

2011 MANAGEMENT CAPABILITY INDEX – INDIA

EXECUTIVE SUMMARY



FOREWORD – AIMA

“The greater danger for most of us lies not in setting our aim too high and falling short, but in setting our aim too low, and achieving our mark.”

—Michelangelo, Italian sculptor, painter, architect and poet

I am delighted to present to you the second AIMA Management Capability Index (MCI) study, conducted in partnership with Mercer. This global benchmark for measuring organizational effectiveness is being emulated by other countries and a number of national management bodies are rolling out similar MCI studies in their respective countries. I would not be surprised to see MCI becoming a common currency to gauge management effectiveness across borders in the next few years.

This year’s results show some encouraging shifts from the last year. I am pleased to share with you that we have managed to double the number of our MCI survey respondents, which means that effectively twice as many business leaders have responded and contributed to this study.

I would also like to congratulate the Mercer and AIMA teams involved in bringing out this important research on the health of our management capability. We at AIMA hope you will find that our endeavor brings you the most enriching and leading edge insights of value.



Rajiv Vastupal
President, AIMA



FOREWORD – MERCER

We are indeed proud of continuing to bring forth this cutting edge research in partnership with AIMA. The Management Capability Index (MCI), now in its second year, has during this time seen a lot of uptake from countries around the world and we are confident that MCI will soon become a great tool to compare management capability across sectors and geographies globally.

These are unprecedented times. Given the global economic headwinds and challenging macroeconomic environment, many companies across the board are finding innovative ways of continuing with their growth trajectory. Leadership capability has therefore come to the fore as arguably the most important differentiator in these times. The potential of an organization as the collective worth of the management capability inherent within that can be tapped for the greater good.

While the overall scores have hovered in the same region as last year's scores, what is interesting to note is that the areas of people leadership and organization capability continue to constrain "India Inc." from reaching its full potential. Respondents have critiqued their respective organizational abilities to create a pipeline of leaders. Therefore, the results are in line with what we as a consulting firm are witnessing: that a number of companies are developing and executing comprehensive leadership development and succession planning strategies and programs.

We hope you will find this report an important reference piece as you benchmark your organization against the practices prevalent in "India Inc." as you also plan to prepare for your future growth.



Nishchae Suri
Managing Director, Mercer India

EXECUTIVE SUMMARY

The 2011 Management Capability Index (MCI) – India is Mercer and AIMA’s second such initiative measuring management capability across corporate India. The report aims to create comparative insights for measuring the evolving capability of management, based on changes in the business environment across different kinds of organizations.

The MCI survey is now conducted annually, enabling “India Inc.” to identify and address areas that need further intervention from stakeholders, both from within the organizations and from the external ecosystem. The MCI converts the evaluation of management performance into an index – a useful measurement tool and indicator of how a CEO, an organization, a group, a sector or a country is performing in terms of management capability. The index enables useful comparison or benchmarks between organizations based on their size, nature of ownership and industry, and even allows a comparison among countries at an aggregate level.

As in 2010, the MCI – India is based on the following 10 major drivers of management capability. The weighting of the 10 categories remains unchanged from last year.

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 10 categories, CEOs, managing directors and general managers have assessed what they consider to be their organization’s current performance level using a six-point scale. The results are based on the responses of the 412 organizations who participated in the 2011 survey (compared to 208 companies in 2010). The respondents included local large organizations (LLOs), multinational corporations (MNCs), small and medium enterprises (SMEs), government agencies and others.

OVERALL SCORES

The overall MCI – India for 2011 is 77.8%, which shows a slight improvement on the overall performance in 2010 of 74.6%. However, Indian management is still operating at less than four-fifths of its total capability and has considerable opportunity for improvement in specific areas.

Dimensions of overall MCI	2010 (%)	2011 (%)
Visionary and strategic leadership	71.3	76.5
Performance leadership	75.4	77.1
People leadership	71.8	74.9
Financial management	74.1	76.7
Organisation capability	72.0	75.9
Application of technology and knowledge	73.5	75.7
External relationships	76.5	77.6
Innovation in products and services	74.5	76.2
Integrity and corporate governance	80.8	80.1
Overall organization results and comparative performance	76.7	77.6

The Indian corporate sector continues to rate itself as strongest in the category of integrity and corporate governance, with an index score of 80.1%.

As in 2010, the 2011 MCI results also indicate that Indian organizations perform relatively better in the more tangible, performance-oriented measures such as organizational results and comparative performance, and performance leadership.

In contrast, Indian organizations continue to perform weaker on the softer aspects of leadership and management, such as people leadership and organizational capability.

RESULTS BY ORGANIZATION TYPE

There are significant differences by type of organization in terms of their performance by the different measures, as shown by the table below.

Type of organization	2010 (%)	2011 (%)
2010 overall MCI	74.6	77.8
Local large organisations (LLOs)	75.3	78.5
Multinational corporations (MNCs)	77.3	78.0
Small and medium enterprises (SMEs)	74.6	69.2
Government agencies	66.1	81.4
Others	72.6	77.0

GOVERNMENT AGENCIES

Government agencies performed significantly better than in 2010. For 2011, they were the strongest organization type in terms of overall MCI score. The improvement in scores among government agencies can be seen across categories, especially in the performance-related dimensions.

MULTINATIONAL CORPORATIONS (MNCs)

The performance of multinational companies remained unchanged from last year: MNCs are operating at 78% MCI.

LOCAL LARGE ORGANIZATIONS (LLOs)

LLOs also posted a significant improvement in their ratings between 2010 and 2011. Financial management and organizational capability are areas in which LLOs have shown maximum improvement.

SMALL AND MEDIUM ENTERPRISES (SMEs)

SMEs continue to perform poorly – their ratings slid down from 75% in 2010 to 69% in 2011.

OTHER OBSERVATIONS

Other than the type of ownership, some of the other differences that emerged between the various organizations in 2011 survey were:

- Established sectors and organizations performed well:
 - Traditional sectors such as energy achieved high MCI scores.
 - Older organizations performed better across categories.
- Indian organizations seemed particularly strong in the following areas:
 - Innovation – products and services
 - Organization capability
 - Results and comparative performance
- By comparison, Indian organizations are nearly on par with their international counterparts in the following areas:
 - Integrity and corporate governance
 - Financial management

INTRODUCTION TO THE MANAGEMENT CAPABILITY INDEX – INDIA

The MCI – India report maps the aggregated collective potential of business teams to determine sustainable performance and growth. The report results indicate the leadership competency of organizations in India, demonstrated through variables like financial performance, talent, governance, innovation and social value. It is an assessment of how business leaders respond to and evolve with the rapidly changing business environment in the global economy.

In order to enhance and maximize management capability, it is essential to create and track metrics that measure that capability or inherent potential. The MCI has been established to measure the capability of management, to identify where improvements in performance need to be made and to track cumulative performance. It converts the evaluation of management performance into an index – a measurement of how effectively a CEO, an organization, a group, a sector or a country is performing. The MCI enables useful comparison or benchmarking between organizations, sectors and countries.

As pioneers in management thought leadership, AIMA last year embarked upon the groundbreaking initiative to study Indian management practices and to gauge the robustness and competitiveness of business performance of Indian corporations and institutions.

The inaugural MCI report was carried out jointly by AIMA and Mercer. Launched in January 2011, it was very well received. The study involved the participation of more than 200 CEOs and managing directors across MNCs, LLOs, SMEs and government agencies from industries such as education; manufacturing; energy; trading; construction; automobiles; IT and telecommunications; consumer banking and finance; business and professional services; and tourism and leisure services. The report revealed some very interesting findings, which we believe will serve as a rich reference and best practices guide to both industry and academia.

Some of the key survey findings of the 2010 report were:

- The overall 2010 Indian MCI was 74.6%, suggesting that Indian management is performing at around 72% of its potential (100%).
- Indian organizations were strongest in the areas of integrity and corporate governance, followed by external relationships and performance leadership.
- India's weakest area was visionary and strategic leadership, followed by people leadership and organization capability.

Each MCI questionnaire asked for information about the organizations and their financial data, as well as a set of questions covering the 10 different survey categories (rated on a scale of 1 to 5, with 5 being the highest). The survey parameters included the following values, with organization results and comparative performance carrying the highest weighting:

1. Organization results and comparative performance
2. Visionary and strategic leadership
3. Performance leadership
4. People leadership
5. Financial management
6. Innovation of products and services
7. Organization capability
8. Application of technology and knowledge
9. External relationships
10. Integrity and corporate governance

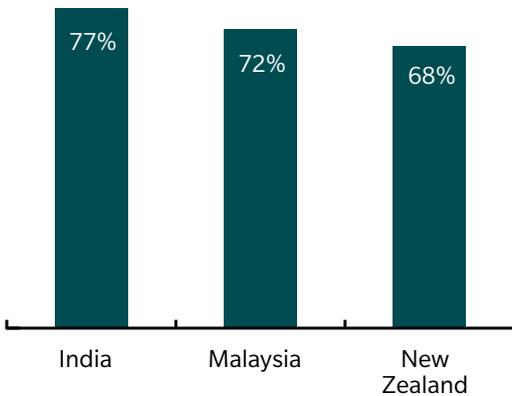
The questionnaire also investigated the ownership structure of the organizations taking the survey, asking respondents to choose from the following categories: equal ownership (50% local and 50% foreign), fully foreign (100% foreign ownership), fully local (0% foreign ownership), majority foreign (51%–99% foreign), majority local (1%–49% foreign ownership) and others. The majority of the participants were in the fully local bracket.

We are happy to share with you the executive summary of our second study of management capability in India.

COMPARISON WITH OTHER COUNTRIES

The 2011 MCI – India scores have been compared with those from Malaysia and New Zealand. In absolute terms, India scores are higher than for both of those countries.

Overall 2011 MCI Scores



While Indian organizations rated consistently high across different aspects of leadership and management, there were areas of relative weakness among their counterparts in Malaysia and New Zealand.

2011 MCI performance (across areas of performance)	Weighting	India	Malaysia	New Zealand
Results and comparative performance	25%	78	71	65
Visionary and strategic leadership	15%	77	73	66
Performance leadership	10%	77	73	67
People leadership	10%	75	70	67
Financial management	10%	77	75	76
Organization capability	5%	76	69	65
Application of technology and knowledge	5%	76	72	66
External relationships	5%	78	71	71
Innovation of products and services	10%	76	70	65
Integrity and corporate governance	5%	80	80	79

LEADERSHIP ARTICLES



D. SHIVAKUMAR

SENIOR VICE PRESIDENT – IMEA, NOKIA



THE FUTURE OF MANAGEMENT

Management is not an exact science and it is therefore a challenge for every corporation to distill its strengths and have the ability to replicate that strength repeatedly. Management as a discipline is learning by doing and codifying the experience.

This is not as easy as it sounds, since it requires an organization to align its people skills and capabilities to the opportunities, and also to motivate and energize the organization to a winning mindset-level versus a routine chore-of-the-day attitude.

Indian enterprises need to be run differently in the future. We have quickly moved to a services economy and a lot of the jobs are white-collar roles now. The knowledge worker is a cornerstone of the new India. Knowledge workers tend to be young, be a mix of both genders and have a clear, articulate point of view, and they don't buy into hierarchy.

The challenge of having capability is to translate that capability into a high-performance way of working and winning. Capabilities change over time and some will always remain a given for high-performance organizations. In India those will be:

1. Institution-building leadership
2. Managing people as assets
3. Governance
4. Innovation as a discipline
5. Partnering in the ecosystem

These will be essential for building a different and capable company.

R. GOPALAKRISHNAN

DIRECTOR, TATA SONS



INNOVATION: A RISK WORTH TAKING

Innovation is a risky business, but not innovating is even riskier.

During a slowdown in growth, executives may debate whether resources spent on innovation are justified by the benefits it yields. I believe innovation can help companies counter slowdown and induce growth.

Normally we perceive innovation as “first in the world” and technology-led with a high level of visibility. Products like the iPod and iPad fall into this category. Innovation is also about creating a product, a service or a process that’s difficult to replicate. Although not high in visibility, some of these innovations create very high societal impact. Take for instance Aravind Eye Care, where the average cost of cataract treatment is \$25, as opposed to \$3000 in the USA. The secret lies in standardization and “engineering” of cataract surgery for high-volume production. Surely, an advantage difficult to replicate. Similarly, Nirma managed to deliver a detergent to consumers at INR5 a kilo and that was tough to replicate. To create another Amul is very tough. But Nirma and Amul do not really register in our innovation consciousness.

Take a straw poll on the best innovations globally over the last 50 years and you will get names such as Apple and Google coming up, but almost never will a Nirma or an Amul surface. In this lesser-known league are the likes of Tata Ace, a breakthrough automobile that sold over 100,000 vehicles annually within two years of its launch, and Ginger, a hotel chain that provides good, clean rooms at a budget price.

Techniques that push innovation forward and help us measure it have been extensively researched and developed. Today, there is almost a plug and play of techniques available, but without the right environment, innovation will not grow. Companies must create a culture that will foster innovation. Creating the right environment where people don’t feel threatened, where people feel encouraged, is a very important part of innovation. Democratizing innovation is important so that more and more people see that it is the core of their job and what they are paid for. It doesn’t matter if they are raising invoices or loading trucks or working in a research lab.

Tata Group Innovation Forum (TGIF) has been established to facilitate and help companies create the right environment for innovation. TGIF has been able to spread awareness about innovation across the group. It is getting under the skin of companies and spurring them on to achieve long-lasting success. Companies would do well to treat creation of the right environment for innovation as importantly as the techniques they employ for innovation.

GAUTAM THAPAR

GROUP CHAIRMAN AND CEO, THE AVANTHA GROUP



ORGANIZATIONAL CAPABILITY

Nearly 60% of respondents to a McKinsey survey conducted in 2010 said that building organizational capabilities such as lean operations, project and talent management were the top-three priorities for their companies, and 90% placed it among the top ten.

In today's business environment, with uncertain markets and regulatory changes, leadership needs to focus on building dynamic capability. Organizations ought to be able to manage and reconfigure competences to address rapidly changing environments.

Globalization is a major test of strength of organizational capabilities for multinational companies from emerging economies. For the Avantha Group, the key to profitable growth in every market that we participate in is our ability to continuously improve the alignment between new categories and current core competencies. That is, we need to build on our organizational capabilities and make our products appeal to consumers in other markets.

Organizational capabilities can be economic, strategic or technical. Identifying key capabilities, spending resources on developing these capabilities, encouraging innovation to discover new methods of improving capabilities and actively monitoring the business environment to understand when to reconfigure capabilities will contribute to the success and value creation of the company.

PRAMOD BHASIN

NON-EXECUTIVE VICE CHAIRMAN AND FORMER PRESIDENT AND CEO, GENPACT



MAINTAINING INDIA'S EDGE

"The future belongs to those who see possibilities before they become obvious."

—Ted Levitt, American economist, professor at Harvard Business School and expert on globalization

As Indian businesses take on their international counterparts in the fight for dominance of the global market, being leaders at home will no longer suffice. To be internationally competitive, corporate India has to learn from the major multinationals of the world while creating their own unique path that leverages the advantages of belonging to an emerging economy.

Complacency in existing strengths can make leaders stumble. For instance, India is losing some of its advantage in terms of lower labor cost. Companies, including Genpact, are now hiring in the United States as wage expectations there have been revised downwards, making skilled and experienced employees available at an affordable cost. Thus, adapting to the changing global environment is necessary to remain competitive.

The slowdown in growth makes the global battle more intense. There is little scope for inefficiency and the stress on improvement and innovation is immense. However, there also exist exhilarating opportunities for those who are willing to grab them, and it will be these visionaries who will form the new breed of performance leaders.

PREETHA REDDY

MANAGING DIRECTOR, APOLLO HOSPITAL ENTERPRISES



A BITTER PILL IS BETTER THAN THE WRONG MEDICATION

The role of the finance function is evolving at a faster pace than ever before. Today, businesses are demanding that a CFO play a more integral role in the very life of the business than ever before. The discharge of this function is transforming to a more holistic role, including strategy formulation, enterprise-wide risk management and even challenging the basic assumptions upon which the business is founded.

Business is the function that generates wealth for all stakeholders while performing a core and vital function that satisfies human wants and needs. Finance is but a part, albeit a vital one, that is subservient and integral to the overarching business goals and objectives. The role of the finance executive transcends mere computation of IRR, NPV and other traditional measures, to encompass careful study and recommendation to the top management and peers of well-considered possible solutions based on experience and deep understanding of the business itself. Any other approach would fall short of a truly responsible professional job.

On the other hand, the present-day propensity to divorce the finance function and super-specialise it, without reference to the underlying business and economic realities, has resulted in the near collapse of the global financial system, causing tremendous human suffering and hardship on an unprecedented scale. This thinking, which flies in the face of good commonsense, has to be curbed and reason must prevail among all related to the profession of finance in the larger interests of the unsuspecting laity, who place their trust and hard-earned money in the hands of these professionals.

True welfare and sound management lies in genuine innovation, in gains in productivity, in providing access to people at the bottom of the pyramid, in improving yields in scarce resources, in breakthrough thinking and technologies. Innovation does not lie in parcelling out loans and ignoring risk-reward relationships, which are inviolable by nature.

Business is more about exploiting opportunities and less about problem solving, and the task of management is to ensure that resources are utilized in the larger and best interests of society. The CFO thus has to ensure that, as a responsible professional at the top level of management, he or she states what is right always, in preference to what is acceptable. This is a riskier approach personally, but the enterprise would be better off with the right advice over an acceptable one. The world would indeed be a better place if we had more of the right advice.

SANTRUPT B. MISRA

CEO, CARBON BLACK BUSINESS, AND GROUP HR DIRECTOR, ADITYA BIRLA GROUP



LEADING PEOPLE

Our huge population is not an economic albatross. Instead, India's growth story is increasingly the story of its young and growing population.

Today, India commands the attention of the world as a result of its unique demographic dividend – it has one of the youngest populations in the world at a time when the rest of the globe is going grey.

Globally, more people than ever before are entering retirement. Even in the 1980s, European leaders had begun to worry about Europe's falling population. The French president, Jacques Chirac, famously said that the continent was becoming a place of "old people, living in old houses, ruminating about old ideas." This trend of an ageing, shrinking population, now visible across much of the developed world, opens up a wealth of opportunities for India, since the challenge of maintaining wealth in ageing societies means that developed markets will have to increasingly outsource their labor requirements. India is projected to have an additional 47 million workers by 2020, a number almost equal to the total world shortfall. The average Indian will then be only 29 years old, compared with an average age of 37 in China and the United States, 45 in Western Europe and 48 in Japan.

India's population and crowds have, since its independence, dominated the country's image to the point of stereotype. It led economists and social scientists to erroneously predict either India's political fragmentation – how, after all, could a center in Delhi hold together such vast and diverse numbers? – or India's decline by famine, due to its inability to feed its millions. But in the last two decades, this depressing vision of India's population as an "overwhelming burden" has been turned on its head. Instead of suffering famines and revolutions as prophesied by doomsayers, because of its huge population, India is positioned to benefit from the higher growth rates that typically characterize a young working populace. India, in fact, may have better prospects than China, whose one-child policy will lead to a rapid ageing of its population, thus creating problems for its economy.

With economic growth, our human capital has emerged as a vibrant source of workers and consumers not just for India, but also for the global economy. The economist Julian Simon has argued that as population increases, so does the stock of creativity and innovation. "The ultimate resource is human imagination," he said. This idea of population as an asset rather than a burden has gained currency particularly with the rise of knowledge-based industries such as IT, telecommunications and biotechnology. In fact, the information economy is the culmination of what the Industrial Revolution started – it has placed human capital front and centre as the main driver of productivity and growth.

India's position as the world's go-to destination for talent is hardly surprising; we may have been short on various things at various times, but we have always had plenty of people. However, the pressures of India's vast population are indeed humungous – our natural resources are no bottomless pool. A billion people may offer us a deep base of human capital, but they also serve as a potentially massive and detrimental burden on our environment, food production and resources, as millions of people join the middle class, ramp up their consumption, and per capita energy intake grows. We will have to find solutions for these concerns.

Nevertheless, the impact of human capital in India has so far had large payoffs for the economy. Globally, human creativity and economic competitiveness are now closely linked, and competition among countries is competition between their human capital. As Tom Friedman notes, these days rather than tell his children to finish their dinner because people are going hungry, "I tell my daughters to finish their homework because people in China and India are starving for their jobs."

RAJIV BAJAJ

MANAGING DIRECTOR, BAJAJ AUTO LTD



MANAGING CORPORATE WELLNESS HOMOEOPATHICALLY

Not all people living under the same circumstances take ill simultaneously. It is only those who are “susceptible” to the “disease” at that moment, who manifest its “symptoms.” Such susceptibility is a function of the state of their immune system, known as the “life force” in homoeopathy.

Homoeopathy is guided by principles such as individualization, holism and “like cures like,” which seeks to heal people gently, quickly and permanently inside and out by restoring the misalignments in their life force.

Quite similarly we observe that there are some organizations, in every industry, whose performance is consistently superior to their peers. Even in an adverse external environment such organizations often remain well. Is that which distinguishes their wellness explained by their material resources? Or does the answer lie deeper in the organization’s equivalent of a human being’s immaterial life force?

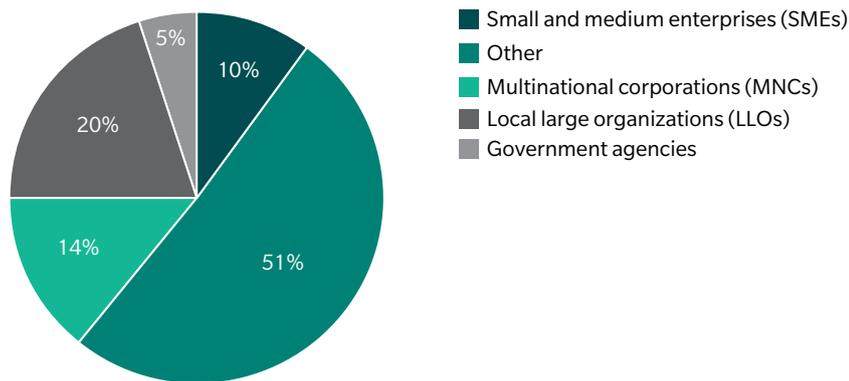
Is it this life force that we refer to as “strategy” in an organization’s context? If so, management principles can be drawn from the aphorisms of “Organon of Medicine” by Dr. Samuel H. Hahnemann, the founder of homoeopathy. Dr. Hahnemann taught, “It is the life force that cures, for a dead man needs no more medicine.”



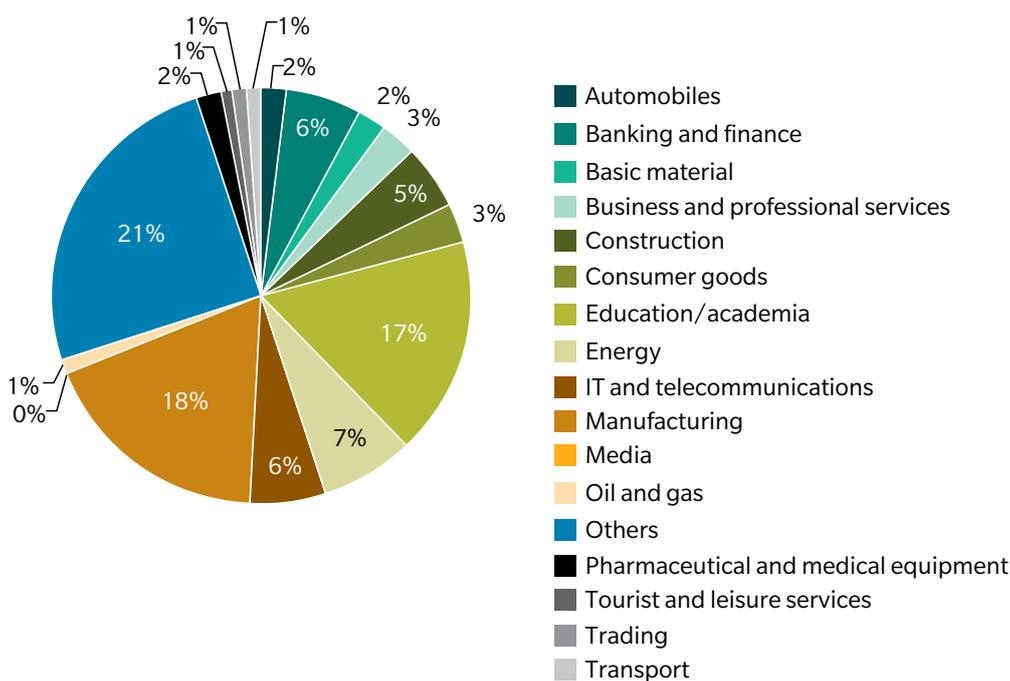
APPENDIX – RESPONDENT PROFILES

(INDUSTRY, NATURE OF OWNERSHIP, NUMBER OF EMPLOYEES, LOCATION)

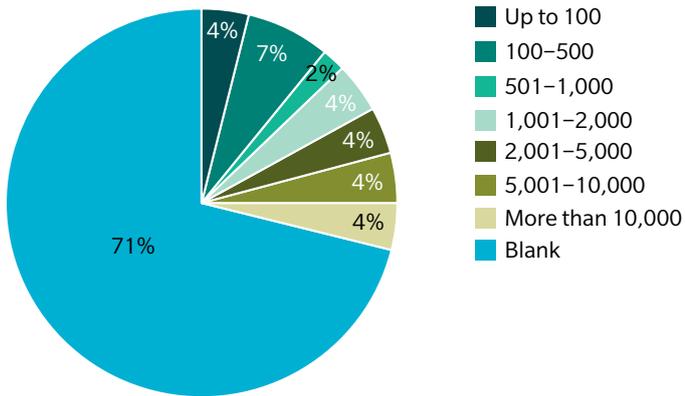
Type of Organization



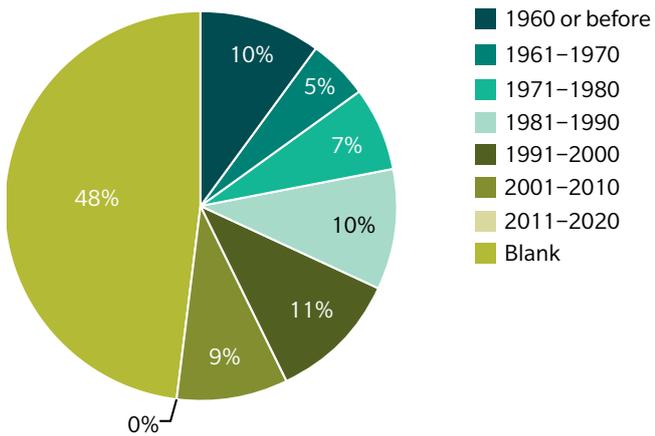
Type of Industry



Number of Employees



Year of Establishment



ABOUT

AIMA

The All India Management Association (AIMA) is the national apex body of the management profession in India. Over the last five decades, AIMA has contributed immensely to the enhancement of management capability in the country.

AIMA has a broad base of 66 Local Management Associations including two cooperating LMAs abroad, with a membership crossing 30,000 in number. AIMA is a non-lobbying organisation, working closely with Industry, Government, Academia and students to further the cause of the management profession in India. AIMA is represented on the Boards of India's premier Business Institutions like Indian Institute of Management – IIMs. AIMA is also represented on Boards of Government bodies including the All India Council for Technical Education, National Board of Accreditation, National Productivity Council to name a few.

AIMA makes a salutary contribution to management learning and practice in the country by offering various services in the areas of testing, distance education, research, publications and management development programmes.

AIMA brings to the Indian managers, the best management practices and techniques through numerous foreign collaborations with professional bodies and institutions. AIMA is a member of the Asian Association of Management Organisations (AAMO) and works closely with several international management institutions like Insead, St Gallen Foundation etc. in organising international conferences and management development programmes.

MERCER

Mercer is a global leader in human resource consulting and related services. The firm works with clients to solve their most complex human capital issues by designing and helping manage health, retirement and other benefits. Mercer's 20,000 employees are based in more than 40 countries. Mercer is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital. With 52,000 employees worldwide and annual revenue exceeding \$10 billion, Marsh & McLennan Companies is also the parent company of Marsh, a global leader in insurance broking and risk management; Guy Carpenter, a global leader in providing risk and reinsurance intermediary services; and Oliver Wyman, a global leader in management consulting. For more information, visit www.mercer.com. Follow Mercer on Twitter @MercerInsights.

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.

AAMO

The Asian Association of Management Organisations (AAMO) is an independent, nonpolitical and not-for-profit partnership of National Management Organizations in the Asia Pacific region, 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.



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