



Growing pains

India CEO Outlook 2018

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From the CEO

Optimism and opportunities

We are pleased to present to you our fourth annual India CEO Outlook. This report is based on the views received from 125 CEOs in the country on their highest priority opportunities and most formidable challenges. Drawing parallel insights from our Global CEO Outlook Report, it also assesses international trends that impact India.

While technology plays a significant role in all aspects of business, other key forces that CEOs are dealing with today include a shift in geographical focus, digital transformation, cyber attacks, data privacy, millennials, inorganic growth and alliances. CEOs are increasingly paying attention to geopolitics for its effects on postures and policies that affect their businesses.

CEOs in India are optimistic with regard to the current economic environment in the country, keeping the faith they evidenced last year. In 2017, we found that CEOs were excited about a technology driven future that provided opportunities to disrupt and grow. That attitude continues to prevail.

Some have identified turbulent geopolitical situations as opportunities

for expansion rather than retreat; while others are positive about emerging markets as sources of future growth. Surprisingly, among emerging markets, the target region seems to have shifted this year from India and the Asia-Pacific region in 2017 to Central/South America and Eastern Europe regions.

Technology continues to be of prime importance and Indian business leaders expressed a keen desire to harness transformation by introducing new concepts, skills and unconventional strategies for growth.

Cyber security and data privacy once again are important concerns for CEOs in India. With regard to data and analytics, while the global business community is increasingly relying on data-driven models and analytics for decision making, business leaders in India depend more on their experience and intuition to make strategic calls.

Despite their overall optimism, CEOs in India are treading cautiously as they need to respond and be ready for an ever-expanding range of complex challenges and growing pains. Two-thirds (66 per cent) of business leaders surveyed in India

identified return to territorialism as a threat to their organisation's growth.

CEOs are now willing to enter into partnerships, invest in new age technologies, explore potential geographies for expansion and make room for new ideas and innovation. They are willing to make their businesses more agile and adapt to the rapidly changing technological and geopolitical environment.

A sincere thanks goes to all the CEOs who responded to the survey and shared their valuable insights on current and emerging business issues. If you would like to initiate a dialogue on the report, our partners would welcome the opportunity to discuss how you can best leverage these insights to grow your business.



Arun M. Kumar

Chairman and CEO
KPMG in India

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Key findings

CEOs in India more optimistic about the growth outlook for the global economy compared to that of India's, both in the short and mid-terms.

89% CEOs confident about global economy

69% CEOs confident about the Indian economy

The global economy's stable performance in 2017 has sparked optimism amongst CEOs in their outlook towards global growth opportunities.

Despite relative lower confidence in the Indian economy, CEOs in India foresee a bright outlook

for their businesses over the next three years. This can be attributed to the fact that 91 per cent are confident about their companies growth prospects and 81 per cent are confident about the growth of the industry they are a part of.

Key factors imperative for an organisation's growth

Expanding wisely

62% CEOs see emerging markets as their biggest priority for geographical expansion

Achieving agility

86% CEOs believe attaining organisational agility is pivotal for their company's survival

76% CEOs believe that their organisations have a strong understanding of how to measure ROI from digital transformation initiatives

54% CEOs have begun implementation of Artificial Intelligence (AI) for specific processes

94% CEOs see technology disruption as an opportunity

42% CEOs are piloting Artificial Intelligence (AI) within their organisation

Hiring talent

CEOs believe that amidst rapidly evolving technology, hiring the right talent for jobs would be vital.

70% CEOs consider data scientists as the most important part of their workforce in supporting their organisation's growth plans

Future proofing against cyber risks

Managing cyber risk is an important boardroom agenda

71% of them believe that a strong cyber strategy would be critical to building trust among their key stakeholders

Investing in innovation

60%

CEOs intend to collaborate with innovative start-ups and set up accelerator or incubator programmes in pursuit of their growth objectives

Likely headwinds for CEOs

93%

CEOs are concerned about the lead time required to achieve technology-based transformation

66%

CEOs see return to territorialism as a key threat to their organisation's growth prospects

49%

CEOs face difficulties in responding to expectations of an on-demand service

46%

CEOs are encountering challenges, engaging with millennials via digital channels

37%

CEOs believe that their organisations are well prepared to mitigate future cyber attacks

Key themes for next three years

This year's survey clearly outlines the efforts being taken by CEOs towards initiating a transformation across several areas within their organisations.

Importantly, they remain fully cognisant of the opportunities available to them, which they are willing to leverage by being proactive.

What CEOs are doing



Territorial risk: Seizing growth opportunities

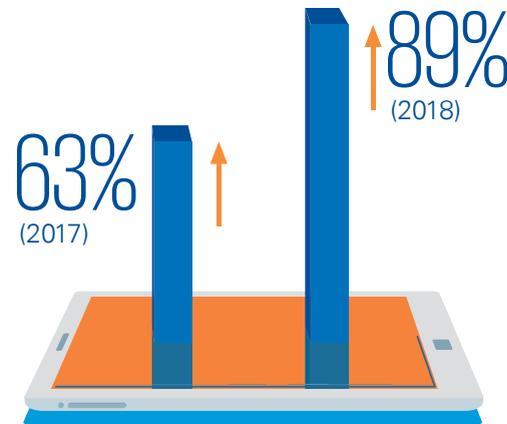
CEOs in India have expressed greater confidence in the global economy and see emerging markets as the biggest priority for geographic expansion. When it comes to foraying into developed markets they are trading cautiously due to geopolitical volatility.

In 2017, the global economy witnessed an improved performance. This momentum is expected to continue in 2018.

A similar confidence has been observed among CEOs where 89 per cent of them expressed confidence in the global economy, while only 69 per cent seemed optimistic about the growth of the Indian economy.

Regardless of the dip in confidence in the country's economy, CEOs are still optimistic about the short and mid-term growth of the sectors their organisations operate in.

91% CEOs are confident of the growth prospects of their company in the near future



Growth prospects for the global economy

41% CEOs are planning to hire new talent in the U.K. after Brexit

Pertinent to note is, global territorial dynamics have now started to impact CEO strategies in specific geographies. When asked about their strategies for the U.K., CEOs saw Brexit as an opportunity to expand their operations in the U.K. The survey also showed that CEOs with no operations in the U.K. are most likely to make inbound investments there (42 per cent) or increase level of trade with the U.K. (32 per cent).

Some are likely to move their headquarters or operations to the U.K. while others are planning to hire new talent in the U.K.

Considering the scenario, increasing protectionism has led 36 per cent CEOs to become cautious about geographic expansion in developed countries. Additionally, CEOs believe that a return to territorialism would pose a formidable challenge to their growth prospects in future.

It is to mitigate this territorial risk, that 62 per cent CEOs are showing business confidence in emerging markets over developed markets to drive future growth.

Under emerging markets, with 28 per cent votes, Central/ South America has emerged as the most trusted region for expansion for CEOs in India. This is followed by Eastern Europe (27 per cent) and Africa (21 per cent).

This data indicates that a majority of CEOs are upbeat about growth of the global economy, and are therefore likely to include global diversification in their market strategy.

62% CEOs see emerging markets as the biggest priority for geographical expansion

66% CEOs see territorialism as a major threat to their organisation's growth

“Enhanced protectionism has been a recent trend across the world, especially in places which were erstwhile bastions of free enterprise. CEOs need to adapt to the globalising economy and also be aware of tax and regulatory changes that are counterintuitive to it.”

- Hitesh D. Gajaria
Partner and Head
Tax
KPMG in India



Growth through agility and alliances

In today's dynamic business environment, CEOs in India are focusing on building an agile organisation and growing organically to drive their growth.

Although CEOs are confident about their company's growth, they anticipate that sustaining growth is likely to become challenging in today's competitive environment. They believe staying agile and adapting to evolving customer demand is likely to ensure sustainable growth.

This sentiment is clearly reflected in the mindset of CEOs, as 86 per cent CEOs, much higher than their global peers (59 per cent), believe that becoming an agile organisation will be critical to their company's survival.

86% **CEOs consider agility to be the new currency of business**

One of the vital enablers for an organisation's agile strategy is its ability to collaborate. As many as 60 per cent CEOs are looking at collaborating with innovative start-ups and set up accelerator or incubator programmes. They believe collaboration, with supplementary or newer skill sets, is the key to bringing in agility.

79% **CEOs believe third-party partnerships can provide agility**

30% **CEOs make moderate use of contingent workforce**

While 79 per cent CEOs believe third party partnerships provide agility, 30 per cent CEOs make moderate use of contingent workforce in place of permanent workers, to enhance flexibility in their business processes.

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Forging strategic alliances has the potential to open up new avenues of growth for enterprises whilst allowing them to focus on their domain of core competencies.

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- Arvind Gupta
Partner and Head
Management Consulting
KPMG in India



When it comes to bottom line growth they seem to be in agreement that more emphasis needs to be laid on organic growth, rather than inorganic growth. CEOs in India are less likely to take the M&A route to achieve their medium-term growth objective. This is in line with the previous year's survey in which as many as 57 per cent of the CEOs opined that acquisitions will have only a moderate impact on the organisation.

Also CEOs see innovation as the primary need of the hour to fuel organic growth. They want their organisations to be more active in investing in innovation to attain success, compared to their global counterparts.

This can further be attributed to the fact that almost 57 per cent of them plan to join industry consortia that are focussed on developing innovative technologies. That said, 54 per cent CEOs feel they could increase investments in disruption detection and innovative processes.

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Ability to learn from experiences of other businesses, irrespective of which sector they belong to and their size and adapting that to one's own organisational needs can ensure agility and success. This makes collaboration and alliances a key ingredient for an organisation's ability to respond faster to the changing market conditions and customer demands.”

- Nitin Atroley

Office Managing Partner
North
KPMG in India



35% CEOs see strategic alliances as their first choice for growth strategy over M&As

36% CEOs see achieving organic growth as their top most growth strategy

Only
11% CEOs see M&As
as their primary
strategy for growth

In addition, CEOs want to embrace new business channels and are therefore focussing their energies on acquiring skillsets required to meet future demands. With this in mind, almost as many as 68 per cent CEOs are set to make their products and services available via online platforms.

What can be inferred is, CEOs today are recognising the importance of agility in the organisation design, in order to thrive and evolve in the market that demands constant change.



Managing returns amidst disruption

CEOs in India are attempting to manage return on investments by embracing new technologies like Artificial Intelligence (AI) and Robotics Process Automation (RPA) as they are now considered as big areas for technological investments.

Technology is a potential game changer, as it represents one of the strongest enablers for CEOs, which could help them secure the long-term growth prospects of their enterprise along with competitiveness.

This sentiment reflects in the survey results with technology-based transformation being high on the agenda for CEOs.

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The invention of disruptive technologies has highlighted the weaknesses in old-school business models. Thus, CEOs in India need to overcome these challenges of implementing new age technologies, if they wish to be on par with the best in the world.”

”

- Mritunjay Kapur
Partner and Head
Technology, Media and
Telecom
KPMG in India



As positive as they are about the benefits of technology-based transformation, they are also concerned by the time taken for on-ground implementation of technology-based transformations.

93% **CEOs believe that the lead time needed to achieve significant progress on transformation is long**

Despite the concerns regarding lead time, CEOs expect tangible benefits by way of good data governance, accelerated revenue and improved customer experience from the implementation of technology initiatives like AI and RPA.

42% **CEOs are piloting/trialing artificial intelligence in just a small number of processes which augurs well for the future**

Further, their faith in technological transformation is reaffirmed by the fact that a majority of CEOs believe that automation would create more jobs than eliminate in the short to mid-term future.

This brings us to another significant highlight of the survey. It pertains to the adoption of technology initiatives by CEOs in India and their ability to comprehend and measure complex aspects, such as Return on Investment (ROI) from some of the technology transformation initiatives.

65% **CEOs surveyed in India believe that automation will create more jobs than eliminate**

94% **CEOs see technology disruption as more of an opportunity than a threat**

This is of critical importance, as it could assist CEOs to determine the feasibility of a technology investment with greater accuracy.

76% **CEOs believe that their organisations understand how to calculate expected ROI from technology investments**

While CEOs have gained a sound understanding to measure ROI on transformation initiatives, the ease of measuring ROI depends on the nature of technology initiatives being adopted. According to the survey, CEOs have found it relatively easier to measure returns from AI implementations compared to that of RPA.

Level of understanding among CEOs on measuring ROI

82% **Artificial Intelligence systems**

58% **Robotics Process Automation**



Despite their ability to measure ROI on technological investments, CEOs in India are more likely than CEOs in other countries to point to a short-term bias in technology investment. The survey highlights that 66 per cent CEOs expect to achieve significant ROI, from digital transformation within 1-3 years of implementation.

This is critical due to the fact that as many as 74 per cent CEOs have stated that their company's board has unreasonable expectations from ROI on technological and digital transformation initiatives. Thus, having the ability to analyse, measure and have a fairly good understanding of measuring ROI on technological investments will prove to be helpful. This will surely help them in prioritising investments in the most relevant technology initiatives.

All in all, regardless of the challenges in its path, the overall sentiment for CEOs remains firmly in favour of embracing disruptive technologies as part of the natural growth and progression of an enterprise.

Trusting intuition over data

CEOs in India have expressed some reservation about the use of predictive analytics in strategic decision-making. This is because they still trust their intuition when it comes to strategy and making important business decisions.

Eighty one per cent CEOs are less confident about the accuracy of predictive analytics than historical data, while 41 per cent revealed an increased use of predictive models or analytics over the next three years.

81%

CEOs are less confident about the accuracy of predictive analytics than historical data

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Keeping up with the evolving role of data, leadership at firms, regardless of scale must appreciate and embrace its role in the decision making process. The power of predictive analytics can help CEOs discover a whole new manner in which they can drive their enterprises forward.”

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- Akhil Bansal
Deputy CEO
KPMG in India



Consistent with some reservation about the use of predictive analytics, 62 per cent have overlooked insights from data analysis models over the past three years because they were contrary to their own experience or intuition.

Nonetheless, predictive decision-making is likely to make a place for itself in the CEOs' decision-making process, as 41 per cent CEOs showed interest in adopting predictive models in future.

The growing interest of CEOs in predictive analytics can be inferred, by their emphasis on adding data scientists to their workforce, as they believe that they are critical to an organisation's future growth plans.

Which sources do CEOs trust most for making strategic decisions?

	Traditional media	82%
	Social media	75%
	Independent secondary information providers	61%
	Government commissioned research	58%
	Open data from government agencies	54%

41% CEOs believe that they will increase the use of predictive models or analytics

70% CEOs feel data scientists are important resources

As many as 62 per cent CEOs, maximum among all other categories of workforce, see data scientists as the most effective group of their workforce.

With technological innovations continuing to disrupt the industry and forecasting tools becoming more advanced, the acceptance

of predictive modelling by organisations to prepare better for tomorrow is expected to become more common.

In future, it might become imperative for organisations to combine their intuition with data-driven analytics to identify new growth opportunities.



Future proofing against cyber risks

CEOs in India need to make their organisations strong enough to be able to mitigate threats arising from cyber attacks which span across an array of organisational activities.

50% CEOs consider cyber security specialists most important in supporting their organisation's growth plans

With the increasing penetration of internet and latest technologies across all aspects of corporate and personal life, the volume of critical data being stored on open and interconnected technology platforms is rising exponentially. This is leaving firms vulnerable to cyber attacks.

Cyber attacks, such as website intrusions, phishing, virus and malicious code and ransomware, are being increasingly reported by Indian corporates in the last few years. Concerns related to cyber security not only impact a firm, but the entire business ecosystem of an organisation. In fact, 34 per cent of CEOs believe that their organisations will be targeted by cyber attackers, and it is a case of 'when' and not 'if'.

Fortifying a firm against cyber risks could help strengthen how others perceive it in the business world. A vast majority of CEOs believe that a strong cyber strategy could help them build trust among their key stakeholders.

71% CEOs consider that a strong cyber strategy is critical for generating trust with their key stakeholders

The large-scale migration to digital platforms is making not just an organisation's IT function, but also the entire value chain, prone to cyber attacks. Cyber threats are now challenging CEOs by becoming a cause of several risks faced by companies.

Cyber security – a significant cause of other risk factors



When asked about the overall readiness against cyber risks, CEOs in India stated that they significantly lagged behind their global peers.

To be successful in the rapidly transforming business environment triggered by technology evolution, it is crucial for businesses to be proactive, and be prepared for the seemingly inevitable cyberattack(s).

37% CEOs believe that their organisations are well prepared to counter a future cyberattack as against 51 per cent globally

40% CEOs are prepared to contain the impact of a cyberattack on their strategic operations as against 56 per cent, globally

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Cyber-crime incidents in India have evolved to become more frequent, sophisticated and complex in nature, making cyber security one of the top priorities for Indian organisations today. Enterprises today need a dynamic cybersecurity framework supplemented with the right skills and tools to build a resilient enterprise.”

Akhilesh Tuteja

Partner and Head
Risk Consulting
KPMG in India;
Co-leader, Global
Cyber Security practice



Delivering on evolving customer expectations

Dimensions such as delivering on-demand services, personalising customer experience and digital engagements pose significant challenges for CEOs in India, as they seek to

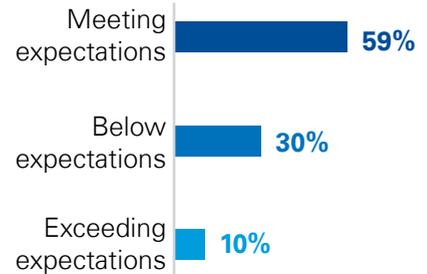
engage with and deliver on evolving customer expectations.

In order to address such challenges, CEOs must continue to work towards developing a proactive customer engagement strategy.

According to the survey results, while majority of CEOs believe that they have been successful in meeting customer expectations, only a small proportion believes that they have been ahead of the curve by exceeding these expectations.



CEOs perceptions of their organisation's performance in meeting customer expectations



In order to continue meeting and exceeding on these parameters, CEOs are required to keep themselves abreast of latest developments, while making investments in trying to improve customer experience.

A key component of meeting and exceeding expectations, and ensuring long-term growth of an enterprise, is to aim at delivering the needs of consumers of tomorrow.

The millennial consumer population in India and around

the world is characterised by markedly different tendencies compared to the previous generations. Rapidly evolving tastes and preferences, low brand loyalty and increasing discretionary spending power are some of the major aspects that define the millennial consumer.

In light of the increased significance of the millennial consumer, it has become imperative for organisations to engage with and meet their expectations.

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For enterprises, technologically-savvy millennials have emerged as the growth drivers of tomorrow, irrespective of sectors, as customer delight and talent acquisition are paramount for success, and those failing to recognise this trend are destined to lag behind their peers.”

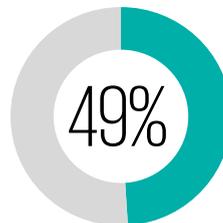
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- Pradeep Udhas

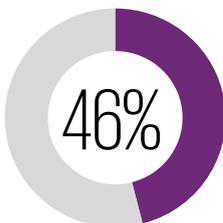
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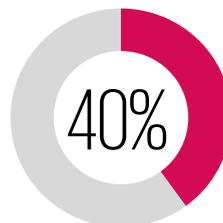
CEOs believe that appointing senior leaders who can relate better with millennials is a challenge



CEOs face difficulties in responding to expectations of an on-demand service



CEOs are facing the challenge of engaging with millennials via digital channels



CEOs find it difficult to understand how millennials' needs differ from older customers'

In a bid to overcome challenges related to engaging millennial consumers, CEOs have identified certain areas such as making available products and services online via digital platforms, adopting a sales and distribution model and engaging via digital channels as key areas of investment from a customer engagement standpoint.

While CEOs continue to identify new areas of investment in an attempt to continuously improve customer engagement and satisfaction, and deliver an increasingly customised experience, a significant proportion of CEOs in India are yet to be satisfied by the growth achieved on the basis of such investments till date.

40% CEOs believe that investments made in trying to personalise customer experience do not deliver the desired growth benefits

Given today's highly customer-oriented nature of business, firms would need to ensure ongoing success and the ability to create a positive impact on current and potential customers.

CEOs would, therefore need to depend on their adeptness to build greater trust, awareness to sense market signals and flexibility, to embrace disruptions with innovations, ensuring continued success for their enterprises.

“Power has clearly shifted to the consumers and it is only those businesses who can predict consumer preferences, enhance consumer experience and align themselves with agility that will succeed.”

- Shalini Pillay
Office Managing Partner
Bengaluru
KPMG in India



Conclusion

In today's fast paced and inter-connected world, CEOs have to be on their toes and keep innovating. This will allow them to work towards achieving growth and also concurrently manage the evolving risks that come along. That said, they prefer to remain flexible to consider partnerships with third parties - wherever it may help boost a company's growth prospects. They have come to terms with the fact that challenges of achieving realistic growth will depend on their investment approach on technology. Additionally, they are open to adopting new technologies, but also want a realistic picture of the ROI projection.

With an increased focus on digital transformation, CEOs in India are conscious about the need to strengthen cyber strategies to safeguard their organisation. They recognise that agility alone will not maximise their growth, let alone meet the evolving customer demands, specifically from millennials. Therefore, Indian CEOs have begun focussing on newer avenues of growth, while paying special attention to the needs of the millennial population, where demands are significantly diverse from that of the previous generations. They realise that they have to enhance customer experience with data-driven insights, in order to make the most of the valuable opportunities.

Looking ahead, in the current scenario, CEOs can be equally optimistic about global opportunities, but they have to give priority and keep in mind geo-political risks while setting targets for the coming year. Leaders have to accept that they cannot predict the future but must prepare their organisations effectively to manage the **growing pains in their business.**

Methodology

This report has been put together on the basis of the survey results of 125 CEOs in India who participated in a global survey conducted by KPMG International. The Global CEO Survey was conducted in Australia, China, France, Germany, India, Italy, Japan,

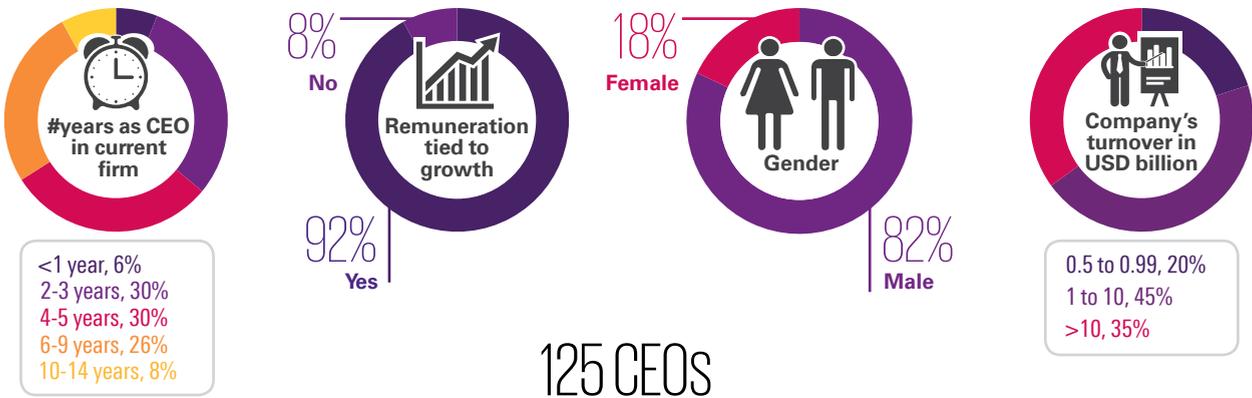
the Netherlands, Spain, the U.K. and the U.S., comprising 1,300 CEOs.

From India, CEOs from 11 key industries participated in the survey, namely, infrastructure, automotive, banking, insurance, asset management, life

sciences, technology, telecom, manufacturing, consumer and retail, and energy.

The survey was done between January-February 2018. Forecasts made in this survey are for a three year period.

Participants' profile — Indian CEOs



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