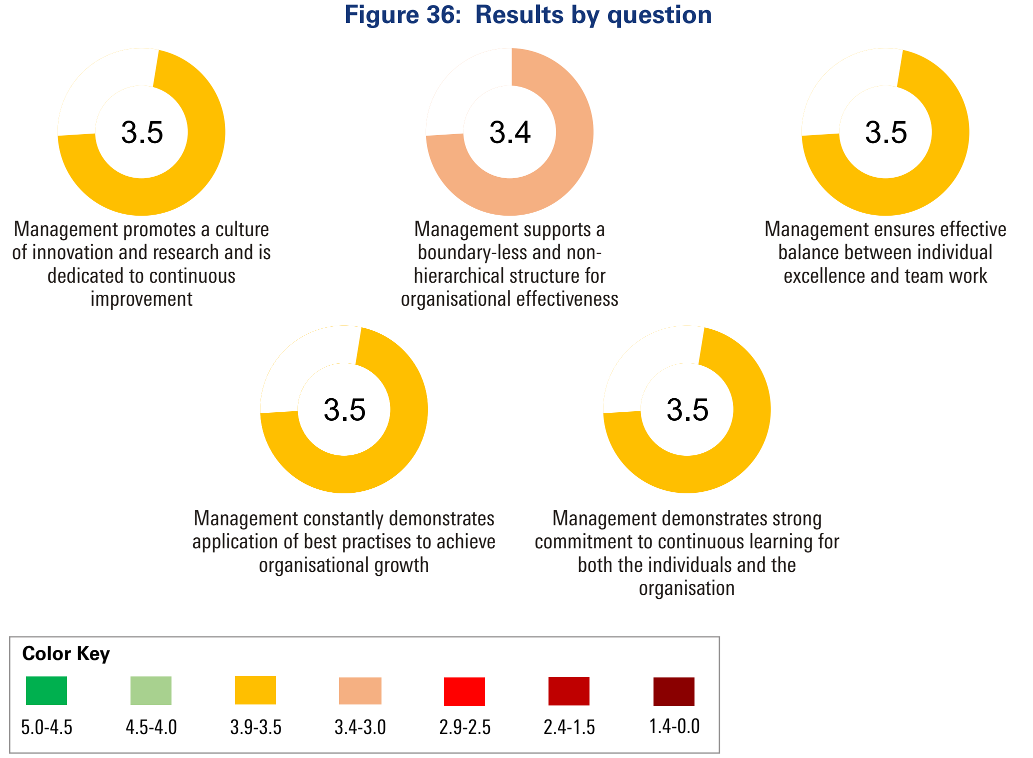


Figure 37: Results by scale

*Graph may not total upto 100% due to rounding

Figure 38: Score by organisation type

Figure 39: Score by employee strength

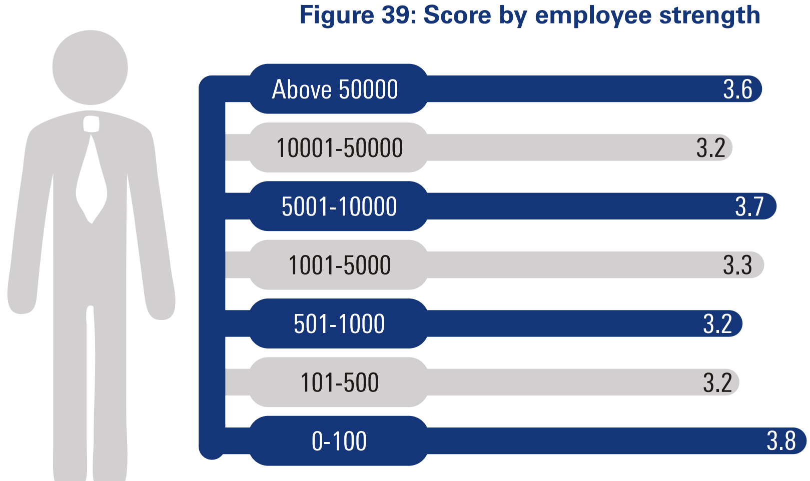
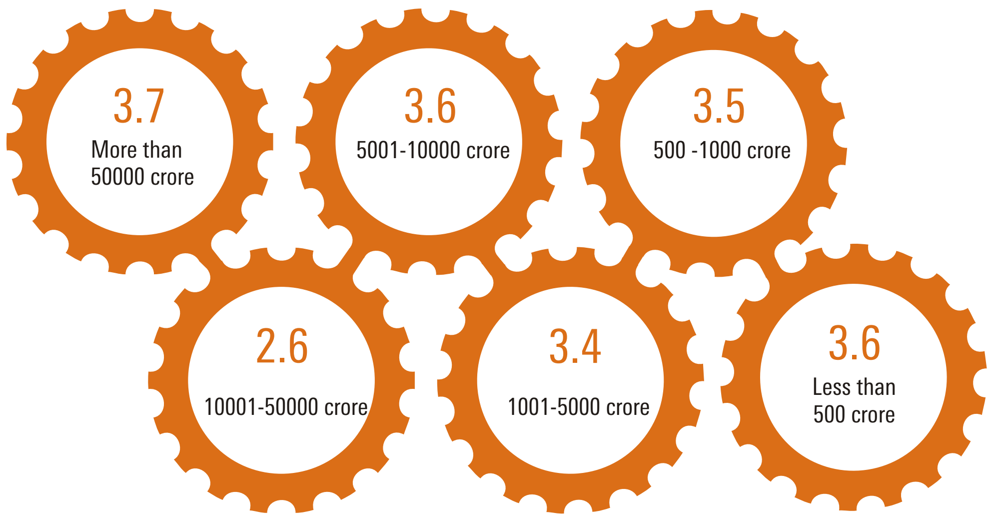
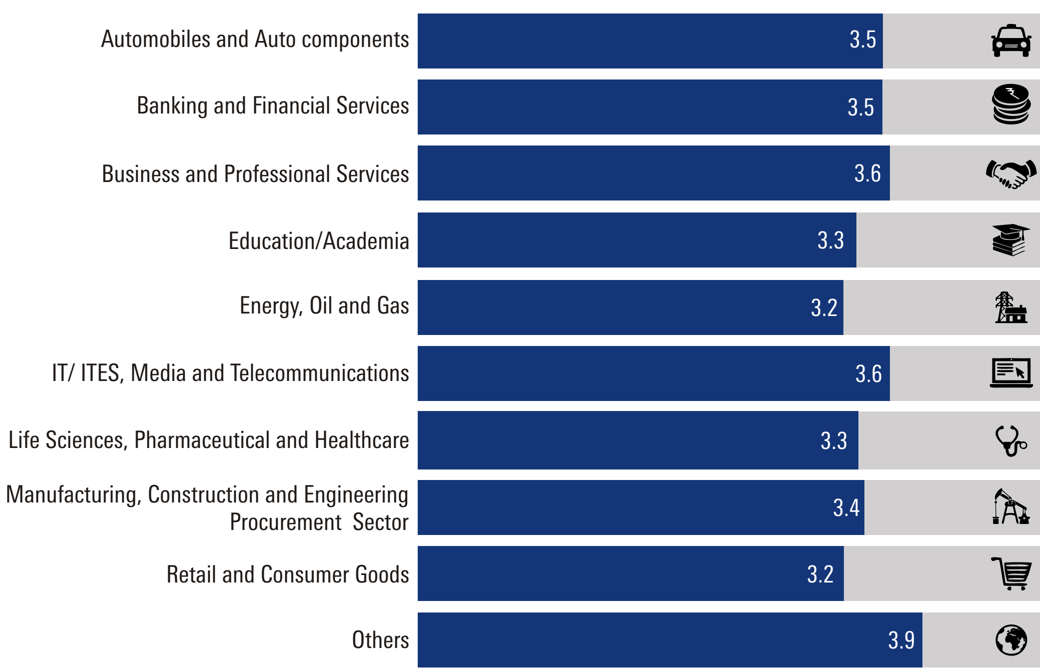


Figure 40: Score by revenue cap

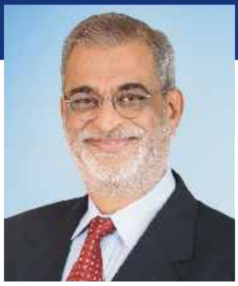


(in INR crore, where 1 crore = 10 million)

Figure 41: Score by industry type



Application of technology and knowledge



V K Thadani
CEO
NIIT Ltd.

In his book 'The Fifth Discipline', Peter Senge introduced the concept of a learning organisation. He described it as "organisations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole together." His concept of a learning organisation is based on the cornerstone idea that organisations learn when individuals learn. In this model, organisations rely on learning individuals.

However, with job hopping becoming the new norm for the millennial workforce, many organisations find themselves almost re-inventing the wheel every time brain drain occurs.

Some organisations engage in massive knowledge management initiatives where elaborate technology platforms are used to capture and create the organisation's knowledge repository. A review of many of these knowledge management systems shows that the effectiveness of these systems is limited to capturing explicit knowledge only. While on the other hand, the real competitive differentiator is the tacit knowledge that is almost always embedded in context. New age information systems can help in capturing these by leveraging communication and collaboration technologies across social media platforms and mobile-based applications.

Extensive research in cognitive sciences has revealed a number of insights, one of them being that the key difference between a novice and an expert is not just access to knowledge but the extent of experience in using the same for handling different situations. An expert has much more experience than a novice, and is therefore able to leverage the same to respond more quickly to new situations.

Case-based learning has been used by effective management institutes successfully to bridge this gap between novices and experts. However, in the traditional format of teaching, the number of cases that can be discussed or played out in a classroom are limited. Today, technology can help us enhance this number significantly.

Technology tools now give us an ability to develop realistic simulations and complex user interactions. These interactive, simulated cases can help in enhancing the exposure and experience of a user by a significant order of magnitude. Advances in gamification technology can help ensure that these simulations are engaging.

However, taking advantage of these entails a major transformation in the organisation culture to inculcate a desire to share, supported by strategy development for constantly updating the knowledge base, commitment and comfort across employee levels and leadership alignment. Progressive organisations committed to harnessing the experiential wisdom are making these investments with professional help, for sustainable competitive advantage.

73.5
MCI India 2010 Score

75.7
MCI India 2011 Score

67.25
MCI India 2014 Score

Technology is a great enabler and has changed the way we conduct our business in multiple ways. It helps in unlocking the transformational value hidden in organisation structures and systems. The advent of big data and analytics has hastened the advances that businesses are making. Technology may no longer be a differentiator but a leveler amongst organisations.

Application of technology and knowledge to build a sustainable competitive advantage has a relatively lower rating as compared to other dimensions. This score has also seen a steep dip as compared to previous years. It could refer to the rapid technological advances made across industries and the relatively slow pace of organisations in catching up.

Two out of three leaders surveyed believe that employees across their organisation are trying to transition from being digital migrants to digital natives, and are striving to better conduct their business by leveraging technology.

Key insights

- Leaders believe that their organisations' are effectively leveraging their information technology capabilities to positively impact business, and are constantly upgrading them as well. However, the establishment of robust knowledge management processes and their organisation-wide dissemination has emerged as a major area of concern.
- Leaders from foreign multinationals have been observed to lead in this dimension. They are interestingly followed by government establishments and public sector enterprises. Technological solutions are widely considered as a catalyst for identification of new areas of growth and revenue.
- Leaders from mid and large revenue cap organisations (5001 to more than 50000 crore), apart from the exception of organisations in the revenue cap of 10001 to 50000 crore, view technology as a driving force behind efficient functioning. This could be attributed to their abundant resources, enormous scale, capital funding and process discipline.
- Leaders from the IT/ ITES, media and telecommunications industries believe that their organisations are faring better on this dimension vis-à-vis other industries. This could be due to their technology-intensive nature of work. Leaders from the retail /consumer foods and life sciences industry perceive a significant gap when it comes to adoption of new technology.

Figure 42: Results by question

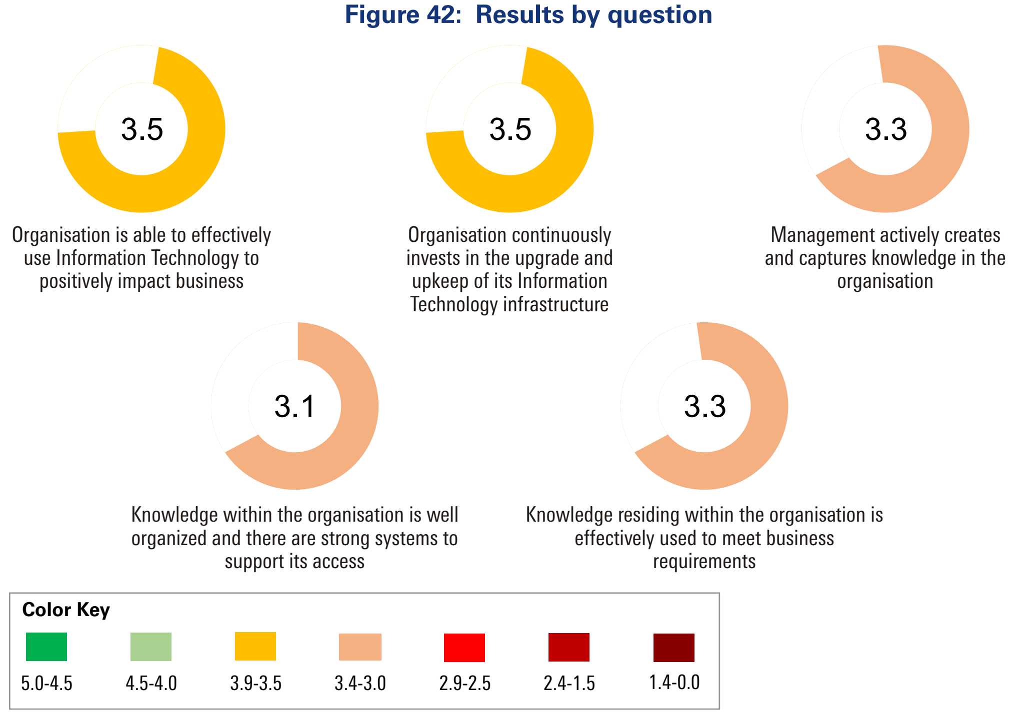
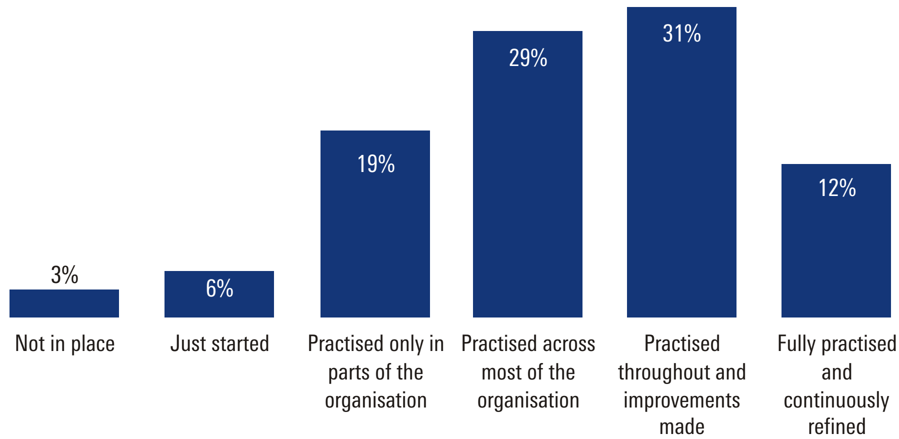


Figure 43: Results by scale



*Graph may not total upto 100% due to rounding

Figure 44: Score by organisation type

Figure 45: Score by employee strength

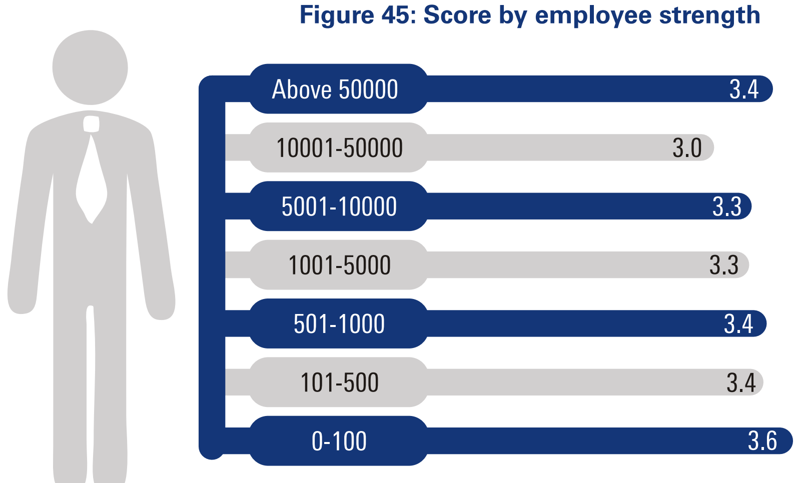
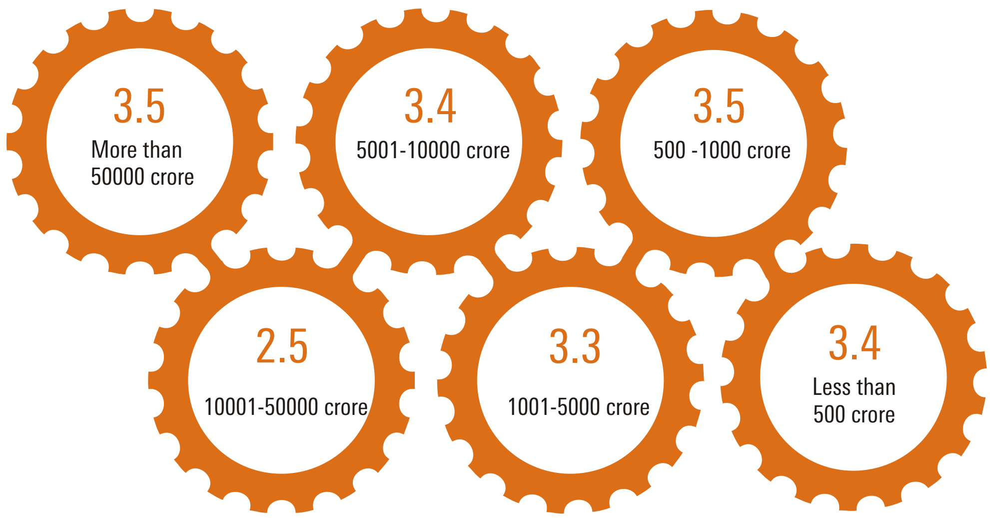
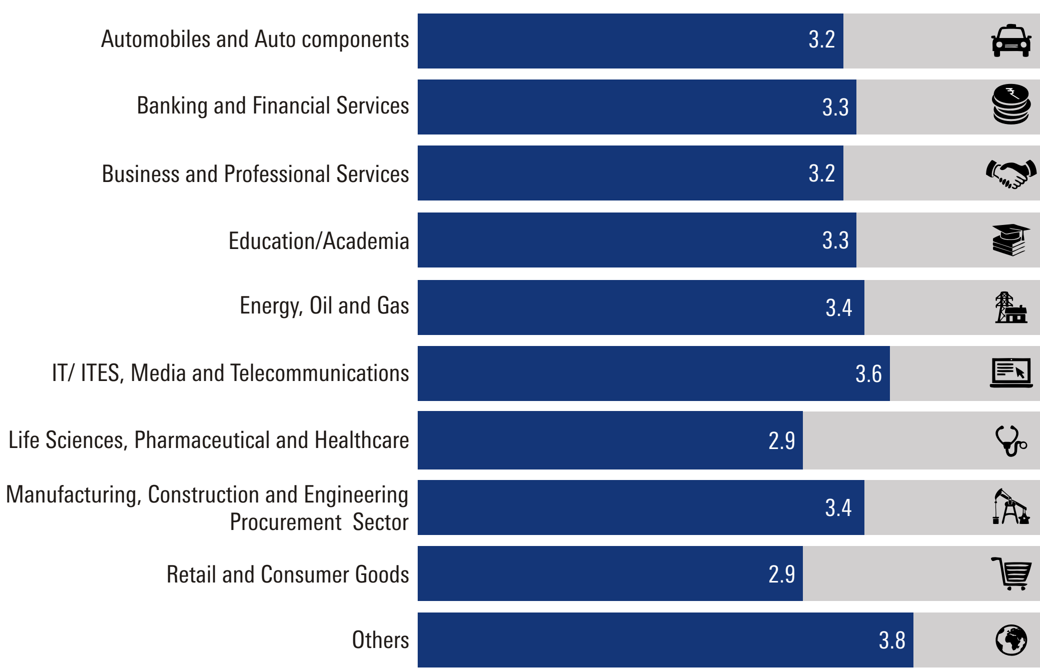


Figure 46: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 47: Score by industry type



External relationships

Firdose Vandrevala
Executive Vice-Chairman
Essar Steel India Ltd.

In 2004, management guru Peter Drucker wrote “The CEO is the link between the inside -- the firm -- and the outside -- society, the economy, technology, markets, customers, the media, public opinion, etc. A CEO's first task,” he wrote, “is to define the meaningful Outside”. The problem that most business entities face today is that the 'outside' is constantly evolving. Re-defining who we engage with, why we engage and how we engage, is a necessity at every stage of the business life cycle.

Traditional external relationships include marketing partnerships, joint ventures, associating with trade bodies or lobbying groups. The value propositions for these external relationships are different.

Marketing partnerships and joint ventures can assist companies by helping them to establish credibility and brand value. They can fill gaps in a market offering, allowing a company to focus on its core product or service, while other firms assist in complementary ways. Such partnerships can help firms reach markets that would not otherwise be easily penetrated.

Customer relationships can help a firm build products that better meet that customer’s needs, and in turn better fit the market as a whole.

Joint ventures or partnership can help give companies access to resources (capital, intellectual property, etc.) that they would not otherwise have access to if they acted alone.

Companies can work with associations or standards bodies to increase credibility, sway a standard towards a new company’s technology, as well as allow a group of firms to spread risk and rewards.

However, business leaders are increasingly appreciating that relying solely on known or powerful stakeholders concerning existing businesses can hinder organisational transformation by creating a tunnel vision. Weak signals, which are precursors to significant trends and change mechanisms, emanate from a diversity of sources, including the activist groups, social entrepreneurs and NGOs. Leadership must be tuned-in to receive such signals and react proactively.

External factors in the business ecosystem like increased resource nationalism, increased demand from society for a social license to operate, increased demands for lower carbon footprints etc., are demanding increasingly higher attention of the C-suite. In order to project the image of a responsible social citizen, companies are increasingly plowing back their profits to CSR activities, partnering with NGOs with complimentary interest and skillsets, and focussing on eco-friendly and 'frugal' innovations. Managing public relations and ensuring that the right projections are made in the media, be it traditional modes or the social media has now become ‘mission critical’ in driving and maintaining organisational brand equity.

Today, companies that want to excel on a long term basis will have to concentrate on three intangible assets, 3Cs: Concepts, Competencies and Connections. Companies need to associate with the external world through deployment of these assets. Though assigning a quantifiable value to these associations may not be possible, a high RoI is assured in terms of consumer-loyalty and positive brand image in the long run.

76.5	77.6	67.1
MCI India 2010 Score	MCI India 2011 Score	MCI India 2014 Score

Building external relationships and networks can play a crucial role in the growth trajectory of organisations. Focus on external relationships and collaboration can benefit organisations in multiple ways by driving partnerships, support research and product development, help reduce costs, improving market awareness, and build positive media opinions. It is a dimension which when strengthened can help the firm get the best out of the stakeholders in the ecosystem.

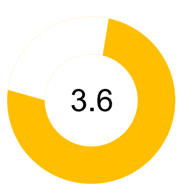
The score on this dimension has seen a significant dip as compared to the earlier MCI India studies. It indicates that organisations in India have become relatively weaker in managing external relationships.

Only, 50 per cent of the leaders surveyed stated that their organisations collaborate with external stakeholders for business development, and make efforts to refine their relationships.

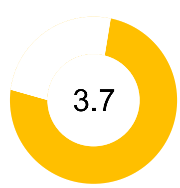
Key insights

- Leaders state that their organisations are making efforts to enhance their social standing by conducting awareness drives to reaffirm the positive image of the organisation. However, organisation capabilities with respect to social audit and conducting interventions for protecting the environment remain significant challenge areas.
- Leaders from foreign multinationals fare relatively higher on maintaining external relationships. This may be attributed to their richer experience at managing diverse and multiple stakeholders such as the global parent company, multiple country offices, and local stakeholders (including government and business relationships). Leaders from public sector enterprises are a close second on this dimension. This could be attributed to the structures and processes that are in place, along-with resources dedicated to manage such relationships.
- Survey findings indicate that leaders from organisations in the largest revenue cap segment (>50000 crore) have rated their management capability in managing external relationships higher vis-à-vis other organisations.
- Leaders from production/maintenance/operations/marketing/sales/international business departments have rated themselves comparatively higher in the developing spheres of influence across different stakeholder groups, in comparison to other leaders.

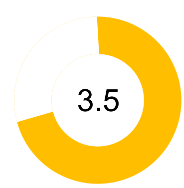
Figure 48: Results by question



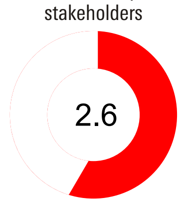
Management develops and maintains networks and spheres of influence with stakeholders



Organisation creates a positive external image through effective relationships with all stakeholders



Management ensures fulfillment of community and social obligations through corporate social initiatives

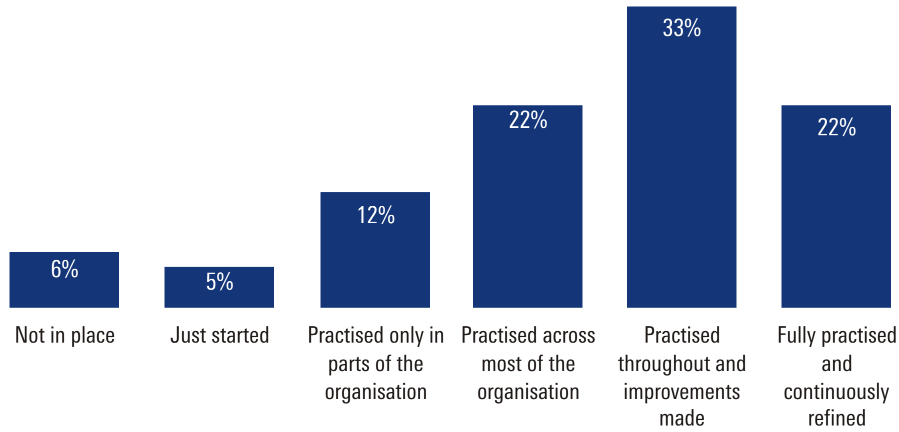


Organisation conducts environment and social audit (Accounting of social and environmental costs and impacts of economic success)

Color Key

5.0-4.5	4.5-4.0	3.9-3.5	3.4-3.0	2.9-2.5	2.4-1.5	1.4-0.0

Figure 49: Results by scale



*Graph may not total upto 100% due to rounding

Figure 50: Score by organisation type

Figure 51: Score by employee strength

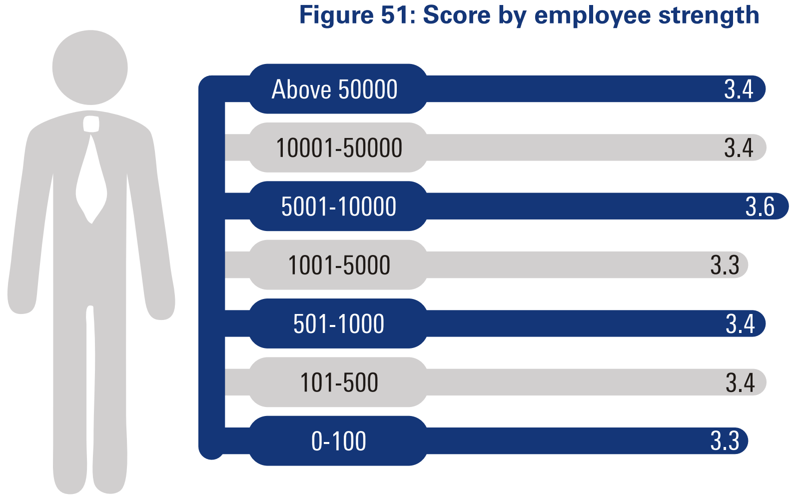
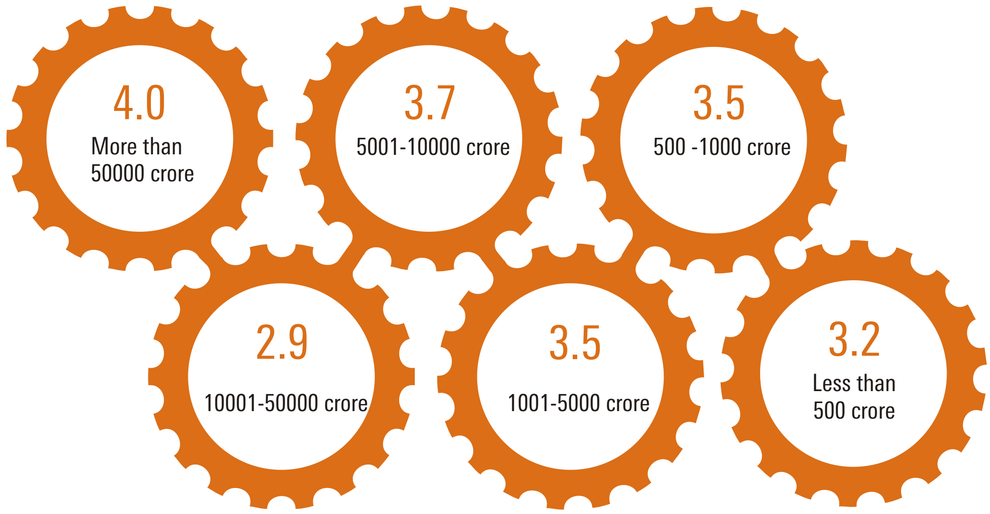
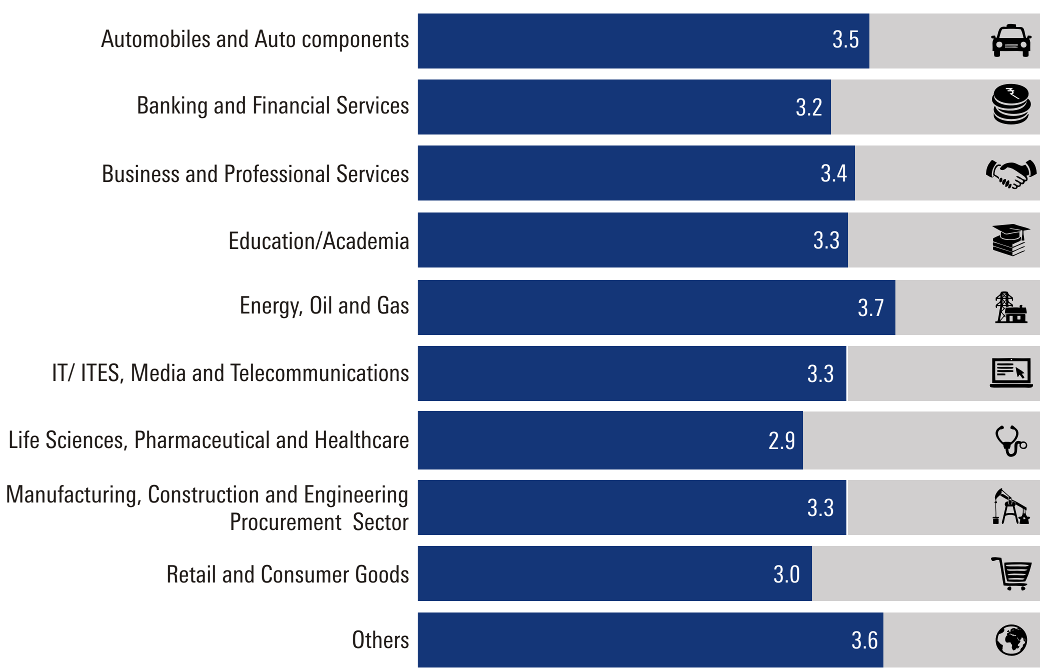


Figure 52: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 53: Score by industry type



Leader speak

Integrity and corporate governance

M Damodaran
Chairman, Excellence Enablers Private Limited and Former Chairman, SEBI

The last few years have seen a number of major corporate failures, many of them directly attributable to poor governance practise. Recognising the importance of corporate governance as a necessary precondition to sustained productive performance of corporate entities, many jurisdictions and regulatory authorities have put in place stringent prescriptive arrangements to ensure acceptable standards of corporate conduct. There is also increasing recognition that the focus must shift from merely promoting the interests of shareholders to safeguarding the interests of a wide variety of stakeholders. No longer it is possible for recalcitrant company managements and promoters to take other stakeholders for granted and to run companies as if they were private fiefdoms.

Prior to the introduction of Clause-49 in the Listing Agreement, there were no specific provisions in the regulatory framework to address the requirements of corporate governance. Clause-49 of the Listing Agreement was an attempt to take the first steps to institutionalising corporate governance in India. Opting for the relatively flexible arrangement of introducing the requirements through the Listing Agreement, rather than through legislation, ensured that the problems and loopholes that surfaced could be rectified without an unduly long and tiresome process. However the fact that corporate governance requirements were not embedded in the statute remained a major drawback.

With the enactment of the Companies Act, 2013, India has joined the list of jurisdictions which have given a statutory basis to the requirements of corporate governance. Notwithstanding some of its inherent and more obvious shortcomings, the Companies Act, 2013 is a path-breaking effort in that it promotes the concept of stakeholder democracy in a number of ways. For the first time, the concept of independent directors has been introduced in the statute and has been elaborately defined. Schedule IV of the Companies Act, 2013 contains a detailed list of the dos and don'ts that independent directors are required to practise. While the schedule might seem overly prescriptive and, in parts, needlessly repetitive, it helps to set the context in which the independent directors are expected to safeguard the interests of minority shareholders and other disadvantaged stakeholders while acting in pursuit of the company's interests. Section-149(12) of the Act clearly states the circumstances in which an independent director may be held responsible for her/his actions. It is to be noted that the protection in this section is limited to acts or omissions under the Companies Act, 2013, and does not extend to acts or omissions under other enactments.

In order that companies are led by appropriately constituted Boards, the Act has mandated the setting up of a Nomination and Remuneration Committee with its functions clearly spelt out. This is an attempt to move in the direction of ensuring that only persons who add value are brought on to boards. The process of ensuring quality on a continuing basis is sought to be achieved by prescribing a process of evaluation of both boards and individual directors, and facilitating the exit of those who have not measured up.

While it is important to ensure the alignment of interests of directors and the companies, it is also necessary to discourage the taking of a short-term view by the directors. Towards this end, the practise of stock options being given to independent directors has been done away with, while enhancing the ceiling of sitting fees payable for attendance at board or committee meetings.

Excessive executive compensation has been an area of concern in the last few years in several jurisdictions. Regulators have tended to discourage the payment of executive compensation which was out of sync with the size, complexity, and performance of the company. Shareholders have also got active on this front with the 'say on pay' movement gaining currency. Even in India, in the recent past there have been high profile cases of shareholders push-back and rejection of what was perceived as excessive compensation or the promise to compensate in future, unrelated to performance.

Two other important areas merit mention. The whistle blower mechanism which was non-mandatory under Clause-49 has been made mandatory in the Companies Act, 2013. The other major development has been the focus on related party transactions, with the Audit Committee of the Board tasked to determine whether these transactions are in the ordinary course of business and at arm's length. The far stricter regime articulated by SEBI is now sought to be reconciled with the provisions of the Companies Act.

Notwithstanding inelegant drafting in parts, and the perception that some provisions are knee-jerk reactions to specific episodes of corporate misadventure, Companies Act, 2013 is truly path-breaking. Nevertheless it is useful to remind ourselves on a continuing basis that honesty and integrity cannot be legislated for, and that value-driven companies will be recognised and rewarded by stakeholders.

80.8	80.1	80.1
MCI India 2010 Score	MCI India 2011 Score	MCI India 2014 Score

With businesses growing in scale and size, integrity and corporate governance have moved from being a discussion points in board rooms to an essential requirement mandated by the government. Balancing growth with ethical conduct is also a C-suite priority today . A well-defined and implemented code of ethics can go a long way in setting the tone for dealing with customers, suppliers, representatives, competitors, and other relevant stakeholders.

Leaders rated Integrity and Corporate Governance as the strongest among all the dimensions of MCI.

Three out of four leaders surveyed, stated that integrity and corporate governance is the guiding force for decision-making across the organisation. It may be attributed to the stricter regulations introduced by the new Companies Act, 2013 and its impact on corporate governance in India.

Further, every second leader has rated their organisations on the highest scale possible on this dimension, indicating not only their confidence in this area, but also the continuous efforts that are being made to refine policies and check adherence to corporate governance guidelines.

Key insights

- Leaders believe that they have effectively laid down the framework for capturing and measuring different aspects of ethical compliance and governance. Demonstrating integrity and ethical behaviour for long-term business and profitability has emerged as a development area amongst all the parameters of this dimension.
- Leaders from foreign multinationals are observed to be leading on this dimension, followed by the leaders in Indian multinationals.
- Survey findings suggest that leaders from the life sciences, pharmaceuticals and healthcare industry believe that their organisations are lagging behind in terms of integrity and corporate governance framework.

Figure 54: Results by question

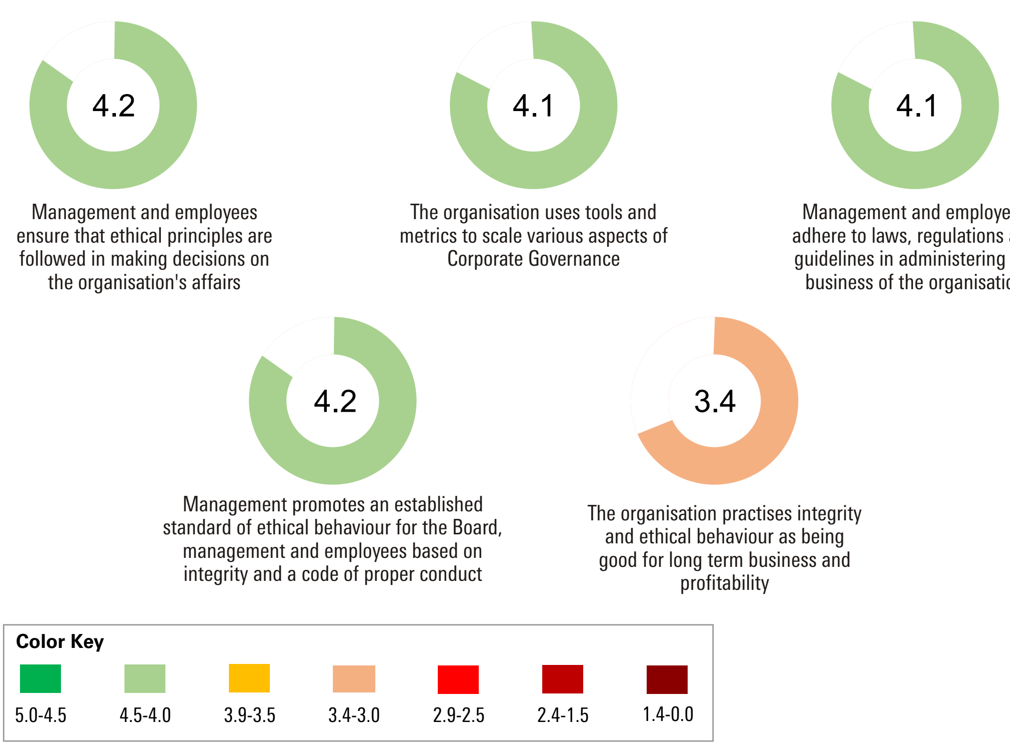
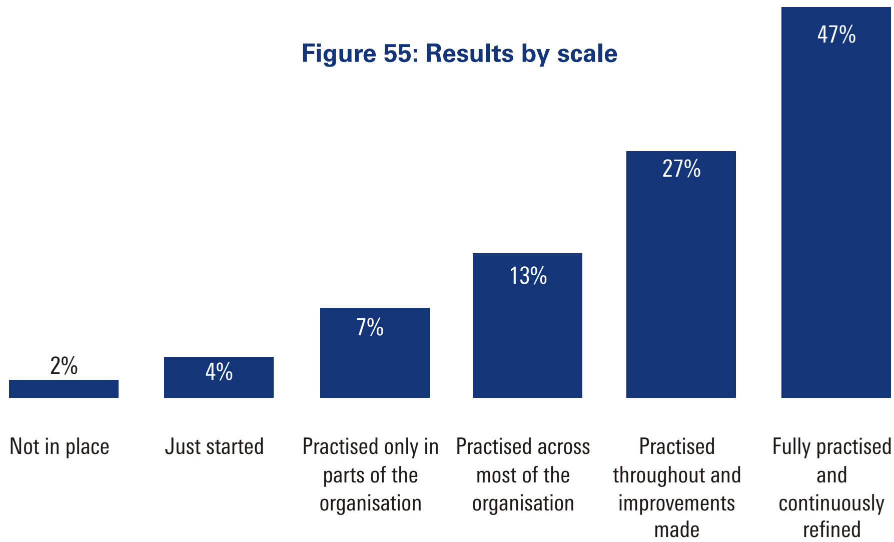


Figure 55: Results by scale



*Graph may not total upto 100% due to rounding

Figure 56: Score by organisation type

Figure 57: Score by employee strength

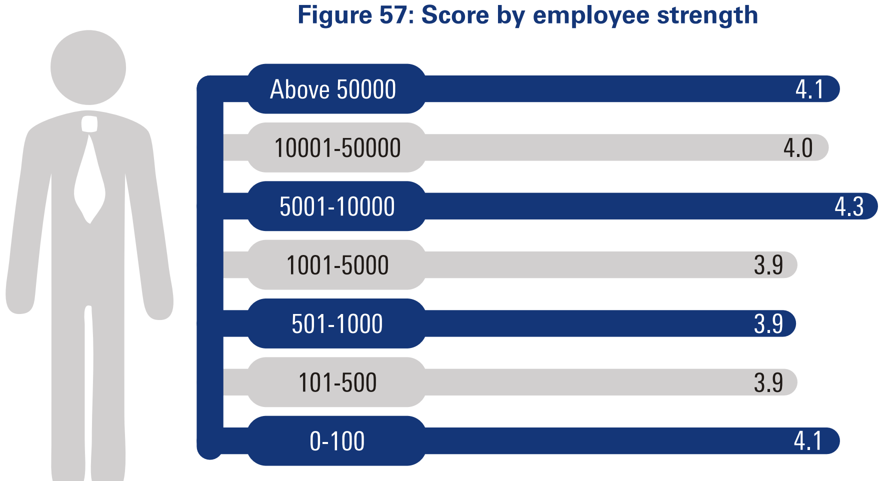
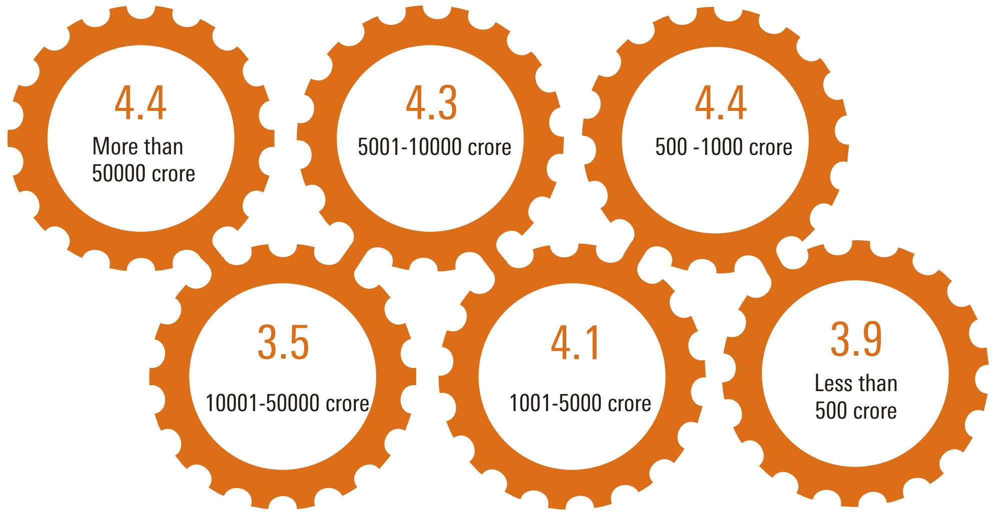
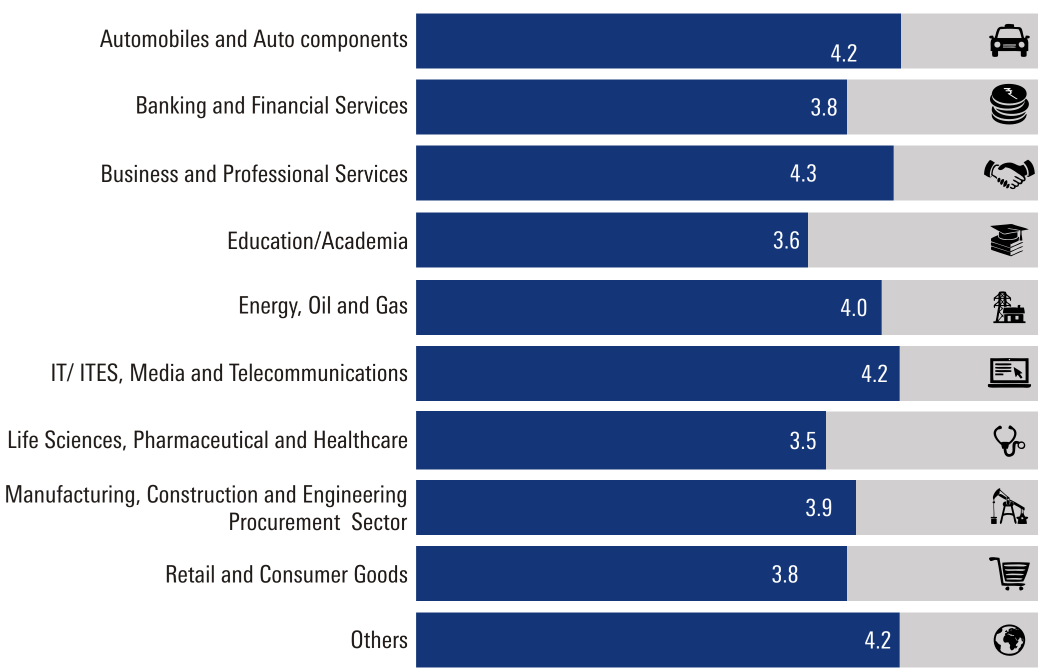


Figure 58: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 59: Score by industry type



Organisation results and comparative performance

Leo Puri
Managing Director
Unit Trust of India

Several frameworks have evolved over the years to assess and measure business performance in the ever increasing business environment complexity. Organisations have gradually evolved from the traditional budget-based frameworks for tracking organisational performance to financial measures like revenue, costs, ROI, ROCE and EPS which can be derived out of financial statements. These hard numbers have taken prominence as the only indicators of overall performance. Although these lag measures retain their importance till date, other frameworks which concentrate on lead dimensions are now evolving.

The 1950s brought in MBO (Management by Objective) which was based on managers and employees aligning their objectives in tandem with achieving organisation objectives through mutually agreed goals. This framework was seen as future oriented and sought to increase motivation through employee empowerment, better communication, and coordination of goals.

In the late 50s, the Hoshin Kanri framework emphasised on selecting and defining a small number of key corporate goals, followed by defining and tracking business processes to achieve these. This encouraged more dynamic goals along with efficient alignment and communication between employees and firm levels along with cross-functional integration.

The 1990s saw the emergence of the Balanced Score Card (BSC) approach with defined focus areas around financial, customer, internal business processes, and learning/growth. This was a refreshing way to look at organisational performance, with focus on key areas needed to create breakthrough performance, alignment of individual objectives along the firm's goals, and also cross-functional integration.

The BSC framework was adapted by numerous organisations with their own variations. The challenges with BSC were in terms of the time and effort required, along with sustained top management support. Although tools like destination statement, strategic linkage model, and other e-enabled reporting tools have made it more effective, many organisations have struggled with the qualitative aspects of measurement.

The BSC model was further enhanced with the financial measures concentrating on shareholder value add by taking into account the cost of capital employed. This framework also indicated the changing approach of organisation management focus on the creation of shareholder value, the and the propagation of the fresh new concept of EVA (Economic Value Added).

The emphasis on shareholder value creation has also trickled down to companies wanting to move to sustainable operation options and measuring their 'social capital'. The recent statutory requirements have also augmented this and organisations are looking at reflecting CSR efforts in their annual reports.

In conclusion, the performance frameworks have evolved to measure and reflect all round metrics, lead and lag dimensions along with social capital. The idea has been to encapsulate long-term objectives capturing all aspects of business: people, processes, environment, culture and technology.

76.7	77.6	66.5
MCI India 2010 Score	MCI India 2011 Score	MCI India 2014 Score

Many organisations would like to believe that they have the potential for excellence, but only a few exceed the established benchmarks. Superior organisation results typically demand diligent efforts, compliance to processes, commitment to values, and an emphasis on organisational learning. The leaders in an organisation play a major role in driving sustainable results and in helping their organisations rise above the competition.

The MCI India score on the dimension of organisation results and comparative performance has seen a considerable dip as compared to the previous years. Leaders have identified their capabilities to be the weakest in this dimension as compared to all the other dimensions of MCI. Only one in six industry leaders surveyed believe that their organisation is showing excellent improvements in the overall organisation results.

Key insights

- Survey findings suggest that leaders are relatively satisfied with their own performance on market share, and revenue and profits, as well as their performance as compared to their competitors in a dynamic market. Progress on EVA (Economic Value Added), which has become an important indicator of growth in recent times, has been identified as an area of improvement by most organisations.
- Leaders from foreign and Indian multinationals have rated their organisations higher on their achievement and result orientation. Leaders from government establishments believe that their organisations have significant scope for improvement in creating value for all the stakeholders.
- Leaders from the energy, oil and gas industry, along with the IT/ ITES, media and telecommunications industries perceive that their organisations are doing relatively well on overall organisation performance.
- The after effects of the global financial slowdown can still be felt amongst the banking and financial institutions as leaders from this industry have relatively rated themselves lower on this dimension indicating slower growth coupled with shrinking market share directly impacting their top-line and bottom-line.

Figure 60: Results by question

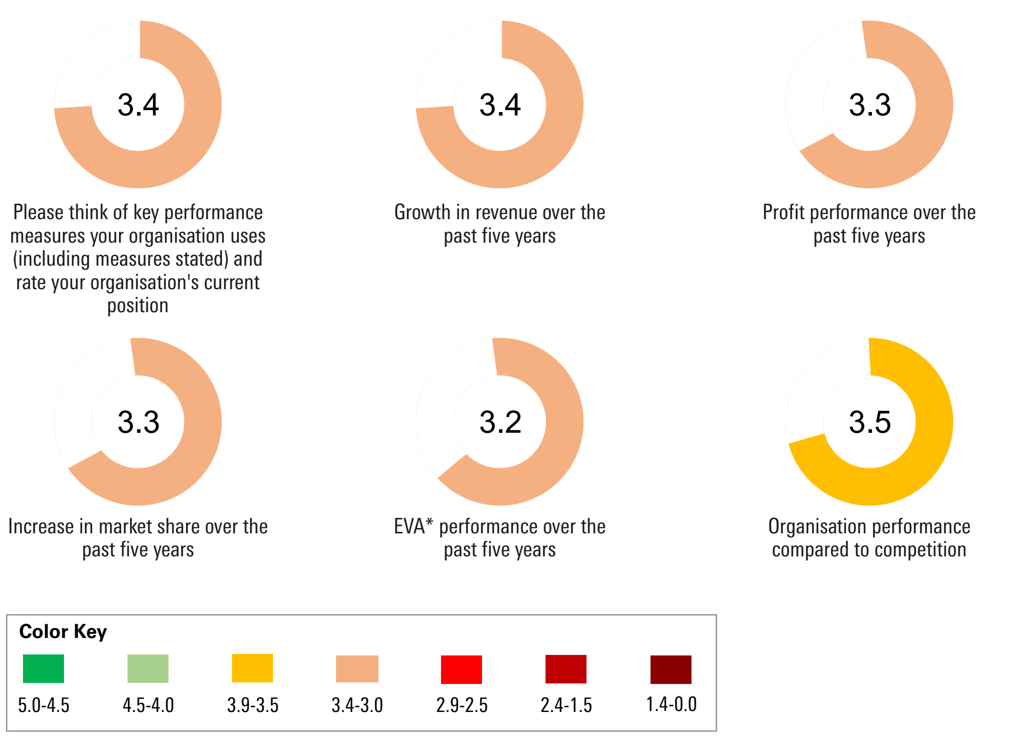
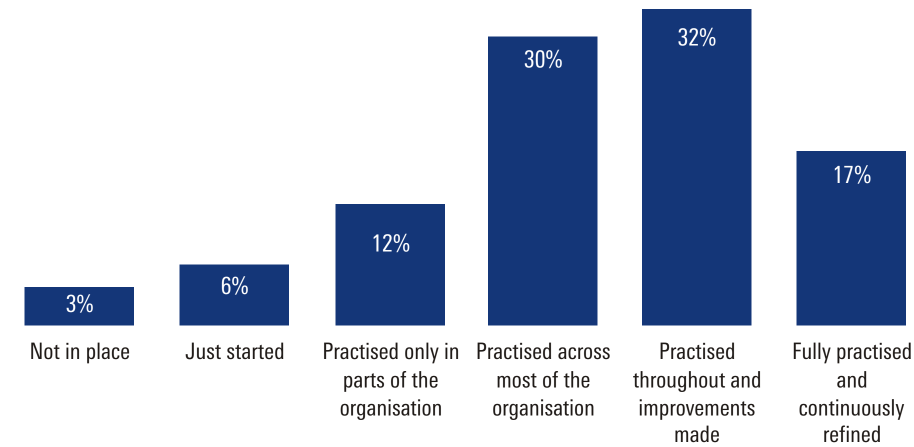


Figure 61: Results by scale



*Graph may not total upto 100% due to rounding

Figure 62: Score by organisation type

Figure 63: Score by employee strength

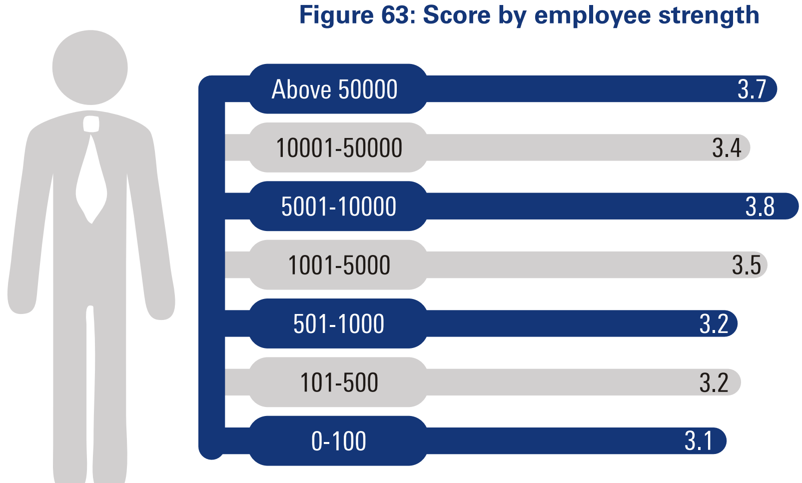
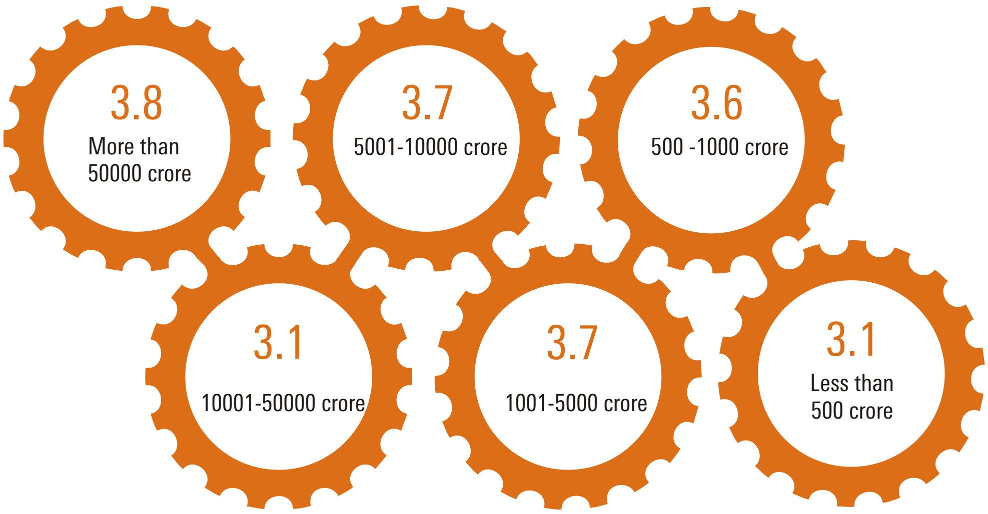
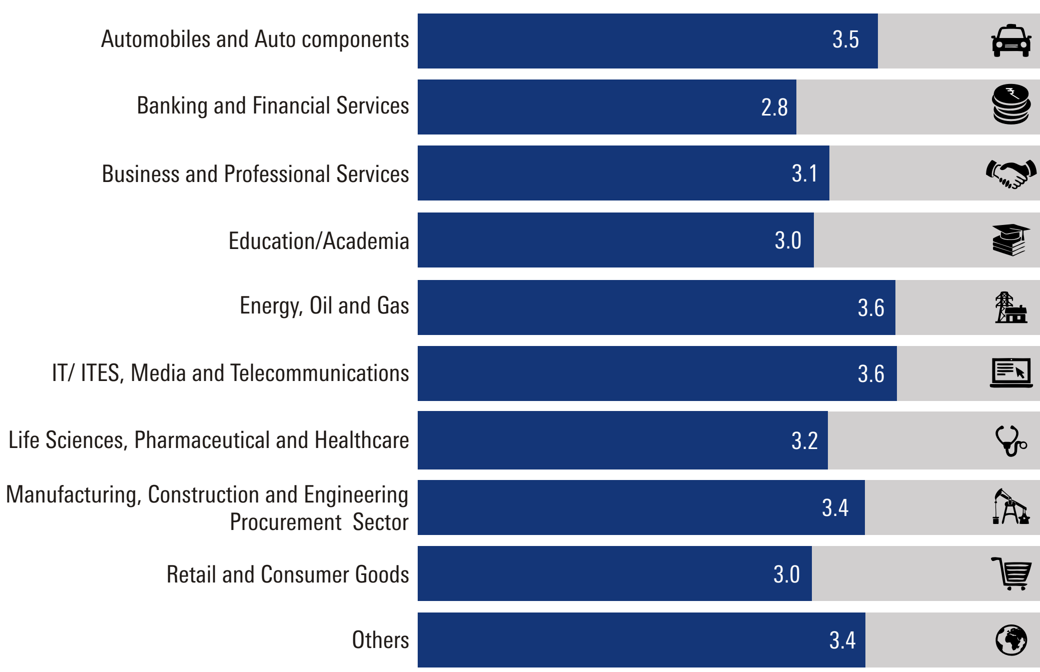


Figure 64: Score by revenue cap



(in INR crore, where 1 crore = 10 million)

Figure 65: Score by industry type



Survey participant profile

The MCI India online survey was conducted in July 2014 . The questionnaire was completed by over 500 respondents, which included over 300 senior management respondents, spread across India and representing a range of organisation sizes and industry types. This section details the profile of survey participants covered across roles/functions, industries, organisational employee strength, revenue cap, gender and organisation type. Our scores across the report have been calculated basis the 302 senior management responses.

Gender

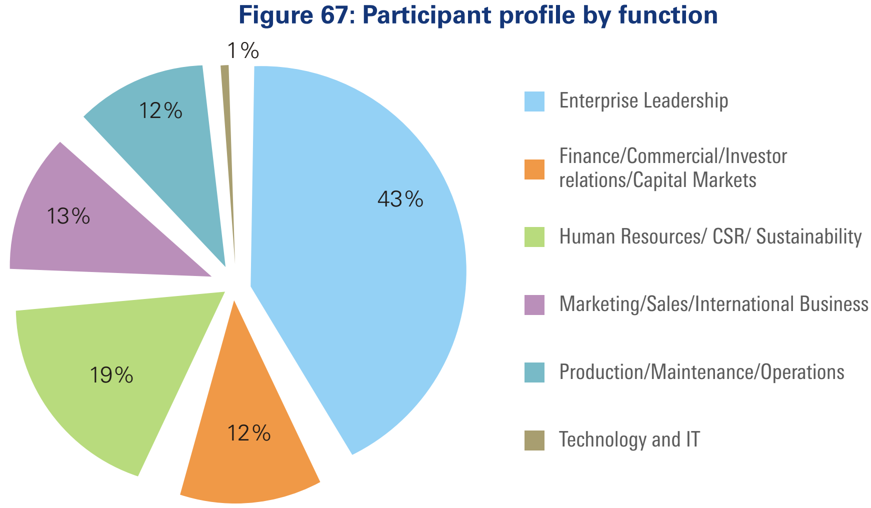
Only one out of ten responses in the survey came from women leaders. This is a reflection of the gender ratio in senior management roles in the country.

Figure 66: Participant profile by gender

Function

The target audience for the survey was senior leadership across organisations. The responses were segregated according to functions for the purpose of analysis. Besides the traditional functions like Finance and Operations, function like 'Enterprise Leadership' were also identified and defined to include enterprise level function-agnostic roles like Chairman, MD, CEO.

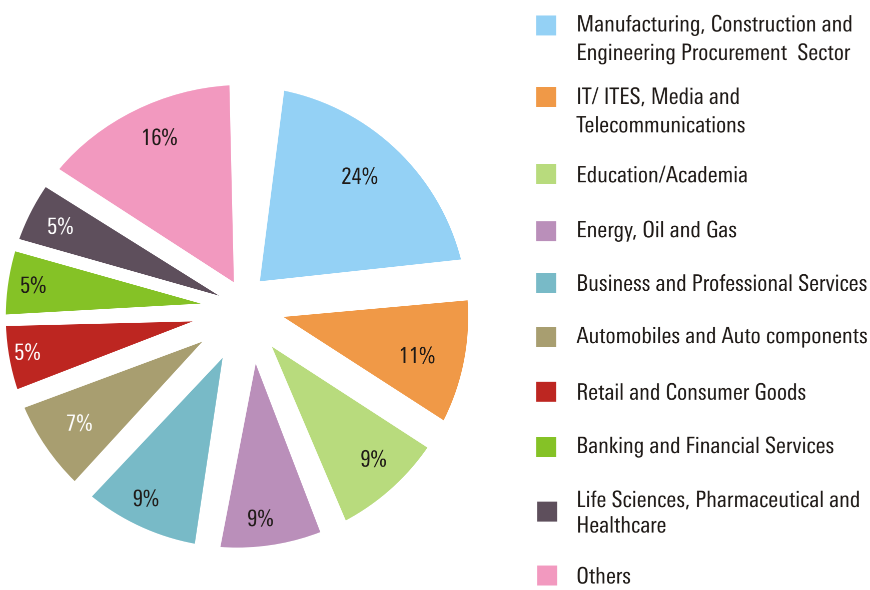
Figure 67: Participant profile by function



Type of industry

Data was also analyzed by industry type.

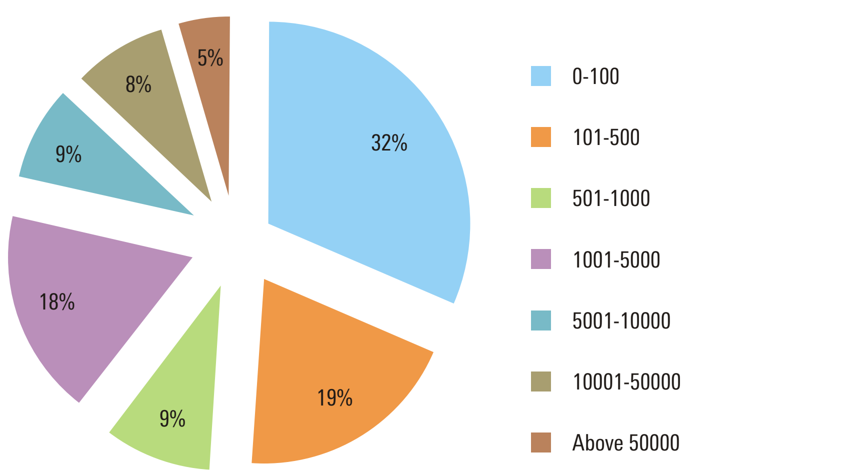
Figure 68: Participant profile by industry



Number of employees

Survey data was also analyzed to look for any patterns related to the size of organisations in terms of employee base.

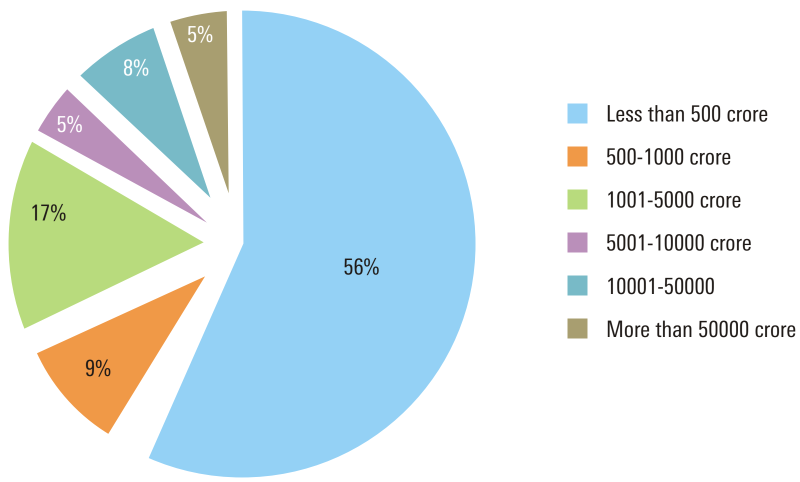
Figure 69: Participant profile by number of employees



Revenue cap

Survey data was also analyzed to look for any patterns related to the size of organisations in terms of revenue cap (in INR crore, where 1 crore = 10 million).

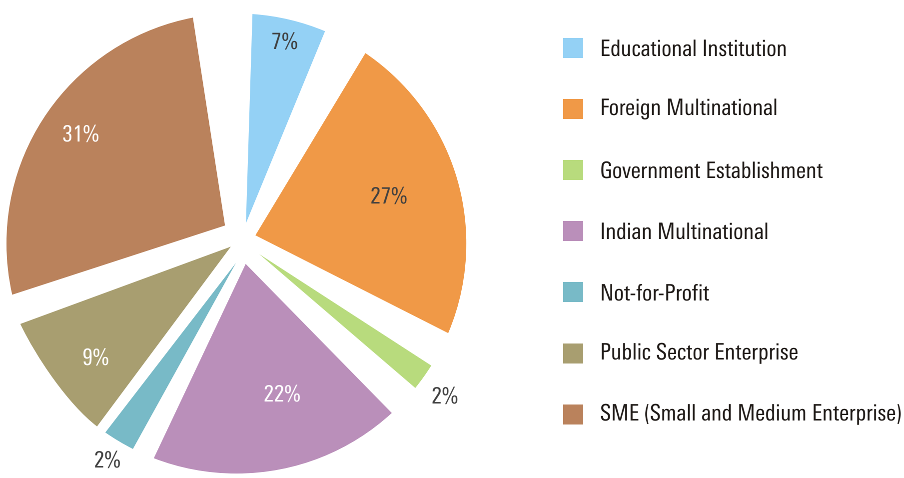
Figure 70: Participant profile by revenue cap



Type of organisation

Survey data was also analyzed to look for any trends related to the type of organisation.

Figure 71: Participant profile by type of organisation



MCI India 2014 survey questionnaire

The AIMA KPMG MCI India 2014 survey included a set of 50 statements spread across 10 dimensions. The respondents were asked to rate these statements on a 6-point likert scale. We received a total of 502 responses, out of which 302 senior management responses formed the basis of findings for this report. The scores for each statement were calculated on a scale of 0 to 5 and consolidated for each dimension, and finally converted to the 100 per cent index. The following table summarizes the scores for all 50 statements across all 10 dimensions.

Scale

0	No, this is not in place
1	Yes, this has just started
2	Yes, being practised, but only in parts of the organisation/part of the management, part of the time
3	Yes, being practised across most parts of the management team/organisation most of the time
4	Yes, being practised consistently across the management team/organisation with further improvements being made
5	Yes, fully practised throughout the management team/organisation. Continually refined and improved as 'the way things are done around here'

A	Visionary and strategic leadership	3.8 (75.6%)
1	Management articulates a clear and inspiring vision that is well understood	3.9
2	Management actively fosters and encourages ownership of the vision by staff	3.8
3	The vision and supporting goals underpin and guide managerial decisions and behaviours	3.7
4	Organisation strategies, objectives and plans are targeted at growth of the business and realizing key stakeholder interests	4.0
5	Management demonstrates an international/global perspective and has a good understanding of global markets and global thinking	3.6

B	Performance leadership	3.7 (73.3%)
1	Management ensures the organisation is achievement focused and goal oriented	3.9
2	Management demonstrates the ability and attitude to lead the achievement of challenging goals and change	3.8
3	Management balances risk with achievement and not risk avoidance (i.e. management is not risk averse)	3.5
4	The organisation consistently meets its performance goals and continuously improves its performance	3.6
5	The organisation consistently performs better than its competitors or other comparable organisations	3.5

C	People leadership	3.4 (68.0%)
1	Management attracts, develops, retains and motivates people capable of achieving company objectives	3.6
2	Human resource planning is an integral part of the annual business planning process	3.4
3	Managers ensure development of subordinates thus leading people effectively	3.3
4	Management is strong on empowerment and adding value to employee skills and competency	3.4
5	Management fosters an organisational culture of diversity, inclusivity and meritocracy	3.5
6	Increase in market share over last 5 years	3.2

D	Financial management	3.7 (74.5%)
1	Management actively develops plans and goals that support sound growth and continuing performance improvement	3.7
2	Management drives and manages the business to consistently achieve or exceed these goals	3.7
3	The organisation has effective financial management systems such as financial planning, accounting, cash flow management, investment planning, financial reporting and liaisons with financial institutions	3.8
4	The organisation has sound and effective control systems through supervision, internal audit and hierarchy	3.6

E	Innovation in products and services	3.5 (70.2%)
1	The organisation has a culture that encourages innovation in products and services	3.6
2	The organisation recognizes the importance of innovation in all aspects of the business and its processes	3.6
3	The organisation recognizes that innovation creates new dimensions of performance	3.6

4	The organisation practises innovation to enhance value for the business, customers and shareholders	3.5
5	Management has an innovation mindset and makes constant investment in innovation and research	3.3

F	Organisation capability	3.5 (69.3%)
1	Management promotes a culture of innovation and research and is dedicated to continuous improvement	3.5
2	Management supports a “boundary-less” and non-hierarchical structure for organisational effectiveness	3.4
3	Management ensures an effective balance between individual excellence and team work	3.5
4	Management constantly demonstrates application of best practises to achieve organisational growth	3.5
5	Management demonstrates strong commitment to continuous learning for both individuals and the organisation	3.5

G	Application of technology and knowledge	3.4 (67.3%)
1	Organisation is able to effectively use Information Technology to positively impact business	3.5
2	The organisation continuously invests in the upgrade and upkeep of its Information Technology infrastructure	3.5
3	Management actively creates and captures knowledge in the organisation	3.3
4	Knowledge within the organisation is well organized and there are strong systems to support its access	3.1
5	Knowledge residing within the organisation is effectively used to meet business requirements	3.3

H	External relationships	3.4 (67.1%)
1	Management develops and maintains networks and spheres of influence with stakeholders	3.6
2	Organisation creates a positive external image through effective relationships with all stakeholders	3.7
3	Management ensures fulfillment of community and social obligations through corporate social initiatives	3.5
4	The organisation conducts environment and social audit. (Accounting of social and environmental costs and impacts of economic success)	2.6

I	Integrity and corporate governance	4.0 (80.1%)
1	Management and employees ensure that ethical principles are followed in making decisions on the organisation's affairs	4.2
2	The organisation uses tools and metrics to scale various aspects of Corporate Governance.	4.1
3	Management and employees adhere to legislation, regulations and guidelines in administering the business of the organisation	4.1
4	Management promotes an established standard of ethical behaviour for the board, management and employees based on integrity and a code of proper conduct	4.2
5	The organisation practises integrity and ethical behaviour as being good for long term business and profitability	3.3

Scale: Please Note that the scale for category J is different

0	No results/poor results
1	Early stages of developing trends, many results not reported
2	Consistent trends, able to meet the set targets, weak performance vis-à-vis comparators
3	Improving trends, able to exceed targets, comparable to competitors
4	Good improvement in trends, able to exceed targets, comparable to competitors
5	Excellent improvements, able to exceed targets, strong evidence of industry leadership

J	Organisation results and comparative performance	3.3 (66.5%)
1	Please think of key performance measures your organisation uses (including measures stated) and rate your organisation's current position	3.4
2	Growth in revenue over the past 5 years	3.4
3	Profit performance over the past 5 years	3.3
4	Increase in market share over last 5 years	3.3
5	EVA* performance over past 5 years (* EVA - Economic Value Added is a measure of an organisation's financial performance based on residual wealth calculated by deducting cost of capital from its operating profit)	3.2
6	Increase in market share over last 5 years	3.5

Organisation partnerships for Management Capability Index India 2014

All India Management Association (AIMA) is the national apex body for management in India. Over the last five decades, AIMA has contributed immensely to the enhancement of management capability in the country.

AIMA has a broad base of 65 Local Management Associations, including two cooperating LMAs abroad, with a membership crossing 30,000 in number. AIMA is a non-lobbying organisation, working closely with Industry, Government, Academia and students to further the cause of the management profession in India. AIMA is represented on the boards of India's premier Business Institutions like the Indian Institute of Management – IIMs. AIMA is also represented on Boards of Government bodies including the All India Council for Technical Education, the National board of Accreditation, and the National Productivity Council to name a few.

AIMA makes a salutary contribution to management learning and practise in the country by offering various services in the areas of testing, distance education, research, publications and management development programmes.

AIMA brings to the Indian managers, leading management practises and techniques through numerous foreign collaborations with professional bodies and institutions. AIMA is a member of the Asian Association of Management Organisations (AAMO) and works closely with several international management institutions like Robert H Smith School of Business at the University of Maryland, St Gallen Foundation, etc. in organising international conferences and management development programmes.

Asian Association of Management Organisations (AAMO) is a partnership of National Management Organisations (NMO) in the Asian Region whose purpose is to share and actively leverage resources to enhance the achievement of their respective missions. AAMO is an independent, non-political and not-for-profit Association of NMOs, which promotes, facilitates and supports the development of professional management in the Asia Pacific Region. The current 17 members of AAMO include Australia, Cambodia, Hong Kong, India, Japan, South Korea, Macau, Malaysia, Mauritius, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka and Taiwan.

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KPMG International is a global network of firms providing Audit, Tax and Advisory services. KPMG member firms operate in 155 countries, and have 155,000 people working in member firms around the world.

The KPMG Audit practise endeavours to provide robust and risk-based audit services that address member firms' clients' strategic priorities and business processes.

KPMG's Tax services are designed to reflect the distinct needs and objectives of each client, whether firms are dealing with the tax aspects of a cross-border acquisition or developing and helping to implement a global transfer pricing strategy. In practical terms that means, KPMG firms' work with their clients to assist them in achieving effective tax compliance and managing tax risks, while helping to control costs.

KPMG Advisory professionals provide advice and assistance to help enable companies, intermediaries and public sector bodies to mitigate risk, improve performance, and create value. KPMG firms provide a wide range of Risk Consulting, Management Consulting and Transactions and Restructuring services that can help their clients respond to immediate needs as well as put in place the strategies for the longer term.

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