

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

INDIA



## GROWTH MARKET INDIA – HOW TO REALIZE THE OPPORTUNITIES?



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## GROWTH MARKET INDIA

With its population of more than 1.3 billion, India is an important export market for many European companies in the investment and consumer goods sectors. At the same time, the country is developing into a production hub where international companies produce both for the domestic and global markets.

In view of the slowdown in economic growth of 5% (first half of 2019), which is still remarkable compared to the rest of the world, India offers opportunities in a wide variety of areas. However, India is by no means an easy market: bureaucracy, poor infrastructure and the special requirements of Indian consumers pose challenges for foreign companies. The cultural, political and legal differences in the Indian states must also be taken into account when doing business.

CT Executive Search supports European companies in filling management positions in India. We work closely with the leading Indian executive search and HR consulting firm Hunt Partners, which operates offices in Mumbai and New Delhi. In India, too, placing the right people into key positions is crucial for business success. As an Indian-European team, we ensure that companies set the right course from the start.

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## “INITIAL AND GROWTH STAGES ARE BEST SERVED BY A LOCAL PROFESSIONAL”

**Which specifics define the Indian market? What are the implications for managing businesses in India?**

To succeed in India one has to have a long-term view, in face of multiple local challenges such as regulatory bottlenecks, fluctuating demand, and many times even degrowth as we are witnessing presently. Companies often fall victim to short rotation cycles that inhibit the execution of long-term strategy.

India being a large country, geographically dispersed, diverse teams make it difficult to standardise processes and hence supervision and control are harder to achieve. An important point to note as a call for localizing the processes to suit India is that companies who have built India-specific strategies have responded to business opportunities in India more quickly and successfully in comparison with their global counterparts.

Keeping things simple where you can and not superimposing global practices in India would be again a recommendation. Wherever possible, design processes to capture the entire breadth of opportunities that this market offers.



**Christian Tegethoff**  
Managing Director CT  
Executive Search

## INTERVIEW



**Suresh Raina**  
is Partner at Hunt Partners, the leading Indian executive search and board advisory firm. He leads the Industrial & Infrastructure practices, working with emerging corporations, both multinational and Indian, to support their growth globally. Suresh also co-leads the Board practice.  
CT Executive Search closely cooperates with Hunt Partners across the South Asian region.

A direct line of communication between the Indian subsidiary and the global HQ, combined with the ability to make decisions on capital, products, and pricing holds a local leader more accountable and facilitates the sharper development and execution of strategy.

We are also beginning to see more and more companies moving beyond the joint-venture approach that so many have adopted and learning to go it alone in the Indian market. There is also a renewed trend for a Country P&L model, where the top executive makes all major decisions, including headcounts, pricing, and product customization. This change has helped concentrate resources and enabled faster decision making, allowing the company to better serve local customers and, ultimately, to grow more quickly.

### **What do you recommend international companies in terms of talent management? What role does talent management play on the Indian market?**

Multinational companies (MNCs) should have a talent management strategy to look beyond short-term tactical measures to attract high-quality people. All MNC companies desire to hire the best available talent in the country, for the successful execution of a growth strategy. Given the vast array of opportunities available in India and its relative shortage of management talent, European MNC's must weigh carefully the environment and the options available.

With the continuing professionalization of Indian companies, the country's stronger managers have less incentive to work for a branch. European companies while hiring for an Executive role first and foremost need to decide between an Indian vs an Expat candidate. Our recommendation has been to link it to the life stage of the organization. Indian being a complex and most challenging market, the initial and growth stages of the company in India are best served by a local professional who not only understands the local environment but also has the network and relationships to get things into place.

### **What specific features of the Indian market should European companies consider when recruiting into an executive position?**

In our recommended search strategy to hire senior talent, the competencies that appear on the top are:

- **Courage** as the key characteristic you need in an MNC subsidiary CEO for India. The chaos is not for the faint-hearted. Only people with courage will have the perseverance to stay the course, fight to win, and, yet, not compromise on core values.
- **Adaptability:** You need to have experience across the entire spectrum of established, emerging, and consolidating roles and companies, an understanding of how one handles themselves in a fluid situation.

- **Dealing with Ambiguity:** To be able to weather change, with resilience, and keep your head clear, especially because the rate of change can be rapid, while understanding competitors and markets.
- **Cross-cultural communication skills:** Simple misunderstandings can lead to severe conflicts. Cross-cultural differences have often been identified as the most critical factor when it comes to international projects, collaborations, and joint ventures. It also helps create advantages and synergies that come through diversity.
- **Good governance:** The executive needs to be Value Driven and must champion compliance and associated transparency. Companies should not only be completely transparent in communicating with headquarters, but also have “zero tolerance” of unethical practices on the ground.

### **To what extent are candidates geographically mobile and willing to move from one city/state to another?**

Candidate relocation varies from case to case. Willingness to relocate depends on a number of factors like family situation, current job satisfaction, growth prospects, increase in compensation, location of the city, and so on. Moving cities in India is not an easy proposition due to challenges associated with housing, schools, support structure for aged parents etc.

We have observed that candidates unhappy with their current role are often willing to relocate to similar cities, e.g., Mumbai to New Delhi. It is relatively difficult to get senior level candidates to relocate to Tier II cities or remote locations. Candidates with children appearing for important exams are usually not so open to relocate for those couple of years.

Thus, willingness of the candidates to relocate depends on various factors. However, in our observation, an attractive compensation, good working culture, housing and schooling assistance usually encourages candidates to make the move.

### **What can companies do to retain their managers in the long term?**

Indian professionals have a higher mobility, with more than 50% in the mid and senior management, seriously looking for alternate opportunities at any time. This figure further increases in the junior management category.

### **Top 3 reasons reported for attrition from various surveys are:**

1. Better Pay Elsewhere
2. Better Career Opportunity
3. Personal Reasons

An interesting feature to be kept in mind is that the professionals considering leaving are not disengaged. More than 75% of Indian candidates report satisfaction with their jobs and around 70% with their organizations.

In a high-growth economy such as India, the attrition rates will continue to be high and companies must plan for the same in their HR policies. Apart from attractive compensation structure, a few other initiatives can help companies manage the high attrition:

- Start from ab-initio, identify the candidates who will stay the course, and not a job-hopper.
- Structured global rotations for strong performers, challenging responsibilities and leadership-development courses.
- Create more globally visible local roles, which may include representation on executive committees and emphasize entrepreneurialism and greater authority.
- MNC companies can also assign the employees to global projects, while still being part of the Indian operations. This enables exposure and cross-learning from global best practices.
- MNC companies must make a strong commitment to social & sustainable goals fuelled by enlightened self-interest. This factor helps employees find meaning in their work.

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## “AWARENESS OF SUSTAINABLE GROWTH IS STILL VERY LOW”

### How important do you think India is for the global market and particularly for European companies?

India is one of the largest growth markets, and maybe even the largest growth market worldwide. I believe that relationships with international partners will continue to grow in importance for European companies. I even dare to say that European companies without activities in China or India will eventually become obsolete.

Globalization requires growth from every company. If companies do not grow and the margins fail to materialize, shrinkage will set in. Eventually such companies disappear from the scene. From an economic perspective, this can lead to a conflagration. Unemployment leads to a decline in purchasing power - as a result, more and more companies have problems selling their products.

### What activities does Würth have in India?

We sell systems, so-called Supply Chain Solutions, and DIN standard parts in India. In this way we not only contribute to the growth of our company. We also create the opportunity to relocate positions to India that cannot be filled in Germany and other countries due to a lack of or unsuitable candidates.

### INTERVIEW



#### Norman Dentel

has worked for Würth for almost 20 years, for the last four years he has been managing Würth Industrial Services India based in Pune. The Würth Group is a worldwide wholesaler of fasteners, screws and screw accessories, chemicals, electronic and electromechanical components, fittings and other industrial goods.

We also help companies to outsource simple assignments to India, which enables them to focus on the quality of other, more important tasks. To this end, we founded another office in Pune in 2017, which is dedicated to the provision of business services. It works for internal and external customers and deals with topics from the areas of purchasing, logistics, sales support and marketing.

We have already hired more than 100 employees for these activities. In 2020 we are planning to increase this to almost 200 employees in this segment alone.

But this is not primarily about finding “cheap” workers and thereby reducing costs. Rather, the goal is to evaluate the value chain of the respective overall company in order to achieve the best results. This applies not only to us as Würth, but also to our external customers, for whom we provide services from India.

### **Why did your company choose the Pune location?**

Maharashtra is the most industrially developed state. Pune plays an important role here - there are high foreign direct investments and a large number of German companies. This prompted us to work from Pune. The city has renowned universities and a well-educated population.

### **What experience have you had in recruiting and managing employees in India?**

India not only needs growth, but primarily development. We also do this internally to build a bridge between cultures. As a company, we have to be both German and Indian and find employees who are suitable for this balancing act.

The main driving force here is demographic development. Over two thirds of the population are between 15 and 64 years old, so there are basically many potential candidates.

When recruiting, it is striking that all candidates appear to be qualified for virtually any task on paper.

In a personal conversation, however, the wheat is separated from the chaff pretty quickly by detailed questions. In any case, you should take enough time to select the right candidate, in spite of the often large number of applications.

Leadership primarily requires emotional intelligence and sensitivity to prevent fluctuation. This is no different in India than in other countries. Appreciation of the work done is just as important as conversations about family and other private issues.

On the other hand, there must not be too much scope for individual sensitivities and interpretations, as this leads to unnecessary discussions and can be exploited. Loyalty to the company is usually not as high in India as in Germany, for example. However, with our Würth culture, we managed to retain many employees in the company in the long term.

## What country-specific challenges are you and your company facing on the Indian market?

India is often compared to China because of the size of its population. Unlike China, India is not just one country in my eyes, it consists of 28 small countries. Everyone has their own parliament and government.

As a result, the general conditions for business are not the same everywhere. This opens up opportunities and challenges alike.

Another aspect is the high consumption of resources and the pollution of the environment. As a company, we try to counteract this with green thinking in everyday life. Awareness of sustainable growth is still very low in India. It will take years for this to change. However, there are also very positive examples of clean cities like Mysore or Kochi.

Corruption is still a negative point, as are the administrative hurdles and documentation requirements imposed by the bureaucracy.

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## “INDIAN LABOUR LAW IS THE OUTFLOW OF INDIA’S SOCIALIST ORIGIN”

**India is considered a bureaucratic country with a complicated legal framework. What should companies that want to enter the Indian market consider from a legal perspective?**

The market entry requires some preliminary considerations regarding the legal structure. The liaison office, the project office, the branch office, an LLP or a private limited company are usually suitable for foreign companies. All market entry options have different legal and tax implications, which should be carefully examined to avoid negative consequences and liability, for example within the framework of India’s strict permanent establishment policy.

The incorporation of foreign companies in India is generally a formal procedure, which requires a lot of documentation. This is in particular due to the fact that Germany opposed India’s accession to the 1961 Hague Apostille Convention and India was not recognized as a signatory state. The consequence of this is that all the official documentation must first be notarized, over-certified by the competent district court and then legalized by the respective consulate. However, In our experience, domestic companies can be incorporated within 24 hours.

Even after entering the market, the bureaucracy remains ongoing. It is important to keep a constant critical eye on the compliance management in the Indian subsidiary. Companies trying to save cost here, for example on instructions or recommendations of the Indian management, is definitely saving at the wrong place.

## INTERVIEW



**Rahul Oza**

is partner and branch manager of the consulting company Rödl & Partner. He is responsible for the West and South regions of India.

Eliminating the consequences of non-compliance is always more expensive than ensuring compliance with all Indian regulations.

### **What has the Indian government under Prime Minister Modi done to improve the legal environment? What measures are in the pipeline for the new term?**

With its Make in India program, Prime Minister Modi has undertaken market optimization in many different areas. Consequently, India has recently risen from 77th to 63rd rank in the World Bank's Ease-of-Doing Business Index.

The largest reform packages in the last legislative period were Make in India, Clean India, Digital India, Skill India and Start-up India. The introduction of the Goods and Services Tax ("GST") and demonetization have proven to be probably the greatest innovations of the last legislative period.

The year 2019 got off to a strong start when the regulations for cross-border loans (External Commercial Borrowings - "ECB") were significantly relaxed and trading companies are now also allowed to avail working capital loans from the foreign parent company. In addition, in September 2019, corporate income tax rate was reduced to 15% for manufacturing companies that were incorporated on or after October 1, 2019.

It can now be expected that the reform packages that have been initiated will be further implemented and focused in order to improve the market conditions for investors and companies in India. This includes allowing Foreign Direct Investment ("FDI") in additional sectors. Other projects could include revising the judicial system, aligning the financial year, and codifying and standardizing labour law.

### **Which special labour law provisions should companies have in mind?**

Labour law in India is not uniformly codified and differs at the state and sectoral levels. For example, the applicability of labour law differs between manufacturing and service companies.

Indian labour law is an outflow of the socialist origins of India and now it clashes with the capitalist-influenced new Indian generation. This has two main consequences. On the one hand, Indian labour law has not been sufficiently adapted to the new economic development, and on the other hand, the majority of the Indian managers tend to disregard compliances of existing regulations because they consider them to be outdated.

India urgently needs to implement the planned labour law reform. Here, a meaningful harmony between employee and employer interests must be established. This conflict is tremendously critical. India must continue to promote economic growth, for example through foreign investment. At the same time, it should be kept in mind, that the living conditions of Indian citizens must be improved, in some cases urgently.



Every employer should be well prepared to face the ailing, chaotic and often completely ignored Indian labour law.

Experience has recently shown that Indian authorities increase to monitor whether the companies are compliant with the mandatory labour law, health and safety regulations. It should be noted that the directors of Indian legal entities can be held liable for non-compliance. This is applicable regardless of whether the directors are in India or abroad.

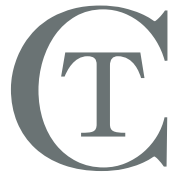
Indian employees often expect higher standards regarding employee rights from foreign companies. Those companies who want to restrict themselves to only mandatory Indian law will find it difficult to find good talents and retain them.

**What kind of companies do you mainly work for? Where is your clients' need for advice particularly high?**

Our clients are mainly Mittelstand shaped world market leaders. Due to India's complexity, there is a comprehensive need for advice in the areas of taxes, law, auditing, ongoing accounting and compliance. As a multidisciplinary company, Rödl & Partner India can assist foreign and domestic investors and companies in all the above services

Due to the growing market potential of India there is more consulting potential than ever in the segments of market entry, incorporation, joint ventures, M&A and tax structuring.

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## EXECUTIVE SEARCH

### EXECUTIVE SEARCH EXPERTS IN EASTERN EUROPE AND THE EMERGING MARKETS

**CT Executive Search** focuses on placing key positions in Eastern Europe and the Emerging Markets – in Russia / CIS, Africa, the Middle East and Asia. We are experts in cross-border search processes and identifying high-performing candidates, adding value to international companies. Leveraging a broad network of analysts and consultants across Eastern Europe and the emerging markets, CT Executive Search has established itself as a reliable partner to well-reputed multinational companies.

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