


2010 Management Capability Index – India

Executive summary



Consulting. Outsourcing. Investments.

Foreword

Gautam Thapar, President, All India Management Association

“However good our future’s research may be, we shall never be able to escape from the ultimate dilemma that all our knowledge is about the past, and all our decisions are about the future.”

– Ian Wilson, American strategy consultant



The future is every CEO’s worry and potential delight. Response to change is a key determinant of business success. The inaugural AIMA-Mercer Management Capability Index (MCI) is an effort to map management’s capability and readiness for change and the challenges of tomorrow. Relationships with stakeholders and knowledge-driven growth emerge as binding themes from conversations with over 200 companies that the AIMA-Mercer survey reached out to.

The survey took inputs from industry leaders, management gurus and managers, and I am happy to share some key threads with you. The findings suggest that investing in relationships, establishing clear goals and creating roadmaps are the foremost areas of priority that business leaders need to continuously focus on. The real competitive advantage for companies comes from application of practical insights learned over time in a trust-based environment. The ability to agree with disagreement is a winning quality of good business leaders. While large Indian companies have been relatively better at improving their game, much work needs to be done to make government agencies and the small and medium scale enterprises more globally competitive.

The inaugural AIMA-Mercer Management Capability Index survey is a step in recognizing the fact that business leadership in India needs to fearlessly question existing mindsets and accept challenges in order to create a better future in an increasingly globalized world.

Best wishes,

Gautam Thapar

President, All India Management Association and
Chairman & CEO, Avantha Group

Nishchae Suri, Managing Director, Mercer India



What we think about and thank about is what we bring about. 2009 was a watershed year for the global economy in more ways than we can fathom. Fundamentals of management and business changed forever. While the world speaks of shifting the balance of power from the West to the East and much is being written about the growing prowess of India, we may need to rethink what really makes us tick and what will propel Indian enterprises into a position of leadership tomorrow.

We are delighted to be partnering with the AIMA in this monumental attempt at creating an index of the management and leadership capability in the country, with the inaugural Management Capability Index for India. While at its core is a critical self-evaluation by more than 200 business leaders from a cross-section of industries, this study endeavors to establish a credible benchmark of comparing management capability and the resulting opportunities in India with the rest of Asia and the world. As is evident from the results, India Inc. will need to improve on the strategic and people leadership dimensions to further increase our global competitiveness and build on the foundation. With AAMO having introduced this study already in countries like New Zealand and Malaysia, we can look forward to MCI – India reports over the coming years being substantiated with an even more meaningful analysis, comparing our results with those in other countries, thereby establishing a rich repository of management best practices. These best practices can not only be emulated by business leaders but also, with AIMA's wide outreach, be leveraged by students and practitioners of management throughout the country. This benchmark research will become particularly useful in the context of measuring the competitiveness of India's small and medium scale enterprises vis-a-vis the larger enterprises and the multinational companies in the future.

We hope you find enough food for thought in this inaugural Management Capability Index – India report.

Best wishes,

Nishchae Suri

Managing Director, Mercer India



Executive summary

Management capability is critical to sustainable business performance and growth in an economy, particularly so in the emerging economies that began by emulating western models of management but are now beginning to manifest their own unique identities.

During recessionary times and in tough business environments, managerial and leadership capabilities are further tested. Sustaining growth during good times also requires management vision, capabilities and know-how. It is important to continuously measure and develop management and leadership capabilities and skills.

The measurement of management capability is linked to the application of management skills and techniques. This means that management practices and competencies are linked to the results achieved, and therefore must reflect business performance. How effectively management deals with external and internal influences is also a reflection of the collective management capability of a nation.

This is the first-ever MCI – India survey and report. With no precedence, it provides a valuable insight into the current maturity of management capability in corporate India. The results of and responses by business leaders to the MCI – India survey will enable even more meaningful surveys in the coming years. Conducting this annually will enable us to track growth and evaluate change as we measure responses across time, countries and shifting environments. More importantly, it will allow Indian Inc. to identify and target areas that may need development and also interventions from policy makers, academics and business leaders.

The MCI converts the evaluation of management performance into an index. The index is a useful measurement tool and indicator of how capably, or inadequately, one CEO, organization, group, sector or country is performing against the criteria. Thus the MCI enables useful comparison or benchmarking between organizations based on their size, nature of ownership and industry and even a comparison between countries at an aggregate level.

The MCI – India is based on the following ten major drivers of management capability. The weighting of the ten categories in the final index is as follows:

No.	Category	Weighting
1	Organization results and comparative performance	25%
2	Visionary and strategic leadership	15%
3	Performance leadership	10%
4	People leadership	10%
5	Financial management	10%
6	Innovation of products and services	10%
7	Organization capability	5%
8	Application of technology and knowledge	5%
9	External relationships	5%
10	Integrity and corporate governance	5%
	Total	100%

For each of the ten categories that make up the MCI, CEOs/managing directors/general managers have assessed what they consider to be their organization's current performance level using a six-point scale.

Overall scores

The overall MCI – India for 2010 is 74.6%. This suggests that Indian management is performing at just under three-quarters of its potential 100% capability and has considerable opportunity for improvement in specific areas.

Aggregate MCI rating of different types of organizations on the parameters defining MCI are:

Category	2010 Overall MCI %	Local Large Organizations (LLOs) %	Multinational Corporations (MNCs) %	Small & Medium Enterprises (SMEs) %	Government Agencies %	Others %
Organization results and comparative performance	76.7	78.8	79.3	74.3	72.9	74.8
Visionary and strategic leadership	71.3	70.6	76.6	70.7	55.7	70.3
Performance leadership	75.4	76.7	76.6	75.7	65.7	74.8
People leadership	71.8	71.4	71.7	76.1	57.1	71.6
Financial management	74.1	75.1	78.3	72.1	67.1	71.6
Innovation of products and services	74.5	76.3	79.3	73.2	64.3	69.7
Organization capability	72.0	71.0	73.8	73.6	68.6	69.0
Application of technology and knowledge	73.5	72.7	75.5	75.4	70.0	69.0
External relationships	76.5	79.2	78.6	75.0	67.1	75.5
Integrity and corporate governance	80.8	81.2	83.4	80.4	72.9	79.4
MCI	74.6	75.3	77.3	74.6	66.1	72.6

The Indian corporate sector is strongest in integrity and corporate governance where the results are as high as 81% (80.8%).

It is also seen to rank well in the more tangible, performance-oriented parameters like:

- Organization results and comparative performance
- Performance leadership

In comparison, the Indian corporate sector underperforms on the softer and more intangible aspects of management and leadership like:

- Visionary and strategic leadership
- People leadership
- Organizational capability

There are significant differences by types of organizations in terms of their performance on the different parameters.

Multinationals

The multinationals are performing at 77.3% of their potential, which suggests that these businesses have managed to evolve more effectively when compared with the other types of organizations in India.

Multinationals surpass the MCI – India in a comparison of all categories except for people leadership (variance of -0.1). It has strongest performance in visionary and strategic leadership (variance of 5.3) and innovation of products and services (variance of 4.8).

Local Large Organizations (LLOs)

The LLOs are performing at 75.3% of their potential 100% capability, which suggests a relatively larger scope for improvement.

LLOs are strongest (when compared across different organizations) on performance leadership and maintaining external relationships. LLOs are relatively weak on organizational capability.

Small and Medium Enterprises (SMEs)

SMEs are performing at below 75% of their potential.

This group has a strong performance in people leadership (variance of 4.3) and is relatively weaker on organization results and comparative performance (variance of -2.4).

Government agencies

The government agencies group recorded lower overall assessment in the comparison of all the categories, with wide disparities in all categories (variance of -3.4 to -15.6).

Other than type of ownership of the various organizations, some of the other differences that emerged are:

- Larger organizations tend to perform better on MCI scores due to superior performance on performance leadership, financial management and maintaining external relationships.
- On the other hand, newer organizations tend to display a better hold on application of technology and knowledge management.

In all, the Indian corporate sector has displayed a fair degree of maturity on the 2010 MCI – India scores in a first-time broad-based assessment. There is, however, a significant opportunity for improvement in several dimensions and a potential for organizations to move toward more than 80% MCI aggregate scores. In the immediate term, Indian organizations need to strengthen their performance on the tacit and intangible aspects of management like visionary and strategic leadership, people leadership, and developing organization capability, areas in which the multinationals have fared well.

Indian organizations appear to be more performance focused, and score highly on integrity and corporate governance, which doesn't come as a surprise given the importance our cultural value system lends to this dimension of management. There will remain a continuous need to maintain focus on these areas of relative strength in order to sustain high MCI rankings.



Arun Maira

Member, Planning Commission, Government of India

“If you don’t know where you are going, you will end up somewhere else.” Organizations without vision drift. They may perform well for many quarters and even years. But, without a clear vision of where they want to be and where they want to go, and a strategy of how to get there, they are buffeted by external forces, and lose momentum. In a world of change, strategies cannot be cast in stone. They must be adjusted and changed. Clear visions, shared by all members of the organization, provide the guiding star, towards which the boat must sail, while it tacks in response to the winds and adjusts its course and strategies along the way.

In a dynamic world, all sailors aboard the ship must play their part to adjust the sails and change course. Therefore, they must all understand the vision and strategy, as well as have a sense of the forces in the external environment. Having a vision statement, no matter how attractive, that is not internalized by the sailors, and a strategy document, no matter how clear, that sits only in the office of the captain, is not good enough. People have to be actively involved in the shaping of visions and strategy. As the Bible says, “Nations cannot have visions, if the people in them do not have the vision.”

The most important lesson that has been learned by examining companies, and nations too, that have survived and grown through good and tough times, is that the process of shaping visions and strategies is the essence of creating high performing organizations. The depth of involvement and quality of organizational learning built into the process is much more important for success than any ‘objective,’ external, measure of the vision and strategy can be.



R Gopalakrishnan

Executive Director, Tata Sons

India is at an inflection point in its development course. The self-esteem and confidence levels of our citizens are at an all-time high and growth in entrepreneurial successes, changes in technology and continuous rise in opportunities have accentuated this.

We are witnessing a surge of innovation and its applied form across the board, including rural innovation, reverse innovation, social innovation etc. The fact that innovation lies at the heart of institutional as well as individual growth paths has made innovation an imperative part of the strategic mindset.

We are one of the fastest growing economies and we need to be congruent of the fact that innovation for business and society at large will come from the very realization of living and sensing this environment and empathizing with the nature of our problems. There are breakthroughs to be achieved in health care, drinking water, sanitation, information management, citizen empowerment, education, environment, social enterprise and adaptation of technology.

I hope that the next two decades beginning 2010 are remembered as the time that transformed India through widespread use of innovation.

“Just as energy is the basis of life itself, and ideas the source of innovation, so is innovation the vital spark of all human change, improvement and progress”

– Ted Levitt, economist

Conclusions and the way forward

There are significant takeaways for all organizations from the results of the MCI – India. An assessment reveals clear focus areas that need attention and development to improve management capability in order to achieve continuous and consistent business growth.

The overall MCI – India rating for 2010 is 74.6%. This suggests Indian management is performing at just under three-fourths of its potential 100% capability and has considerable opportunity for improvement.



If we map performance of different organizations vis-a-vis their criticality, the Indian corporate sector is strongest in integrity and corporate governance where the results are up to 81% (80.8%).

Indian organizations are also good at the more tangible, performance-oriented parameters like:

- Organization results and comparative performance
- Performance leadership

In comparison, the Indian corporate sector is comparatively weaker on the softer and the more intangible aspects of management and leadership like:

- Visionary and strategic leadership
- People leadership
- Organizational capability

Of these, visionary/strategic leadership and performance leadership emerge as critical areas for immediate attention given their greater importance in driving overall management capability perceptions.

Visionary and strategic leadership

In general, organizations do better in terms of setting the right vision and strategies, but perform less well on driving the organization towards achieving them.

This weakness is particularly pronounced in government agencies while multinationals are perceived to be the strongest on this front.

People leadership

The Indian corporate sector scores lower across the dimensions of having an integrated HR plan and having a people-focused organizational culture.

Government agencies score particularly low on this parameter while SMEs score the highest, ahead of Local Large Organizations and multinationals.

In the immediate term, Indian organizations would need to strengthen their visionary and strategic leadership and people leadership. Focus is also needed in organizational capabilities and application of technology and knowledge.

Besides implementing programs in the above areas, Indian organizations will also need to keep in mind the need for continuous programs in the other six areas of the MCI in order to maintain their performance in those areas as well. While attention to and focus upon the weak areas are required, organizations cannot afford to neglect any of the other areas that make up the overall management capability index.

There are significant differences by types of organizations in terms of their performance on the different parameters.

Performance of different types of organizations on the parameters defining MCI is portrayed as follows:

Category	2010 Overall MCI	Local Large Organizations (LLO)	Multinational Corporations (MNC)	Small & Medium Enterprise (SME)	Government Agencies	Others
Organization results and comparative performance	76.7	78.8	79.3	74.3	72.9	74.8
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Multinationals

Multinationals are performing at 77.3% of their potential 100% capability, which suggests that the criteria are being practiced across most of the organizations with further room for improvement.

Multinationals surpass the MCI – India in the comparison of all categories, except for people leadership (variance of -0.1). It has strongest performance in visionary and strategic leadership (variance of 5.3) and innovation of products and services (variance of 4.8).

Local Large Organizations (LLOs)

The LLOs are performing at 75% of their total potential, which suggests that while the criteria are being practiced across most of the organizations, there is room for further improvement.

The LLO group is the strongest (when compared across different organizations) on performance leadership and maintaining external relationships. LLOs are relatively weaker on organizational capability.

Small and Medium Enterprises (SMEs)

SMEs and government agencies are performing at below 75% of their potential 100% capability.

This group has a strong performance in people leadership (variance of 4.3) and is relatively weaker on organization results and comparative performance (variance of -2.4).

Government agencies

Government agencies recorded lower overall assessment in all the categories comparison with the widest disparities in all categories (variance of -3.4 to -15.6). One of the key trends throughout the MCI – India is the fact that government organizations and Public Sector Units (PSUs) have fallen short on most key parameters including visionary leadership, financial management and innovation.

Other than type of ownership of the different organizations, some of the other differences that emerged are:

- Larger organizations tend to perform better on MCI scores due to superior performance on performance leadership, financial management and maintaining external relationships.
- On the other hand, newer organizations tend to do better on application of technology and knowledge management.

SME focus: The small and medium enterprises have shown a lot of promise and performance in the MCI – India. However, they need to be adequately supported in order to enhance their competitiveness and management capability. Most SMEs score high on innovation and integrity but lack strength in financial performance and application of technology.

Financial management: Financial literacy, access to financial systems and reporting compliance are three areas where all organizations, except multinationals, need support and regulatory intervention.

Value-driven management: Organizations with a conscious view of the social and national implications of their performance have a greater need to be transparent, innovative and competitive. An organization as a unit of national development that is equally reciprocated by the external environment in a bid to enhance performance will encourage business leaders to invest in developing management capability.

Vision and leadership: An enhanced focus on long-term organizational vision and leadership may help corporate India strengthen its MCI scores and also realize its potential. Most organizations did not display a long-term strategic vision or business leadership, especially in the government and SME sectors. It is also a function of investment in the development of capability and overall transparency in business strategy and goals.

People leadership: One of the most acute and real challenges faced by growing businesses and organizations, people leadership leaves scope for improvement in managing an organization's best assets. Although some companies like HCL Technologies and Infosys have taken a leap in putting people first, most organizations still place people as resources and not as their most valuable business assets. A major change in paradigm for people leadership is essential for organizations to lead in the changing environment.

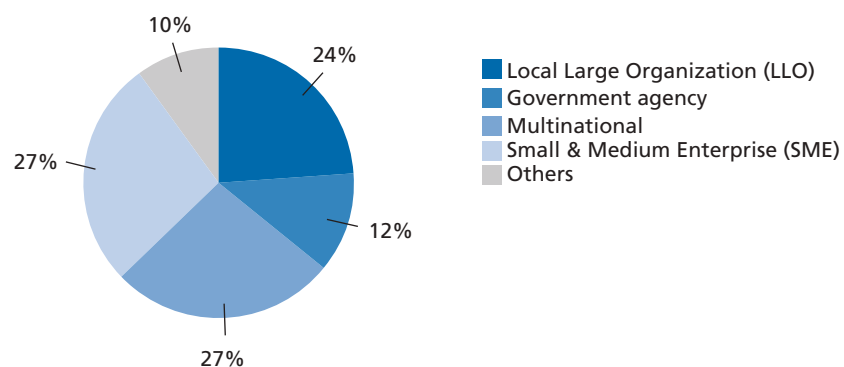
Based on the overall scores and keeping emerging trends in mind, businesses and organizations in India showcase a high degree of upward growth and positive sentiment. This is marked by a very high degree of buy-in in adopting best practices and improving efficacy of businesses. Conversations with business leaders show a high level of self-awareness, reflection and commitment to make the change. A synthesis of key indicators combined with resolution of systemic problems has the potential to help companies improve their management capability and enhance their national competitiveness.



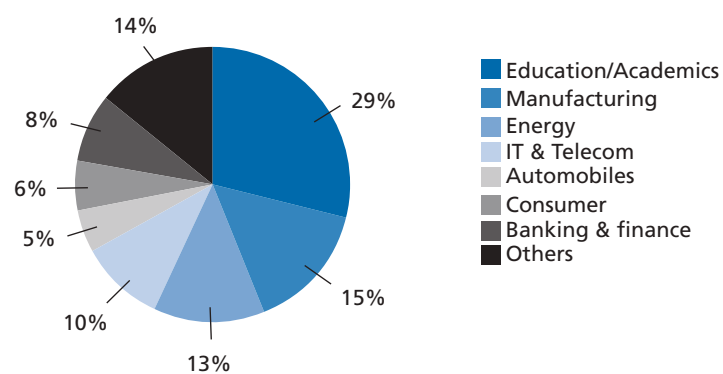
Appendix

MCI survey participant profile

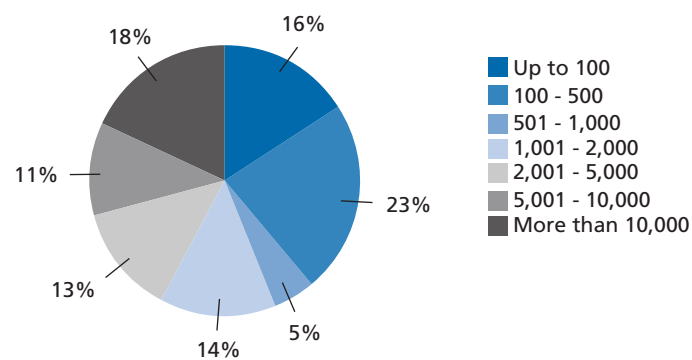
Type of organization



Industry



Number of employees





About

AIMA

AIMA, or All India Management Association, is an apex body of professional management that was established in 1957. Over the past five decades, AIMA has been at the forefront of developing new management thought in India, both at the academic and at the institutional level. AIMA along with its 60 affiliated Local Management Associations enjoys the patronage of 3,000 institutional members and over 30,000 individual members. A pioneer in the field of distance education, AIMA also offers ISO certified testing and allied services to corporations, institutions and students. Events organized by AIMA provide a platform for the management fraternity to share knowledge and best management practices from across the globe.

MERCER

Mercer is a leading global provider of consulting, outsourcing and investment services, with more than 25,000 clients worldwide. Mercer consultants help clients design and manage health, retirement and other benefits and optimize human capital. The firm also provides customized administration, technology and total benefit outsourcing solutions. Mercer's investment services include global leadership in investment consulting and multimanager investment management.

Mercer's global network of more than 20,000 employees, based in over 40 countries, helps ensure integrated, worldwide solutions. Our consultants work with clients to develop solutions that address global and country-specific challenges and opportunities. Mercer is experienced in assisting both major and growing, midsize companies.

The company is a wholly owned subsidiary of Marsh & McLennan Companies, which lists its stock (ticker symbol: MMC) on the New York, Chicago and London stock exchanges.

AAMO

AAMO is an independent, nonpolitical and not-for-profit Association of National Management Organizations of 15 countries in the Asia-Pacific region, including India, which promotes, facilitates and supports the development of professional management. The current 15 members of AAMO include Australia, Hong Kong, India, Japan, Macau, Malaysia, Mauritius, Nepal, New Zealand, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka and Taiwan. AAMO has launched the MCI study in New Zealand and Malaysia and intends to replicate the research in all affiliated countries this year. These results will then be calibrated and compiled to provide a regional view of the prevalent management practices while creating a platform for sharing management best practices.

AIMA and Mercer, as partners for the India survey, endeavor to institutionalize the Management Capability Index research in India as an annual benchmarking research, to provide credible insight into the management practices of Indian companies and how they fare when benchmarked against these indices in the rest of the Asia Pacific region.



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