

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

INDIA



INDIA – TRENDS, OUTLOOK AND OPPORTUNITIES



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“INDIA IS THE MARKET TO BE IN”

How did the pandemic affect Freudenberg and you personally?

COVID-19 has quite suddenly and drastically changed our world on many different levels – international, national, regional, economic, political, social, professional and personal.

Around the globe and in India, social distancing, masks, travel restrictions and recurrent lockdowns are now the new normal. As a result, in today’s corporate environment, top management has two priorities – protect all employees, including themselves, and successfully steer the company out of the corona-induced crisis.

The measures put in place by the Indian government to stop the spread of the virus, as well as a decreased demand in some industries, primarily automotive, had a negative impact on our business.

However, our business has since shown a continuous gradual improvement. Most of the markets are obviously coming back. Many of our Indian businesses are doing pretty well. Overall, this is a far more positive development than we expected earlier.

To tackle the crisis, we continue to adhere to our strict cost management policy and related measures. Our investment strategy has been reviewed in such a way as to decrease investments without jeopardizing future growth and development. We have refrained from making budget cuts to our research and development activities.

In dealing with COVID-19, we have found new ways of working such as in digital communication and collaboration, both internally and with our customers. COVID-19 has accelerated our company’s digital transformation process, especially, when it comes to corporate and external communications and our production processes. We have made good progress and are focusing on services that provide added value to our customers, while significantly improving our efficiency.

Still, we miss the face-to-face meetings and the discussions.

Some businesses’ top line and profitability may be adversely affected at the moment. It is important that during this period, market shares are not lost as well. I feel we have not lost momentum. Freudenberg intends to continue investing in long-term projects. The mobility transformation, digitalization and an expansion into sustainable solutions will remain the central components of Freudenberg’s strategy.

What’s your economic outlook for 2021?

The Union Budget 2021-22 is seen as an overall pro-growth budget and was presented for the first time in a digital format. This budget has not only received a



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“thumbs up” from the stock markets, but also from the people and industry, as it does not intend to raise additional taxes.

Unpredictable circumstances, foreign direct investments lower than expected, a difficult economic environment and the global pandemic are addressed in the Union Budget.

The 2021 Economic Survey predicts that India’s economy will contract by 7-8% in 2020-21, and will recover by 10-12% during 2021-22 only if there is a nationwide vaccination and a rebound in consumer demand.

Most indicators since October 2020 (industrial activities, trade, logistics, financial services, sector wise impact, macroeconomic indicators, sentiment like PMI in manufacturing and services), show an upward trend. I see good year-on-year growth rates, and I am also happy to read that most of the indicators of our most important segment – the automotive segment – have improved.

However, it remains to be seen how policymakers will respond to the currently rising infection rates, and to what extent any action taken will affect our business.

What advice do you have for German companies interested in India? What are some of the advantages of setting up operations there?

India clearly is a market to be in. If you are not yet there, it could be too late.

India and Germany are natural partners: Both are committed to free global trade, we have a shared interest in sustaining a rules-based multilateral trading system, and we fulfill our responsibility to promote peace, democracy, the rule of law and respect for human rights.

India is a land of opportunities for German companies.

Despite the challenges of working in India, German companies are convinced of the long-term Indian opportunity, with its young and well-educated population, and its evolution as an IT and R&D powerhouse.

In addition, India is increasingly being considered an attractive manufacturing hub – not only with regards to its domestic market, but the entire region as a whole.

The opportunity to “Make in India”, and to merge domestic production and consumption with global supply chains, make India an “active manufacturing hub placed at the heart of global

ABOUT FREUDENBERG IN INDIA

Freudenberg has held **business ties with companies in India for more than 90 years**. The Group employs some approx. **3,000 staff** at **50 locations**, including **15 manufacturing plants** and **six R&D centers** in six Indian states.

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, Freudenberg Group develops leading-edge technologies and excellent products and services for about 40 markets and for thousands of applications: seals, vibration 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 172-year-old company lives by its core values: a commitment to excellence, reliability and pro-active, responsible action.

In 2019, the Freudenberg Group employed about **49,000 people** in around **60 countries** worldwide and generated sales of around **9.5 billion euros**.

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value chains". The ease of doing business, transparency and e-governance have shown considerable improvement, and we see continued efforts to enhance skills development and technical training needs. However, infrastructure is still lacking world class standards.

As Germans, we should remember our very successful business model "Mittelstand". This model includes following principles, such as:

- Believing in innovation, quality, long-term orientation and sustainability;
- Having advanced regional market skills;
- Maintaining outstanding values and principles even in a highly competitive, complex and global world;
- Being flexible, niche-market players;
- Investing in people and developing a pool of vocational trained employees.

Nevertheless, a successful strategy needs to reflect India's complexity. Despite all the opportunities, India requires a tailor-made strategy for your activities and investments. You have to be committed to the country, and you have to show respect for the country, its values and the people.

In India, you have to be ready for a long-term commitment. Short term strategies and commitment do not work. India is time consuming.

Implementing business development strategies successfully adopted in other countries may not be met with the same and/or desired results in India. Your strategy must be India specific.

This includes employee relocation or transfer to India. Make sure the person is well briefed regarding the cultural and business environment, and is ready to perform in line with the business expectations within the Indian market. Otherwise, you may be met with underperformance issues on the part of the employee, irrespective of the strong indicators observed with that person's performance in the previous country of employment. I know of several instances where that was the case.

In all your activities for and in India you need to adopt an attitude of "patience and relations".

Your goals should include long-term commitment. Do not try to impose values and principles practiced in other countries, show respect, and support business transparency. Be ready for change and the need to adapt to market and customer needs immediately.

Make corporate social responsibility a part of your company strategy, and focus on creating sustainable business processes.

If you are yet to consider setting up operations in India, it's best you get the ball rolling now. The clock is ticking, and if you don't act now, you may be too late.

“BRINGING ON BOARD THE RIGHT MANAGING DIRECTOR IS CRITICAL”

Arjun, can you comment on the recruitment activity of foreign companies in the last twelve months? How do you see the market developing in 2021?

Arjun Erry: As we look back at our mandates over 2020, the threads we can discern are the acceleration of succession planning and the continued appetite for executive recruitment in niche sectors.

In both of these situations, the ownership of the company i.e., foreign or domestic, did not have a material bearing. We observed and participated in several situations where the organizations viewed the pandemic as a catalyst for making transformative changes to their executive leadership. The roles that were in focus were ones where the incumbent was nearing the stage of superannuation. Possibly expecting that the pandemic-induced disruption would demand deep reserves of energy, resilience, and agility – organizations moved fast to on-board the successor.

Several niche industries in India are growing because of underlying macro factors. Warehousing is an example, where the demand is being driven by the massive shift to e-stores, and away from physical stores. This has a virtuous impact on the entire value chain—the financiers, i.e., private equity, land-owners, construction companies, and warehouse management entities. We participated in several CxO hires for warehousing ‘platforms’ backed by private equity.

We expect the demand side will continue to grow on the themes outlined above. In addition, the anticipated recovery in the economy – already underway – will provide a fillip to the executive search firms across client industries, save perhaps travel and hospitality.

In which industries are your customers particularly active, Christian? For which positions are you currently mainly recruiting?

Christian Tegethoff: We mainly work for Western European companies, often from the German speaking countries. A majority of our clients are medium-sized companies. Among these, the share of B2B enterprises is the largest. These include clients from the mechanical engineering, industrial components, and construction-related sectors, as well as automotive suppliers. Manufacturers of consumer goods also play a certain role.

As a consequence of the travel barriers and restrictions within India, relatively few new companies have come to India in the past year. Companies that had expansion plans postponed them, pending the outcome of the current pandemic. However, the final quarter of last year showed that companies have resumed the implementation of their longer-term strategies. This means that we are again increasingly dealing with projects in connection with market entries or a personnel reorganization of the Indian business.



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Managing Director
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and



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also co-leads the Informa-
tion Technology and BPO
practices. Hunt Partners are
long term partners of CT
Executive Search within the
South Asian region.

Typically, our clients maintain sales and service structures in India or want to develop them. Important hubs for these activities are Pune, Mumbai, Chennai and New Delhi. The India headquarters are usually located at one of these locations, with offices in the country's other important industrial centres as well. We are increasingly observing that European suppliers are realizing the cost advantages of India and that more and more value is being created in the country. A number of companies are also starting to establish India as a production hub for supplying the entire South (East) Asian region.

In line with that, many of our executive recruitment assignments are for companies looking to recruit managing directors with a strong sales background, who can simultaneously handle all the production related activities in the country as well. In addition, there are the usual administrative and operational C-level roles, particularly, when it comes to finance directors, sales and production managers.

Arjun, how do the Corona-related restrictions affect your recruiting process? Will there be any longer-lasting impacts on the search process?

Arjun Erry: It may read hyperbolic but yes, the pandemic has upended hitherto holy grails of executive search. Meeting with candidates in-person was considered a best-practice. For it was deemed essential to pick up the myriad of non-verbal cues that allowed the search consultant to complete the calibration of the candidate with a view to determine 'fit' to the client. The pandemic forcibly disrupted this integral component of the search process, leaving search consultants with the next best option, i.e., virtual 'face-to-face' meetings.

The positives are aplenty: agility and speed will not be comprised by the hitherto challenges of matching diaries; conversations can take place intensely without the inevitable distractions of an external setting; productivity for the search consultant increases enormously (no more taking several days to interview); quicker delivery times help clients fill roles that are critical. Our view is this pandemic-induced disruption has and will permanently alter the manner and timelines of the executive search process.

What do you recommend to European companies that are planning to enter the Indian market or want to replace a manager?

Christian Tegethoff: Bringing on board the right managing director is critical to the company's success. Correspondingly, investments should be made in the search and selection.

In addition to industry and product knowledge, key qualifications include an understanding of the way international companies work and a high level of personal integrity. In India there is no shortage of eloquent candidates who can sell themselves well - it is then important to check the information and, for example, to confirm references through discussions with former superiors.

After opening a subsidiary, maintaining a close connection to the company headquarters is important. Smaller companies, in particular, sometimes underestimate the training and coordination effort involved in managing branches that are geographically distant.

The Indian employees need permanent contact persons at the European HQ in order to be able to process customer inquiries quickly and to clarify technical questions. If possible, these interfaces should be set up before the subsidiary is created in India.

“INDIA IS AN ENTREPRENEUR-FRIENDLY COUNTRY”

How has the legal environment changed in the course of the coronavirus pandemic last year?

The legal and business environment has changed drastically on all levels due to the coronavirus pandemic. The strict lockdown regulations have severely affected the industry and the citizens of India. Businesses faced issues such as disruption of supply chains, cash flow disruption and overall slowdown of business and investments.

In order to support the industry and the citizens in such difficult times, the Indian Government issued an economic stimulus package on May 12, 2020, which should stimulate the country's economy again, despite pandemic and lockdown.

As part of this economic stimulus package, many political and regulatory changes were introduced with one main goal: “Vocal for Local”, thus, the expansion of the existing “Make-in-India” program. Financial support for small and medium-sized companies, reduced tax rates and financial support with regard to social security contributions were introduced and implemented. At the same time, in some sectors, such as the defence and space sector, permission of foreign direct investment was expanded.

Establishments as well as the Government had no choice but to rely on digitization during the lockdown. The Government extended due dates and introduced filing of returns and other online procedures. The Indian Government reacted rapidly, and had a clear advantage compared to European countries. With the “Digital India” program, India had already laid the foundations for a digital business environment.

There has also been a major change with regard to labour policies and work environment. Companies have switched to working from home as far as possible and boosted their digital mobilization for this. These changes can still be felt in the aftermath of the lockdown. Despite the fact that the lockdown has been lifted, employees continue to insist on flexibility with regard to home office and working hours. This has created a whole new working environment in India.

What innovations will the Indian labor law reform bring?

After 20 long years, the Indian Government has finally passed labor law reforms that are intended to codify the outdated and socialist labor laws and, above all, make them



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uniform. This long-awaited step is intended to resolve the tension between employer and employee interests. The new regulations are only able to achieve this to a limited extent.

As of April 2021, four new Labor Codes are expected to come into force in India, which will unify a total of 29 individual Acts:

- Code of Wages, 2019;
- Code of Social Security, 2020;
- Occupational Safety, Health and Working Conditions Code, 2020; and
- Industrial Relations Code, 2020.

The Labor Codes introduce mostly balanced changes for industry and workers, trying to provide more social security for workers and greater flexibility for employers at the same time.

The following changes, in particular, give employers more flexibility:

- One common and uniformed registration for establishments under the Occupational Safety, Health and Working Conditions Code, 2020.
- Strikes should only be permitted if they have been called in advance giving applicable notice. The notice periods have been tightened.
- The provisions of the Standing Orders only apply if 300 or more workers are employed.
- Applicability of obtaining prior permission for lay-off only for industrial establishments employing 300 or more workers. This simplifies termination of workers.
- Arbitration is an option now for disputes between workers and employees as long as it is agreed upon in agreement.

Worker-friendly, but essential to combat unemployment and create social security, regulations include:

- Introduction of a nationwide minimum wage rate (floor wage), which is based on the minimum standard of living of a worker. Furthermore, the floor wage should be reviewed and adjusted at least every 5 years.
- It is mandatory to issue appointment letters to workers in order to formalize employment relationships.
- Strengthening of the prohibition of employing contract workers in core activities.
- So-called "platform workers" and "gig workers" are included in the social security system.
- Introduction of fixed-term employment relationships, in which the fixed-term employees shall be eligible to receive gratuity after minimum of one year service.

Despite the introduction of these new Labor Codes, other pre-existing Acts will remain in place and still differ at the state and sectoral levels. Furthermore, applicability of labour regulations differs between manufacturing and service companies. For this reason, the Labor Codes only simplify labor laws in India to a limited extent.

Companies must continue to be vigilant and careful about their labor policies. They should analyze exactly which new regulations are applicable to them. It is advisable to review existing employment contracts, policies and other contracts with regard to the new Labour Codes and, if necessary, to amend them accordingly.

With regard to labor law compliance, we generally see a big step towards digitization. Compliance with labor laws has already been made easier with the introduction of the Labor Identification Number ("LIN") and the Unified Shram Suvidha portal. The LIN, which is already issued when the company is incorporated, is a uniform registration number for labor law and social security purposes. The Shram Suvidha portal is a one-stop shop portal for labor compliances, with which consolidated annual returns can be submitted online under 16 laws. This digitalization not only helps companies to comply with compliance regulations, but also helps the authorities to monitor any breach in compliance. In this respect, it is advisable that companies do not underestimate labor law compliances, but rather proactively comply and monitor them.

What other legal innovations should companies prepare for?

In addition to the labour reforms, other reforms are also pending, such as the Data Protection Bill. Data Protection has come to the fore in India due to the forced digitization process during the lockdown. Companies have realized that they need to upgrade, especially with regard to IT infrastructure and data protection.

Further, there is a clear trend towards further easing foreign direct investments and incentivising manufacturing companies as part of the "Make-in-India" program. As part of this, the industry also hopes for land acquisition reforms that will facilitate the acquisition process, especially, for manufacturing companies.

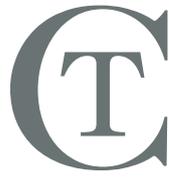
In addition, it would be desirable to intensify the slow process of simplifying and accelerating the Indian judicial system. Unfortunately, this cannot be foreseen at the moment.

In the meantime, India will focus on pushing through and implementing reforms that have already been introduced and, above all, on allowing them to bear fruit.

How do you rate the legal framework in India? How entrepreneur-friendly are they, what challenges do they bring with them?

India is definitely an entrepreneur-friendly country that is taking significant steps towards ease of doing business with its current government. However, it should not be overlooked that this entrepreneurial friendliness only applies as long as the necessary legal and tax compliance are followed.

Indian authorities are strict when it comes to compliance breaches. Since resolving any such breach can be expensive and tedious, it is imperative that Indian subsidiaries be controlled and managed under careful supervision. Once this is taken care of, all operations can go ahead smoothly and the will be successful.



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