

**NEWSLETTER**

**INTERNATIONAL**

 ENGLISH VERSION

INDIA



## INDIA: ECONOMIC GROWTH FUELS LABOR MARKET

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## "TALENT IN INDIA IS HIGHLY ASPIRATIONAL"

**How do you assess the current demand for executives in India? In which areas is there a particularly large number of recruitments?**

The Indian economy has greatly expanded in the post-pandemic phase – leading to twin dimensions of enhanced M&A activity and secular growth across industries. These factors have contributed to a considerable demand for CxO hiring in several industries and sectors.

The consumer internet sector – which has grown geometrically prior to, and during the pandemic - has witnessed CxO churn. We believe the shakeout at the management layer is driven by new unit-economics, a tightening funding environment, increased regulatory oversight, and finally – enhanced fiduciary requirements for entities that listed via IPOs. We see the demand for CxOs in areas such as finance, compliance, investor relations, and public/government affairs.

The Government of India has set an ambitious target to generate 50% of domestic energy from non-fossil fuels by 2030. This target coupled with a favourable industrial-promotion policy – aided by tax breaks and incentives – is the reason for an explosion in the 'green' sectors comprising renewable energy, electric vehicles, energy storage and transmission, EPC companies, green finance, and service-providers and consultancies.

Logistics is another sector which is growing rapidly – again mirroring the overall push under the 'GATI Shakti' policy of the government (and as codified in the New Logistics Policy of India). We are witnessing increased demand from the entire value chain of logistics providers, from 3P, 4P, last mile, first mile, rural logistics, and integrated providers.

Another sector with above-GDP growth rates is healthcare. Growth here is driven by the digital health and wellness initiative – itself a multi-sectoral push involving the providers and insurers.

**What would you recommend to a European company looking for a General Manager for its Indian subsidiary?**

There are a few unique aspects that need consideration when selecting a MD/GM for the India operations of an European-HQ company. The first is the candidate having an international orientation: a candidate who will be culturally adaptable. Having lived, worked, or being educated in a development market is a good proxy.

Second, the demonstration that the candidate is comfortable in environments wherein 'influence' and 'consensus' are key element of success (as contrasted by a 'command and control / directive management style.)



### Sonal Thakker

Partner at Hunt Partners and Associate Partner at CT Executive Search. Based in Mumbai, Sonal manages the Indian operations for CT Executive Search. She works mainly in the industrial sector, focusing on assignments in manufacturing at large. Sonal has in excess of 15 years Executive Search experience over her 25+ year career.

For the candidate, having worked in MNCs with matrix reporting structures with reporting the regional / global HQ is a good proxy to this point. Finally, we also recommend spending adequate time on the 'due-diligence of the candidates' accomplishments. 'Resume padding' is a common pitfall which can be cut through by using the services of an established executive search firm, which can vouch for the quality of the candidates sourced, filtered, assessed, and presented)

## What makes the Indian HR market special compared to other countries?

Talent in India is highly aspirational. Upward mobility – being promoted through the organization, and societal acceptance, meaning working for a recognizable employer – are key driving factors for talent in choosing to join and remain with a company. Employees gravitate to companies willing to invest in learning and development initiatives for their employees.

Another trend being witnessed, post pandemic, is the increasing social acceptability of 'gig work' with individuals becoming open to part-time and contract employment models. And, last but not the least, the importance of having 'important-sounding' job titles!

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## "INDIA MEANS PATIENCE AND RELATIONS"

### What important trends do you currently see on the Indian market?

Business surveys from Europe and Germany, for the most part, are less than optimistic when it comes to doing business in India. As Germany continues to attempt to curb the ongoing inflation rates, while preparing for a recession, or a slight economic growth, at best, India continues to show promising figures. The country's forecasts predict solid economic growth, and inflation rates within acceptable levels.

Private consumption is robust and sustainable; however, strategic investments still leave a lot to be desired. From a German perspective two issues are of the most importance at the moment – infrastructure and trade deficit. Infrastructure has to be improved significantly to strengthen the competitiveness of India's manufacturing industry. Despite the rapid economic growth, India still has a long way to go to catch up with other industrialized nations. The expanding trade deficit also needs to be reduced, hopefully, by increasing exports.

It would be great if policies were to focus more on the importance of trade agreements and creating the right framework for implementation of investment activities. This will result in an influx of new investors and the expansion of the Indo-German business.



**Georg Graf**

Regional Representative for India, Freudenberg Group and Past President, Indo-German Chamber of Commerce IGCC (AHK) 2019-20. Georg Graf works as an advisory board member with CT Executive Search.

## What specific challenges do European companies have to reckon with in India?

“India is the youngest-connected-democracy” in the world and is increasingly being considered a preferred partner in manufacturing across industries.

European companies are beginning to realize that India is more than just a consumption market. As the Past President of the Indo-German Chamber of Commerce, I am happy that this is true for all German companies as well.

India is a manufacturing and R&D hub that allows foreign companies to create and export products to other markets in this region. However, the country is not overly involved in international trade. On the one hand, this makes it comparatively resilient against international supply chain struggles. On the other hand, this limits its gains from the export business.

We also need to temper optimism with facts – while the ease of doing business, transparency and e-governance has shown considerable improvement, skills development and technical training need further investment. It will take some time.

Product requirements and business characteristics differ considerably from other countries and regions. Thus, India is difficult to market for international players as global products are often not suitable or accepted.

India means “patience” and “relations”. Always have this in mind.

## When is expatriate recruitment the preferred alternative?

Having worked in India for 15 years, I have been privy to various occasions where expatriates were recruited. Some companies recruit expats at the initial phase only, subsequently handing over responsibilities to local expats or locals. Other companies believe in having expats available to try to bridge the gaps with regards to company culture and business etiquette, for example, the understanding of loyalty and sensitivity, as well as acceptable communication standards. Some companies hire expatriates to set up and guarantee certain technology standards. For some companies, it is a prerequisite for international career development, while others hire expats in a case to case scenario.

Personally, I believe that companies with operations worldwide, depend on the skills, experience, and commitment of their employees. International assignments are very important to achieve a successful development of future leaders. It could also boost commitments of diversity, and overall, gain a more robust footprint of global players.

## What are the pros and cons of expat life in India? What does one need to lead a comfortable life in India?

I feel most of the readers would expect now the very stigmatic and Indian focused bullet points for the question raised, which I feel could be true for many nationals and especially younger expats:

## About Freudenberg India

Freudenberg has held business ties with companies in India for more than 90 years. The Group has 15 production sites around India, across several different industries, and employs around 3,000 people at 50 locations.

[www.freudenberg.com](http://www.freudenberg.com)

“The cost of living in India is low and the pay can be reasonable. The remuneration that expatriates receive can afford them luxuries such as domestic help and drivers. The biggest expenses for an expat family are housing and education. Expats find the work-life balance can be poor. Pollution and safety also concern many expats in India. Recreation wise, some point out the lack of recreation facilities, good hiking trails and things for kids to do on weekends.”

I generally tend to not pay much heed to these.

Despite all the opportunities of living in India, India needs a tailor-made strategy for your activities and life.

You have to be committed to the country, and you have to show respect for the country, its values and people.

In India you have to be committed long-term. An in-and-out approach does not work. India is time consuming. In my opinion, even spending just a few years in India is not enough.

India is not a “copy-paste-country”.

Do not copy paste a successfully implemented strategy from another country to India. It may, and probably will backfire.

If you have a blueprint for a business model, a production strategy, or a distribution concept from another country, don't copy paste it to India, it doesn't or it may not work in India.

If you have a successful product, service or solution from any country, don't copy paste to India, it doesn't or it may not work in India.

## ABOUT THE FREUDENBERG GROUP

Freudenberg is a global technology group that strengthens its customers and society long-term through forward-looking innovations. Together with its partners, customers, and research institutions, the Freudenberg Group develops leading-edge technologies and excellent products and services for about 40 markets and for thousands of applications: seals, vib-

ration control components, technical textiles, filters, cleaning technologies and products, specialty chemicals, and medical products.

Innovation strength, strong customer orientation, diversity, and team spirit are the cornerstones of the Group. The more than 174-year-old company lives by its core values:

a commitment to excellence, reliability, and proactive, responsible action. In 2021, the Freudenberg Group employed some 50,000 people in around 60 countries worldwide and generated sales of more than 10 billion Euros.

For more information, please visit [www.freudenberg.com](http://www.freudenberg.com)

If you have a wonderful young talent in your organization, or maybe a very productive team member doing a great job, with impressive results, whom you are looking to relocate to India, make sure that you brief the person on what to expect. Culture and business etiquette may differ, which may pose considerable challenges in achieving desired results. In my experience, this has been the case on several occasions.

In all your activities for and in India, you need the spirit of "patience and relations".

### Do's and Don'ts

- Don't compromise your long-term commitment
- Don't compromise globally accepted values and principles
- Show respect
- Be honest
- Be ready for change
- Adapt to market and customer needs immediately.

Take up social responsibility for the society and drive all your activities more and more in the spirit of sustainability.

India offers great opportunities for people in all age groups and professions.

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## INDIA – EMPLOYMENT CONTRACTS FOR EXPATS

During the establishment or expansion of an Indian subsidiary, employees from the foreign parent company are often deployed to India. Employees from the parent company are already familiar with existing group structures and group values and know how departments within the group work best with each other. In addition, many employees see a foreign assignment as an opportunity in their career, as this is often accompanied by increased demands and areas of responsibility. Previous international experience will determine how much support the employee will require on site. Therefore, in addition to tax law and legal aspects, individual contract components should also be agreed in employment contracts for expats. This article is intended to provide an overview of the usual contract components in employment contracts for German expats in India.

### 1. Structuring of the assignment abroad

Before the contract is drawn up, the foreign assignment is generally structured. In order to implement a foreign assignment successfully, it is important to structure it carefully from the onset. From a German point of view, a basic distinction is made between short-term assignments (up to six months) and longer assignments (over six months). A short deployment time is usually referred to as a secondment or business trip and a longer deployment as transfer of employment. Each of these terms is based on a different process.

### ANALYSIS



**Ursula Hoffmann-Mukherjee**  
works as a Senior Associate  
at Roedl & Partner India's  
Mumbai office.

In the case of secondment, the employer remains in Germany and the employee is deployed to India for a limited period of time via a secondment agreement, but can change his economic employer to India (depending on the individual case). In the case of a transfer of employment, on the other hand, both the legal and the economic employer change abroad. The German employment contract is either suspended or terminated. Accordingly, either secondment contracts, local employment contracts and/or suspension agreements must be made with the expat.

## 2. General contract components:

General contract components based on the structuring of the assignment abroad must be created. These include, among other things, the duration of the contract, areas of responsibility and powers, reporting lines, rights of termination/protection against termination/consequences of termination and applicable law.

## 3. The Salary Package

Once the structure of the employment contract is in place, the salary package is often an important negotiation point. If the gross annual income including bonus agreements is fixed, a so-called salary split is carried out in the case of a local employment contract in India. This should largely correspond to the salary splits of other Indian employees.

Furthermore, additional benefits have to be negotiated. Common components of expat employment contracts are rent-free accommodation (possibly including domestic help), a company car, a driver, relocation allowances, exchange rate adjustments, school fees for accompanying children, entitlement to flights home, etc. All of these salary components must be checked with regard to their tax liability.

## 4. Social Security

German employees have the option of remaining covered by social insurance in Germany during the foreign assignment via the Social Security Agreement between Germany and India. However, this only includes pension insurance and unemployment insurance. Whether and to what extent social insurance continues to apply to these branches of insurance in Germany depends on the type and duration of the assignment abroad. If necessary, corresponding applications must be submitted to the statutory health insurance company or the DVKA. If the Social Security Agreement does not apply, international workers in India are required to pay into the Indian retirement insurance, the Employees' Provident Fund. International workers are required to pay contributions to Indian social security, regardless of the level of pay. However, an international worker coming from a country of origin with which there is a social security agreement and who has paid into the Indian social security system can withdraw the amount upon leaving India.

Depending on how the expat's social insurance is designed, appropriate clauses must be included in the employment contract.

Since the social security agreement does not cover health insurance, the agreement should also cover as to what extent the expat should have health insurance (through an international expat insurance or locally through an Indian health insurance) and who should bear the costs.

## 5. Tax aspects

A consequence of the foreign assignment is usually the change of tax residency. This does not necessarily have to be part of the contract, but should be taken into account in the general structuring of the assignment abroad and the general drafting of the contract.

Similar to German tax law, the tax liability of a natural person in India is based on their tax residency. This follows from Section 6ff. of the Income Tax Act, 1961 (ITA). Unlike in Germany, it is not the provision of a place of residence that is decisive, but only the physical presence in Germany. The purpose of the stay or nationality is irrelevant. A basic distinction is made between "resident and ordinarily resident", "resident but not ordinarily resident" and "non-resident". It should be noted when assessing tax residency that the Indian Financial Year begins on April 1st of each year and ends on March 31st of the following year. For example, if the employee is predominantly resident in India during the Indian Financial Year and maintains a residence in Germany, they can be treated as residents by both states.

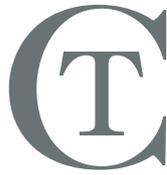
In such cases, the Double Taxation Avoidance Agreement between the Federal Republic of Germany and the Republic of India (DTA) decides on the residence and taxation rights of the states. DTAs also seek to avoid double taxation on the same income by providing either appropriate exemptions or tax credits. The applicability of the provisions of the DTA is particularly important in the year of departure and the year of return, as there is usually a risk of double taxation. Therefore, these aspects should be assessed and planned in advance in order to avoid any double taxation.

A so-called tax equalization policy can also be introduced at group level, which – if necessary – provides for tax equalization for the employee in order to ensure that the assignment abroad does not lead to a tax disadvantage for the employee.

## 6. Summary:

An employment contract for an expat differs significantly from standard employment contracts. There are many aspects to consider regarding the salary package, social law and tax law. To ensure that neither the employer nor the employee takes any risks, external consultants should be consulted when drawing up such a contract.

Rödl & Partner is a multidisciplinary consulting firm that is represented in India with offices in Delhi, Mumbai, Pune, Bangalore, Chennai and Ahmedabad. In addition to classic foreign direct investments, Rödl & Partner advises inter alia on cross-border employment.



## EXECUTIVE SEARCH



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#### BERLIN

CT Executive Search Europe GmbH  
Central Office  
Oranienburger Str. 22  
10178 Berlin, Germany  
Telephone: +49 30 2408 3401  
E-mail: office@ct-executive.com

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