CHANGES. HOW TRANSFORMATION IS IMPACTING TALENT

THE HUNT REPORT

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Dear Reader,

We are pleased to present the eleventh issue of The Hunt Report, the half-yearly industry roundup of key trends influencing executive hiring across industries.

The economy of our country is on the cusp of a transformation wave! Be it infrastructure, defence, private equity, telecom, fintech, FMCG, e-commerce, or even artificial intelligence (AI), India is witnessing a widespread shift in the way business is conducted. This has necessitated a change in hiring methods and the kind of talent required. The globalisation of business has created a workforce that is flexible in terms of both locations as well as roles. Such a scenario demands robust risk management systems, something that the Boards of Indian organisations need to focus on.

In the backdrop of a rapidly-shifting business climate, roles and responsibilities are becoming more fluid. Opening the doors to disinvestment has given rise to a new breed of professionals— the advisors. Naturally, the question arises— what is an adequate compensation for such talent and does increasing compensation attract better talent? A discussion on how, and not how much senior personnel are being paid is needed. This makes much more sense when we see how the Bank Board Bureau aims to improve the performance of public-sector banks by appointing senior executives in a non-partisan manner.

Questions are also being raised about how diverse Indian organisations really are and whether they support a culture of innovation. It is significant that in the field of artificial intelligence, a relatively new technology for India, start-ups have made a mark instead of the technology heavyweights.

New opportunities in non-traditional sectors like e-commerce have led to the phenomena of mindless hiring, eventually leading to an exodus when the market collapses. To prevent such mishaps, Board members should periodically evaluate their motives for serving: is it the money or is it passion?

Hope you find THR 11 insightful. Happy Reading!

The Knowledge Management Team,
Hunt Partners, 2016

We welcome your comments and feedback at: editor.thr@hunt-partners.com

CONTENTS: SECTION 1

GOVERNANCE

CONTENTS: SECTION 2

TRANSFORMATION OF TALENT

CONTENTS: SECTION 3

SECTORAL INSIGHTS

SECTION 1

GOVERNANCE

EXECUTIVE SALARIES
Not *How Much* but *How?*

Authors **Sunit Mehra** *Co-Author* **Tehsin Danawala Amdani**

{ Changing the structure of executive compensation may help organisations attract talented senior executives who are likely to find non-monetary incentives as compelling as monetary ones. Executives should also be held responsible for poor performance. }

With the onset of each new financial year also starts the hush - hush corridor conversations over bonuses and compensation. And soon, the business media will seek answers to the questions they ask every year: "Who were the highest paid executives?","How many executives made more than a million dollars?" and "Who received the biggest bonus?" Regulators and other torchbearers, always concerned with economic disparity, will issue statements of generous executive salaries and urge Directors to curb top-level pay in the interests of social equity and statesmanship.

How much vs. How

It is true that there are some serious problems with executive compensation, but excessive pay is not the biggest issue. The relentless focus on how much executives are paid diverts public attention from the real problem—how executives are paid. In some companies, the compensation of top executives is virtually independent of performance. On the other hand, some organisational structures favour excessive risk-taking, thus engendering greed and leading to destabilisation.

We are not arguing for the elimination of salary disclosure. But, it is important to understand that the cost of negative publicity and political criticism is less severe than the cost to shareholder wealth created by misguided compensation systems.

Compensation policy–key to success

Compensation policy is one of the most important factors in an organisation's success. Not only does it shape how top executives behave, but it also helps determine what kind of executives the organisation attracts. One of the most critical roles of the Board of Directors is to create incentives that compel senior executives to work towards the best interests of all stakeholders.

These increases in compensation—driven by improved business performance—do not represent a transfer of wealth from shareholders to executives. Rather, they reward managers for increased success fostered by greater risk taking, effort and ability.

Some may object to our focus on monetary incentives as the central motivator of CEO behaviour. As there are important non-monetary rewards associated with running a large organisation, benefits such as power, prestige and public visibility certainly do affect the level of monetary compensation necessary to attract highly qualified people.

Let's wait and watch

Only time can tell if it is appropriate to create structures where executives derive substantial financial gains for superior performance and pay meaningful financial penalties for poor work. It is yet to be ascertained if this will really help protect stakeholder interest.

CORPORATE GOVERNANCE

REMUNERATION AND RECENT TRENDS

Executive compensation has been a trending topic, not only in India, but in other countries as well. As a consequence of the global slowdown, the compensation paid to senior executives has been under the scanner. The debate between the management and shareholders on how much compensation is "enough" has reached fever pitch. Consequently, corporate governance norms have evolved as a system of checks and balances to ensure that a company is able to retain the right people at an attractive compensation, apart from incentivising high performance.

Corporate governance

In India, from a regulatory perspective, the Companies Act, 2013 (Act) stipulates certain good governance and disclosure obligations on the compensation of executives. The Act requires the Board of every listed company and certain classes of public companies to constitute a nomination and remuneration committee (NRC). The NRC should comprise a minimum of three non-executive Directors, of which at least half should be independent.

The NRC is required to formulate a policy for determining the qualifications, positive attributes and independence of a Director and recommend to the Board a policy related to the remuneration for Directors, key managerial personnel and other employees. Further, while framing the policy, the NRC is required to ensure that (i) the level of compensation offered to executives is reasonable and sufficient, (ii) there is a clear relationship between performance and remuneration; and (iii) the remuneration involves both fixed and incentive pay components.

Further, the Act and the regulations issued by the Securities Exchange Board of India requires publicly listed companies to make certain disclosures with respect to the compensation of executives in the Board's report to the shareholders. This includes the ratio of the remuneration of each Director to the average employee's remuneration, details of increase and comparison of the remuneration of key managerial personnel against company performance, and all elements of the remuneration package of key employees along with details and terms of stock options issued. Recently, in the U.S.A., the Securities Exchange Commission added a new norm (effective from 1 January 2017), mandating disclosure of pay ratio of the chief executive officer of a company. The rule requires a company to disclose the ratio of the compensation of its chief executive officer to the average compensation of its employees.

Recent trends in the compensation of executives

With increased focus on corporate governance norms, the traditional compensation structure of high fixed pay and limited variable pay is almost redundant. Globally, companies have moved to a compensation package with an almost equal mix of fixed pay and variable components such as performance-linked bonuses or stock option plans in order to align the goals of the executives and the companies to yield maximum productivity. In developed economies such as the US and the UK, there has not been any significant increase in the basic monthly pay of the executives; any increase in compensation is structured as a variable component through incentives. In India, too, the compensation structure of executives has changed significantly in the last 5 years with a reported increase in the variable component of the compensation package from around 30% to 50%. However, the fixed component is still considerably high in comparison to the US and Western Europe, where it is as low as 15% and 28%, respectively.

While the presence of corporate governance norms helped inculcate discipline while formulating executive remuneration packages in overseas jurisdictions, they failed to have a similar impact on the Indian corporate culture. The NRCs of the companies in India are not known to raise many objections to the remuneration packages fixed by the promoters. However, there is an indication of change in this trend as shareholder advisory groups are emerging to assist shareholders to participate actively in the decision-making process of companies.

What is the way forward?

Although corporate governance norms exist in India, it is imperative that companies implement the core principles of such norms in their practices in order to build a culture of responsibility and accountability with respect to the remuneration of executives. As companies in India move to a higher variable pay structure, incentives such as stock option plans should not have short-term vesting periods which may lead to management decisions focusing on short-term returns. The incentive plans need to be designed in such a manner that the objectives of the executives, managers and the broader stakeholders are aligned to set up an effective system of checks and balances. Separately, talent and succession planning should also be emphasised, which will place pressure on the Board and senior management to retain their best performers.

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HIGHER DIRECTOR REMUNERATION
Key to a Better Board?

Author ***Suresh Raina***

{ The compensation of Directors is changing to reflect the change in their responsibilities. Paying a mix of cash and equity, with greater focus on the latter component, is expected to improve the functioning of the Board. }

The compensation of Directors has received little attention over the years because investors, regulators, and the public have focused on soaring executive compensation. Interestingly, in the same period, the demands on Directors have become much greater. The new Companies Act and SEBI guidelines have raised liabilities and the amount of effort as well as risk has increased. The role of the Board is under close scrutiny and Directors are facing greater challenges than ever before. Concern over possible personal liability for Directors has grown.

Winds of change

The revised guidelines of the new Companies Act, such as the maximum number of Board positions per Director, have reduced the pool of available individuals who are willing to serve in that role. As with all things impacted by supply and demand, the compensation offered to Directors will need to keep pace.

The core principle of good governance remains unchanged. Corporate Directors should be paid fair and reasonable compensation in cash and equity, as appropriate, at a level that will attract high-quality candidates, but not in such forms or amounts as to impair independence or raise questions of self-dealing.

The form of executive compensation has shifted over the recent years and the form of Director pay has followed suit. Over the past seven years, as per an *India Board Report*, total Director remuneration has indeed increased significantly.

Given that Directors are expected to devote more time to individual directorships and that they tend to serve on fewer Boards, the increase in overall compensation is not surprising. While compensation remains a mix of cash and equity, the mechanisms for compensating Directors and the forms of compensation are gradually changing, as permitted by the Companies Act.

Some companies have started the practice of having stock ownership and/or stock retention requirements, such as deferred stock units, that are held until after the departure of the Board member. In future, the expectation is for compensation to increase, with more weightage on equity than cash.

Director compensation: changing structure

As per global best practices, the broad principles for Director compensation are:

- It should not be so high as to potentially compromise the independence of Directors.
- It should reflect the expertise and actual time commitment to the Board.

- It should vary with different roles.

- Boards should consider requiring a minimum shareholding for Directors, and encourage investment beyond the minimum amount.

- Boards should minimise the complexity of Director compensation structures.

- Directors should consider periodically seeking approval for their compensation from shareholders.

The traditional compensation structure includes a sitting fee for attending Board and Committee meetings as well as an annual commission. A meeting fee is intended to encourage attendance. It automatically adjusts for workload according to the number of meetings.

However, this is becoming less of an issue because attendance data is reflected in the mandatory annual Board evaluation. In recent years, most large companies and many mid-sized and small companies have simplified the delivery of cash compensation by extending a single larger cash retainer. This eases the administrative burden of paying a fee for each meeting attended. It also places less emphasis on actual time spent and more stress on the annual service provided to shareholders. The commission component is also gaining traction, where a percentage of the profits is allocated annually towards Director compensation.

CEO pay vs. Director compensation

The comparison of CEO pay with Director compensation between the U.S.A. and India is quite interesting. The average pay package for a CEO at the S&P 500 companies in the U.S.A. (2014) was $12.2 million. According to Equilar research, the median pay of Directors was $233,600. In India (2011), the average remuneration of Managing Directors of 30 BSE Sensex companies was INR 10.9 crore, whereas for BSE 100 and 500 companies, it was INR 6.2 crore and INR 3.6 crore respectively. The India Board Report 2011 gives the average independent Director compensation as INR 9.9 lacs.

The risk and liability exposure has made it harder to get the right people since top executives prefer to concentrate on their day jobs. In their pursuit of good Director nominees, some companies in the U.S.A. are now even paying Directors a cut of their profits, an arrangement known as a golden leash. Golden leashes have been used by activist hedge funds in proxy contests; the compensation was meant partly to attract the best candidates.

Trends in Director compensation

Interestingly, a few well-known companies pay their Directors little or nothing. In 2014, in Berkshire Hathaway, no Director received more than $6,700. Its CEO, Warren Buffett, has warned that Directors dependent on Board fees aren't truly independent. Similarly, Amazon pays its Directors a very small retainer.

Overseeing a huge company may not be a part-time job, as spending four hours a week is enough to understand the complexities of an organisation. The aggregate cost of having high-calibre Directors is not much for a large business.

Sometimes, perks such as company cars, free company products, free flights for meetings, and charitable donations to NGOs supported by the Director are helpful. Health insurance coverage is another method.

Director compensation is quite difficult to justify because it is challenging to support. In many cases, it is not directly proportional to the candidate's experience. In others, Directors may be too beholden to the nice pay check to challenge the management.

There is not enough evidence that paying Directors higher improves company performance. Some have argued that Director pay should also be based on performance. But, it may give Directors an incentive to take outsized risks. Consequently, it will stop being the counterweight to the Executive team. However, a CEO who has his/her whole career and reputation at stake in the company will not be willing to take such risks.

To sum-up, an organisation should pay enough to make sure that Directors happy, but not too much. Thus, it will be able to attract the most suitable and capable individuals. Currently, in some cases, it is too much pay, whereas in others it is too little and no one can agree what is the right amount.

BANK BOARD BUREAU
Helping to Improve Governance of PSBs

Author ***Arjun Erry***

The Bank Board Bureau (BBB) was announced by the Finance Minister, Arun Jaitley, in August 2015. The BBB was to be a part of the *Indradhanush* program to revamp public sector banks (PSBs). It started functioning on 1st April, 2016 with a total of 7 members, including the chairperson—Shri Vinod Rai, the former Comptroller and Auditor General of India.

Purpose of the BBB

The overarching purpose of the BBB was to improve the performance of the PSBs and to facilitate consolidation in the sector. The specific mandate is as follows:

- Help the PSBs develop business strategies
- Improve governance and management
- Plan for capital raising
- Create a holding company to warehouse the government's equity shareholding.

Origin of the BBB

The genesis of the BBB goes back to the committee formed by the Reserve Bank of India, under the chairpersonship of Shri P.J. Nayak, former Chairman & Managing Director of Axis Bank Ltd. In May 2014, the committee recommended the formation of the BBB as the first phase in a 3-phase process to empower the Boards of PSBs. The key phase was the formation of a bank investment company as an intermediate holding company for the PSBs.

The gross non-performing assets (NPAs) of PSBs are 90% of the NPAs of all publicly-traded banks. With capital adequacy ratios declining, the PSBs will have no choice but to raise capital. This is in addition to the improvement of operational efficiencies, underwriting improvement, as well as the risk management and resolution processes.

Improvement in governance of PSBs

However, raising capital from the public markets necessitates marked improvements in the governance of PSBs. To improve governance and management, the BBB will need to advise on all key appointments in the PSBs, including whole-time Directors, i.e. Executive Directors and the executive leadership. Only then can the BBB achieve the aim of "professionalising and depoliticising" the appointment process, as stated in the Government release.

Thus, the BBB would be actively involved in the appointment of the Independent Directors, as envisaged by the P.J. Nayak Committee. This will create myriad opportunities for accomplished individuals who could be appointed as Non-Executive Independent Directors (NEIDs). We believe that the ecosystem for training and certifying Directors for Boards will need to be transformed, as specific skill sets and governance issues will need to become the fulcrum of such programs. Going forward, certification programs that help individuals become an effective voice on a Board will be the need.

Appointment of Managing Directors

Further, policies relating to the tenure and compensation of the Managing Director (MD) and the the executive leadership will need to be reviewed. If the BBB is successful in driving forward transformation in these aspects, it will create significant opportunities for senior bankers from the private sector. Bankers, who believe they have maximised growth in their present institutions, will find the challenge of turning around a PSB alluring. This is evidenced by the appointment of two private sector bank professionals as the MDs of two PSBs—Mr. P.S. Jayakumar at Bank of Baroda, formerly of VBHC and Citibank and Mr. Rakesh Sharma at Canara Bank, formerly of Laxmi Vilas Bank and SBI.

Finally, it should be recognized that governance cannot simply be improved by appointing accomplished NEIDs. Governance improvement needs a holistic view of the functioning of the Board. Aspects like the functioning of the cohort of NEIDs, evaluation of the performance of the Board, and the alignment between the Board and executive leadership should be given priority.

ROLE OF INDEPENDENT DIRECTORS
ISSUES AND CHALLENGES

Independent Directors are Directors of incorporated companies who do not have a monetary or material pecuniary relationship with the company. The role of independent Directors has evolved to being a sounding board for compliance and a governance watchdog due to changing regulations. They are often criticised for their closeness with the management, even though they may not have moved away from the known and established definition, according to regulations. For instance, a promoter's personal investment or a company's social investment in a charity run by the independent Director may appear to exhibit external influence while not deviating from the regulatory requirements of independence.

Responsibilities of independent Directors

Amidst debates of whether independent Directors are truly independent, it is essential to look at their responsibilities and what is expected from them in the current environment. Being a non-executive Director, an independent Director may have limited information visibility. However, he/she is expected to oversee innumerable aspects of a company including strategy, financial reporting, governance, risk management, regulatory compliance and growth prospects, among others. With the recent incidents of regulatory violations—emission scandals, data breaches, leaks and misrepresented facts—expectations from independent Directors seem to be increasing considerably.

Factors that complicate an independent Director's role

Some of the following factors may raise questions about an independent Director's expansive role as they further complicate external oversight:

1. **Senior management departure:** With today's start-up boom, more executives are moving out of their corporate positions towards an entrepreneurial role or are leaving for personal growth prospects or due to differences in philosophy or strategy with the promoters or owners. The trend of senior management representatives departing, the timing of the events and the long-term impact on business prospects are key factors that impact an organisation.
2. **Quality and disclosure issues:** In the emerging compliance landscape, violations or even suspected violations of the quality and disclosure standards could have an impact on a company's products and compliance requirements. This may also determine the company's reputation and future opportunities.
3. **Customer reach:** The number of users and the relevance of reviews for technology or app-based tools is growing. Due to this, bogus users and falsified reviews are also on the rise and could adversely affect a company's performance or prospects.
4. **Secret deals/leaks/exposés:** Companies are increasingly being named in leaks and media exposés, which explore various aspects of secret or misrepresented deals by the company, senior management or promoters. Some of these deals may have certain multifaceted details that require a series of inquiries to gather specific facts.
5. **Predatory pricing/global regulatory claims:** Companies that are going global must deal with varied legal complications. The legal complexities around pricing mechanisms and the legal inconsistencies around contract management have a considerable bearing on a company's prospects and reputation.

Factors affecting the responsibilities of independent Directors

The key factors to consider while looking at the expanded responsibilities of independent Directors are:

1. **General capabilities:** The independent Director's approach, awareness of the industry and ability to probe for details in Board-related conversations
2. **Time spent:** The time available and spent by the independent Director in key aspects of the business
3. **Access to information:** The independent Director's access to information and the timing of information availability
4. **Independent assurance:** The scope and aspects of independent assurance (that the independent Director can take comfort from) may not completely cover the aspects related to the above factors. There may be a need to extend independent assurance to certain aspects.
5. **Current regulatory requirements:** The present regulatory environment mandates independent Directors to have a view on certain essential elements. The extent of effort made by an independent Director to learn, discuss or provide inputs with respect to regulatory compliance becomes relevant.

The compliance penalties, legal costs, personal liabilities and impact on reputation faced by independent Directors today were uncommon in the past, increasing the level of risk in the role. A model that can help independent Directors evaluate and manage these risk aspects is in its early stages of development. Given the current regulatory landscape and the evolving role of the independent Director, the factors mentioned earlier will soon converge into a collective responsibility of the Board, senior management and external assurance service providers. Currently, independent Directors are not equipped to take on all of these responsibilities and it is essential to keep the limitations around such a role in mind.

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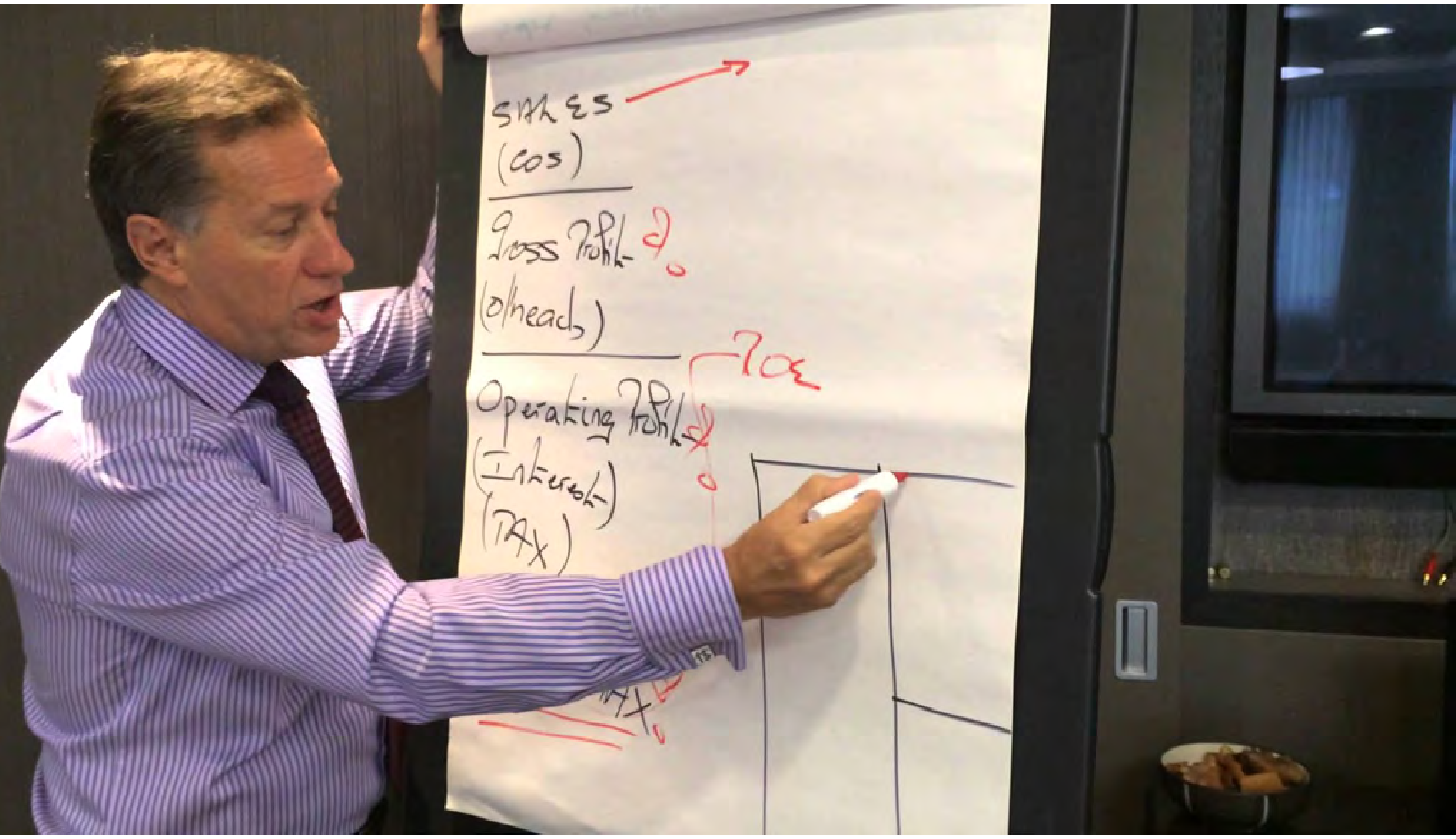
INTERVIEW Jean Pousson

DIRECTOR OF CONSULTANCY AT BOARD EVALUATION LIMITED



Jean Pousson is a management-consultant with over twenty years experience working with Boards, coaching executives and delivering training. He works in the fields of governance, finance, strategy, and board performance.

In this article he writes about being a good director and he challenges all of us directors and "would-be" directors to self-assess our performance at the Boardroom table.

Are you a good Director?

Nobody teaches you to be a Director; like being a parent, you simply become one and all the books and advice just will not prepare you for the task ahead. There are literally masses of legislation, regulation, codes of best practices, qualifications and even "Director of the Year" awards to celebrate the successful ones.

We, like many practitioners in this field, can point you in the direction of numerous articles, books, websites and other references as corporate governance education and development grows and is embedded among corporations from the private, public and "third" sectors.

Set out below is a list of questions that we regularly pose to Directors; note that these questions are directed at Directors individually and not at Boards. It is not an exhaustive list and there are naturally many more questions we can ask. Why not test yourself against these questions to see how you how you match up and, maybe, identify some areas where you need some personal development?

The answers should be self-evident and just a quick yes/no response is required:

I regularly contribute outside my area of technical expertise.

I stay up-to-date on relevant technical and non-technical issues.

I have regular meaningful appraisals with the Chairman about my performance and contribution as a Director.

I have never felt like resigning.

I am not scared to disagree.

I have on occasions admitted that I didn't understand something.

I give the Board, and any others on which I serve, my full attention.

I am sensitive to the needs and feelings of fellow Board members.

I prepare diligently for each Board meeting.

I take care to improve my capabilities as a Director.

I make sure that my colleagues on the Board and I do not try to micromanage.

I fully understand all my legal duties as a Director.

I make sure that the Board makes decisions on solid information.

I am very sensitive to the needs of the various stakeholders.

I never allow myself to get conflicted.

I appreciate that as a Director, me and my fellow Directors, have collective responsibility for our actions.

I understand the fine balance between disagreement and conflict.

I always reflect after each Board meeting to consider "What could have been done better?"

I am very wary of allowing a groupthink situation to develop.

I make sure that none of my colleagues become distracted by power.

I can handle a forceful personality.

I quickly recognise a "toxic" Director.

I always look forward to Board meetings.

And finally, if I had to prepare an election type manifesto to seek re-election, I am pretty confident that I would be re-elected.

So how did you do? Being a Director can be tough; some Board conversations can be difficult. Boards, like families, are sometimes dysfunctional and there is often no quick fix.

When Directors do not perform, Boards start to malfunction and it often ends up in poor decisions that cause issues and organisational duress, and in some extreme cases corporate insolvency. Often, these issues could have been fixed at a much earlier stage and the big problems could have been avoided.

So, make sure you understand your responsibilities as a Director and that you get the necessary support from your organisation to ensure that you and your colleagues on the Board can effectively discharge your responsibilities.

"I didn't understand anything! My background was Chemistry."

So said Mercedes Rojo-Izquierdo, non-executive Director of Spanish bank Bankia, which had to be rescued during the recent banking crisis.

Jon Corzine, CEO of (now bankrupt) MF Global Fund, when alluding to $1.2 billion of client money, famously told a US Congressional Committee hearing, "I have no idea where the money is…"; he is now being sued!!

Remember, ignorance is not innocence; please don't become one of our case studies!

If you would like more information about your responsibilities as a Director or to get in touch with Jean, please contact Gary Cowdrill on 0870 720 3904 or at gary.cowdrill@board-evaluation.co.uk or info@board-evaluation.co.uk

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RISK MANAGEMENT
EMPOWERING BOARDS TO ACT EARLY

A fast-changing business scenario, uncertainty arising from global events, disruptive competition and volatility of prices creates stress and complexity in managing businesses. Gradually, these events play on the minds of Board members. The occurrence of risk events and their poor handling impacts organisational performance. Business risk management (BRM) gaming and structured exercises can assist organisations in preparing for the worst-case scenario, while aspiring to be "better, faster and cheaper". BRM is arguably the only effective tool in contemporary times that assists in the evaluation and bridging of the gap between uncertainty and performance in organisations. Iconic entities that feature in the top global rankings consistently practice risk management.

Provisions of the Indian Companies Act, 2013

In recognition of the risk realities, the Indian Companies Act, 2013 has mandated provisions that the Annual Report of the Board of Directors must include a statement indicating the development and implementation of a risk management policy for the company. This should include the identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company. Further, the audit committee is directed to act in accordance with the terms of reference specified in writing by the Board, which shall, inter alia, include evaluation of risk management systems. The code of conduct prescribes that the Independent Directors should satisfy themselves that systems of risk management are robust and defensible.

The approach of Boards in India

Indian Boards have traditionally adopted a patch-up approach towards risk management, thereby exposing their entities to significant uncovered risks. Boards develop a tendency to overlook known risk factors as they become confident of the growth pattern and size of the entity. However, such blind spots result in spectacular losses as was evident from the Global Financial Crisis where known risks were ignored, resulting in business failures.

Boards generally do not give enough time and attention to risk management. As a result, there is no qualitative discussion on the risks that really matter; when executives realize that Boards are not concerned about emerging risks, they develop a tendency to under-report significant risks. Thus, the probability that the Board notes may capture such risks is reduced, resulting in blind spots. Grant Thornton's report on Risk Management (2014) highlights that only 24% of the top listed companies have formed risk management committees in India.

***Exhibit I –The Board sets the tone by making risk everybody's business**

Talent & Suppliers	**Customer & Markets**
- Poor morale - Inefficiency & cost management - Loyalty & retention	- Loyalty & retention - Loss of opportunities - Quality failures
Invisibles	**Business & Financial Stability**
- Perception & reputation - Process maturity & institutional learning - Innovation & IPR - Quality of risk communication internally	- Capital adequacy - Use of resources & assets - Compliance breaches - Sources of capital - Execution excellence

The benefit of risk management

The absence of effective risk management participation at the Board level encourages herd mentality and the acceptance of *status quo*. Effectively defining and managing risks that matter is a key element for survival and sustained growth. It empowers the Boards to build business resilience and the maturity to manage risk priorities. This ultimately results in greater predictability of performance and higher value creation for shareholders.

A holistic risk management framework would empower Boards to:

- identify top threats to entity and asset protection measures.
- link risks to more efficient capital allocations and business strategy.
- develop a common language in the organisation for problem solving.* *(ref Exhibit I)*
- effectively respond to an evolving business environment.

It is wise to learn from history and risk scenarios than experience a business catastrophe. Boards may be better prepared by reviewing the risk profit & loss statement along with the financial profit & loss statement to determine the health of their entities.

The author, Huzeifa Unwala is the founding Partner at NMAH and Associates

SECTION 2

TRANSFORMATION OF TALENT

GLOBAL MOBILE WORKFORCE
Powering the Companies of Tomorrow

Author ***Anne Prabhu*** *Co-Author* ***Nikita Garg***

A Global Mobile Workforce has taken birth, which is flexible in terms of both location as well as role. Fast-paced socio-political events and the dynamic business environment has created a need for senior talent with specific skill sets.

There have been dramatic changes in the workplace in the last 10 years driven by globalisation and diversification, where organisations have evolved into truly global entities. Changes in how business is done and where it is shifting to, has resulted in talent mobility to newer locations. As a consequence, there has been an emergence of a "Global Mobile Workforce" which has helped foster the spirit of collaboration, making it a powerful tool to ensure business continuity and sustainability.

Rise of global mobility of talent

We witnessed the rise of a global mobile workforce in the 1970s when MNCs sent talent from their headquarters (HQ) to other regions to expand operations. The 90s saw services companies adopt an outsourcing and off-shoring model, creating diverse and multi-geography global teams. The last decade has seen "Global Mobility of Talent" as the new normal. We have already seen a few Indian companies move their HQ to destinations such as London, in order to truly embrace new technological advancements, diverse customer bases, finance markets and global talent.

Specifically, India has seen a rising number of expatriates in recent times, mainly driven by the burgeoning hi-tech industry. Sectors such as manufacturing, automotive, pharmaceuticals, IT services and banking are seeking out expatriate talent to drive their Indian operations. Incidentally, this also includes the "Indian expat" pool returning to work on cutting edge technologies to engineer products for the Indian market as well as Indians being accepted in "Global CEO" roles in organisations of non-Indian origin.

Socio-political events impact and create talent mobility solutions

The financial crisis has led to the creation of a wide pool of senior talent with unique experiences and enormous knowledge. Similarly, socio-political events such as the recent Refugee Crisis and Brexit are fuelling mobility in talent too. If woven well with the socio-economic fabric of a nation, such events can result in the creation of a huge global employment workforce. The current VUCA (Volatility, Uncertainty, Complexity and Ambiguity) world, Mergers and Acquisitions and fast-paced start-up environments are fuelling the need for specific skill sets and the expertise to augment the existing leadership capability in organisations to help fix issues, drive transformation or work on specialised transformation agendas. *This is giving rise to what Hunt Partners refer to as "Business Transformation" or "Interim Management Solutions".*

Some organisations have specialised needs for shorter periods that could be fulfilled by talent from anywhere in the world. In nations such as Sudan, Kenya, Afghanistan and Bangladesh, employees prefer to stay for short-term assignments due to cultural or political uncertainties. These assignments can also be used by companies to promote leaders at different levels. During this period, the "Interim Leader" is expected to train and mentor local talent or successors, thereby ensuring an adequate return on investment (ROI).

Different generations view talent mobility differently

Access to such global mobile talent, however, continues to be a challenge and business leaders are known to spend more than 50% of their time on talent hunt, talent development and talent management initiatives. One such leader of a US $1.5 billion company with international operations reveals that "Each generation, across Baby Boomers, Generation X and Millennials, approaches mobility differently, that requires HR to smartly design Global Mobile Workforce practices." A few HR leaders further elaborated that each of the three different generations embrace mobility in different ways. Unlike the Baby Boomers and Gen X, for whom assignments were location-based and who required a substantial financial package and long-term stability followed by a return to HQ or home base, Millennials are up for short-term, purposeful opportunities that fuel their desire to learn, help them push their boundaries and take them closer to their career goals. They also tend to be open to entrepreneurial roles and have greater flexibility with their career choices.

Hence, the meaning of global mobility may not be restricted to relocation. It also refers to managing a global workforce from the home base, thereby building skills of organisational agility that most firms seem to demand from leaders today. For effectively using mobility in talent management strategies, organisations need to focus on supportive structures on costs (remuneration), labour laws (nation employability norms, immigration policies), technology (data privacy) and taxes (natives versus foreign). Within this sphere, we see HR evolving and closely partnering with business to attract and deploy a global mobile workforce. Thus, moving forward, mobility solutions will continue to be developed for an ever-evolving business environment.

FEELANCE

FREELANCE CONSULTANTS

Why do Indian Clients Hesitate to Engage With Them?

Indian clients hesitate to engage with Indian freelancers because they feel they cannot be trusted. These clients would rather work with consulting firms, even if it means paying much more.

Globally, on-demand talent (known as freelancers in common parlance) is one of the fastest-growing sections in the workforce. Organisations across the globe have warmed up to the concept of outsourcing work to freelancers. The United States, with 53 million freelancers, leads the world in the use of on-demand talent. India, with 15 million freelancers, comes next. These 15 million freelancers execute a whopping 40% of the world's freelancing assignments. On an average, more than 35% of freelancers on large online platforms such as Freelancer.com and Upwork are from India.

Even though India has such a large number of freelancers, a majority of the assignments executed by them come from clients based in the US, Australia, the UK and other Southeast Asian countries. Assignments from India are few and far between.

Why clients prefer firms over individuals

Over the last one year, at Feelance Co., we have interacted with a lot of clients seeking expertise outside their organisation for executing short-term projects or fulfilling interim roles. We have also been actively involved in understanding the way freelancers and independent consultants in India work every day.

During our interactions with the clients, it was revealed that the biggest hurdle for clients to work with freelancers was trust. The most frequently asked question by the clients is "What happens if, one day, the freelancer decides not to work on the assignment? What will we do?" This is a valid question and is the main reason why clients in India prefer to work with a consulting firm, despite having to spend more money as compared to a freelancer who can deliver the same quality at a lower fee.

On the Feelance platform, we have individual consultants as well as consulting firms. For the same assignment, clients tend to shortlist and select firms rather than individuals, even though individual consultants may have a much better skill set than the consultant provided by the firm.

A re-branding exercise for better results

The learning here was that if the individual consultants re-brand themselves as a consulting firm, they will be more likely to land projects. So, we collaborated with a selected set of consultants to help them register as a company, set up a website to showcase their projects and also make additional collaterals for online and offline marketing such as newsletters, company blogs, company logo, stationery, and social media marketing.

The results were clearly visible. Clients were more willing to share their requirements with the "consulting firms" run by the independent consultants.

The Author Harshdeep Singh Rapal is Co-Founder & CEO at Feelance Co.

SUCCESSION PLANNING
Need of the Hour

Author ***Arjun Erry*** *Co-Author* ***Sameer Karkhanis***

Succession planning is a process for identifying and developing people with the potential to fill leadership positions in an organisation. Companies that are well known for their talent development practices include GE, Honeywell, IBM, Marriott, Microsoft, Pepsi and Procter & Gamble.

Over the years, organisations have changed their approach to succession planning. What used to be a rigid, confidential process of hand-picking executives is now becoming a more fluid, transparent practice that identifies high-potential leaders and incorporates development programs preparing them for top positions.

Practices related to succession planning are:

- Identify individual with the potential to assume greater responsibility
- Provide critical development experiences to these individuals
- Build a database that can be used to make better staffing decisions for key jobs.

Succession planning - A five-step process

Step 1: Identify critical positions.

Critical positions are the focus of succession planning efforts. It is these roles that allow an organisation to effectively meet its business objectives.

Step 2: Identify competencies.

Conducting competency profiling for critical roles helps current and future employees gain an understanding of the key responsibilities of the position. It also helps them understand the qualifications and behavioural competencies required.

Step 3: Identify succession management strategies.

The next step is to choose from a menu of several human resource strategies, including developing internal and/or external talent pools.

Step 4: Document and implement succession plans.

Documenting the succession planning strategies is an important step. This provides a mechanism for clearly defining timelines and roles and responsibilities.

Step 5: Evaluate effectiveness.

It is important to systematically monitor workforce data, evaluate activities and make necessary adjustments.

Lack of succession planning in small and mid-sized enterprises

With the proliferation of small and mid-sized enterprises (SMEs), issues of business succession and continuity have become increasingly common. Generally, SMEs are not adequately prepared for their business succession: a study indicated that only 10% of business owners have a formal, written succession plan, 38% have an informal, unwritten plan and the remaining 52% do not have any succession plan at all.

Prior preparation needs to be done for the replacement of a CEO in family firms. The role of advisors is important as they help with the transition. They also help with communication because emotional factors between family members can affect the process.

External talent pipelines, assessment, undefined roles

Organisations have started to formally develop external talent pipelines. These pipelines—populated with external candidates—are created for critical leadership roles. The thought is to have, on hand, a set of highly qualified and accomplished leaders outside of the organisation. These individuals could be considered for leadership roles in the event that a replacement is needed.

The role of consulting organisations in building this external talent pipeline is critical. More so, because the outreach to potential candidates needs to be both confidential and sustained. This requires a re-tooling of the standard search model and needs flexibility from all parties—the employer, the consulting firm and the potential candidate.

Assessment is a key practice in effective succession planning. There is no widely accepted formula for evaluating the future potential of leaders, but there are many tools and approaches being used today. Another aspect gaining strength: appointing executives *without a defined role*. In this strategy, a consulting firm identifies and engages with superior external talent. At the appropriate stage, a candidate is brought on board even without a well-defined role. Given the fluid and dynamic world of business today, it is not long before a relevant role emerges for the designated leader to run.

BMGI
Unlocking Potential Delivering Results

THE 7 HABITS OF INNOVATORS

How do Breakthrough Innovators Actually Approach Their Work?

A landmark report from Cambridge University corroborated a fact fundamental to all leaders: innovation success is primarily dependent on corporate culture. In a study of 800 firms across 17 cultures, company culture was the single greatest factor of innovation success—and not process, great hires, R&D spend, budget or national culture.

Yet, developing a culture of innovation, especially radical innovation, is challenging. Perhaps, nothing could be more challenging for any corporation. But the rewards are rich indeed, as it gives all who do it a unique and lasting capability to overcome market challenges, while simultaneously shaping the market to fit their own ideas and vision. We believe that creating an open, collaborative innovation culture is the foremost business challenge of this century. A spirit of innovation and collaboration does not come naturally to an organisation. For such a spirit to take hold, it must become an integral part of the company's culture. None of this is easy, but it is what a company must do if it truly wants to create a healthy environment in which innovation can flourish.

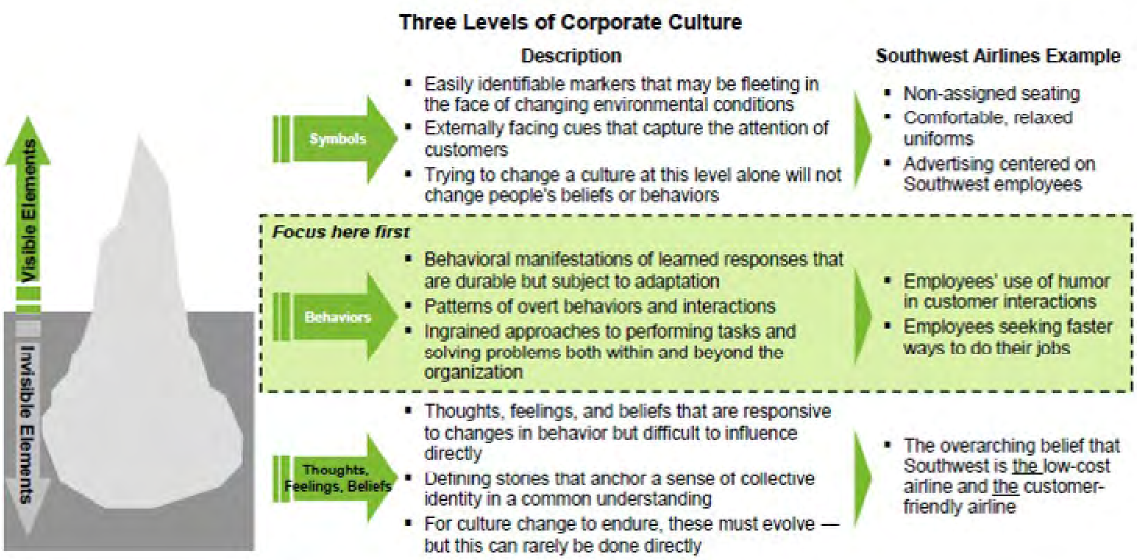
We use the term *innovation culture* loosely in today's day and age, but what is important is that we should view it as different layers, akin to an onion. The deeper we go, the closer we are to the underlying thoughts, feelings and beliefs that are required for a culture change to endure. These layers are known as the three levels of corporate culture, as shown in the graphic below.

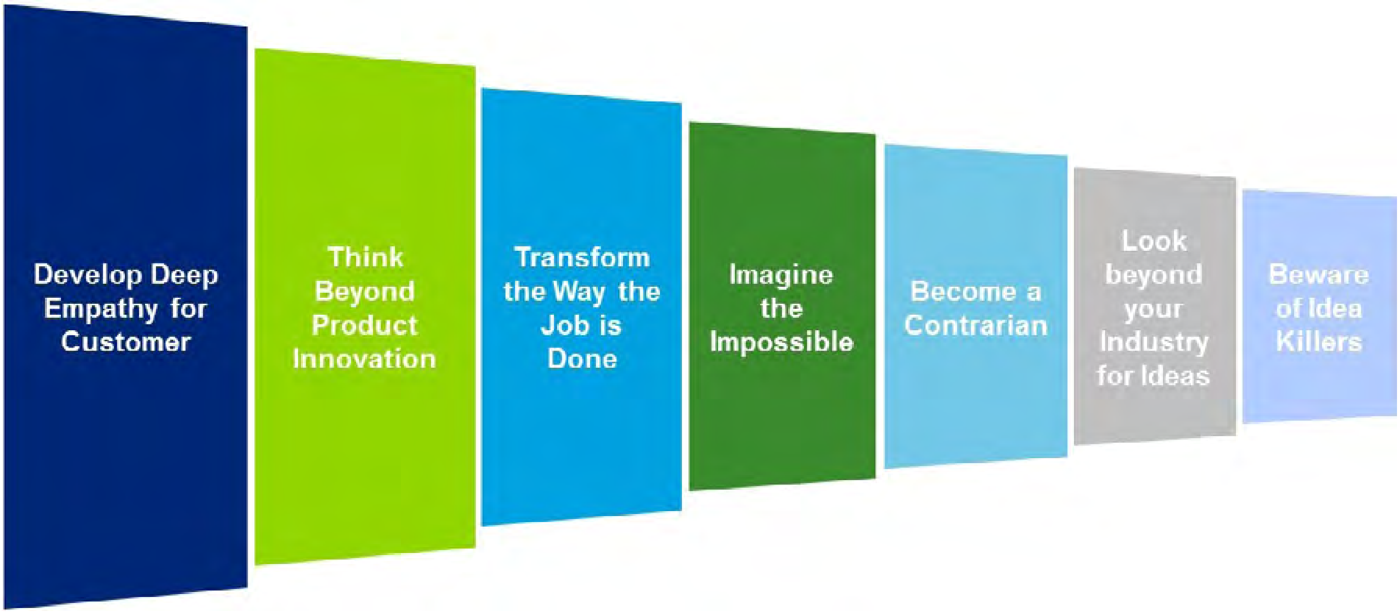
It is important to understand that the ultimate goal of building this innovation culture cannot be accomplished overnight. This can only be recognised if we begin by changing the individual behaviour within an organisation. The question arises: How does one go about it?

There are several ways to drive individual behaviour that include:

- empowering innovation champions to help employees find spaces to test new ideas,
- re-defining metrics and incentives towards innovation success,
- empowering employees with tools required to make their case, and
- creating a safe space for experimentation.

However, a critical aspect is to enable employees to inculcate the "Seven Innovation Habits" to initiate this start towards culture change. These habits are simple to understand, albeit difficult to practice and implement. However, they can go a long way in sowing the seeds of innovation. What is required is a supportive environment in the organisation that not only rewards the practitioners but also creates a system to enable everyone to imbibe these habits.





7 Habits of Innovators

The popular belief is that innovative thinking is a trait that one is born with—we either have them or not. However, research shows that people who are highly innovative are a work in progress, forever questioning and examining themselves and the world around them. Far from being something we are born with, we can all become more innovative by developing the habits that innovative people share.

The first habit talks about *developing empathy for the customer* to go beyond what he is saying to discover his unarticulated needs. For example, if you are a mall owner trying to improve the mall experience for disabled people, a good way would be to experience the mall as they do—on a wheelchair. *Thinking beyond product innovation* will enable one to expand one's horizons and also look at process as well as the entire business model.

Further, we need to *transform the way the job is getting done* by expanding our window of focus from the solution domain to a solution-neutral one. A customer is essentially looking for a quarter-inch hole, not a quarter-inch drill. *Imagining the impossible* will give us an ideal starting point to think backwards and arrive at a much better intermediate solution. Dr. Venkataswamy, an eye surgeon from India, dreamt of the challenging task of performing cataract surgery for under US$ 100, while providing a better quality of care as compared to similar surgeries done in the US and Europe, and he made it happen.

We also need to challenge all our TFGs (taken for granted) and strive to *become a contrarian.* Jack Thomas Andraka, a 19-year-old American researcher, challenged the way pancreatic, lung and ovarian cancers were diagnosed and created a method that is 100% accurate, 168 times faster, 26,000 times less expensive and 400 times more sensitive that the current method used by experts. We also need to *look beyond our own industry for ideas,* be it another industry or even nature. A train company redesigned the shape of its carriages on the basis of an idea taken from the kingfisher bird. This enabled the new series to cut energy usage by 25% and to reduce air pressure by 30% when the train entered a tunnel. Finally, it is also important to move past any *lurking idea killers* in our workplace and be persistent enough to carry one's ideas to the next stage.

Adopting each of these habits will not only boost one's level of learning and creativity but will also lead to innovation and change in an organisation. After all, every innovator and business wants to know that it is creating an impact and is challenging the *status quo* to make things better.

Where can your spirit of innovation take you?

The Author Naresh Shahani is the Managing Director, BMGI

DIVERSITY PROGRAMMES
Do They Make Companies Truly Diverse?

Author ***Anne Prabhu*** *Co-Author* ***Nikita Garg***

Diversity initiatives may be related to ***inherent traits*** such as gender, ethnicity and sexual orientation as well as ***acquired traits*** that one gains from experience. Companies that are looking to transit seamlessly through the VUCA (Volatility, Uncertainty, Complexity and Ambiguity) environment require search firms to find leaders who have exposure to diverse markets, cultures, workforces and business cycles. Most of the leaders interviewed for this article believe that it is no longer just a matter of creating a heterogeneous workforce but of using it to create innovative products, services and business practices that can give a firm it's competitive advantage in the marketplace. Hence, 'Diversity in Executive Leadership' is driven by a need to develop an authentic awareness of the new consumer markets emerging globally.

Are diversity policies implemented properly?

An HR leader of a leading consumer company in the country says, "The pursuit of diversity demands a change in behaviour. Since it possesses the power to alter the fabric of any organisation, it is best achieved if carried out by top management. In order to foster fair, inclusive workplaces, diversity initiatives must incorporate accountability at all levels."

Diversity policies are thus researched, assessed for effectiveness and implemented with care so that everyone in the workplace can feel valued and supported. The challenge, however, lies in the ability of top management to consistently develop and deploy such initiatives over the natural course of business performance. The Census Bureau in the US reports that approximately half of the Fortune 500 Company's Boards have 20% or lower representation of women and minorities on their Board. Back home, less than 10% of the companies listed on the Indian bourses had appointed women Directors by the first deadline stipulated by SEBI. Globally, firms such as BASF, Ford Motor Company, Sodexo, AIG, L'oreal, Deutsche Bank, Bayer, PepsiCo and J&J are leading the diversity and inclusion pack. The same firms in India have made this a critical element of the CEO dashboard, driving accountability to meet the agenda.

An example is that of Deutsche Bank in India that focuses on working with a non-governmental organisation to train people with disabilities to work in the company.

Leading Indian companies such as Tata Sons, Godrej Industries and Vedanta Resources, to name a few, have been actively leading several diversity and inclusion initiatives in recent times. The focus, however, seems limited to gender diversity pioneered by firms such as PepsiCo India, American Express India, PwC India and HSBC India.

Changing perceptions

One of the leading lady professionals to have been appointed recently in a top managerial role of a consulting outfit revealed how some clients insisted that their projects not be assigned to women managers. However, she is glad to observe that the mind-set has changed for the better. There are structural challenges that need to be overcome and ***a best practice will only emerge once diversity in executive leadership becomes a scalable proposition.***

A CEO with 25-plus years of experience in India states, "Most diversity programs aren't increasing diversity. Just a few bells and whistles are tied in with training programs to reduce bias on the job. Hiring tests and performance ratings are tools designed to pre-empt lawsuits by policing a manager's thoughts and actions. This can perhaps be replaced by interventions such as targeted college recruitment, mentoring programs, and task forces."

Despite this increased focus, most companies in India are at relatively early stages of their diversity journey. It seems that the business case is not always well understood—or that key stakeholders fail to connect with the business drivers at a local or personal level. The ability to propagate the positive and transformational impact on business metrics and culture in a way that resonates is critical. So too is the ability to share anecdotes or stories that bring the business case to life. While diversity and inclusion efforts are *de rigueur* for almost all companies today, they have miles to go before they can call themselves diverse.

Willis Towers Watson

HUMAN CAPITAL RISKS
HOW TO MANAGE THEM EFFECTIVELY

In recent years, human capital risk (HCR) has become a key concern for organisations across the world. The question management experts are asking today is: If human capital (HC) is an organisation's most valuable asset, then why are organisations still not keen on having a human capital risk management strategy in place?

The state of human capital risks in India

Human capital accounts for an increasingly significant share of operating costs and is a major determinant of business performance. Yet, the risks and uncertainties arising from it are not managed as rigorously as financial risks, supply chain risks, IT risks and other risks.

In a recent collaboration between Willis Towers Watson, a global management consulting firm, and the Confederation of Indian Industry (CII), a study was conducted which gathered the views of nearly 100 chief executive officers (CEOs), chief HR officers (CHROs) and other senior executives in India.

The key outcomes of the study are as follows:

- 62% of respondents view human capital risk as an urgent or very important Board-level concern for their organisations.
- A majority of the respondents are very concerned about retention of critical talent and leadership bench strength.
- Roughly 41% of respondents believe that their organisation manages human capital risk effectively.
- Only 35% of respondents report that their organisation has a formally defined risk mitigation or control strategy in place.
- A scarcity of HR specialists and insufficient dialogue between the HR and risk management functions are the major obstacles to establishing a successful human capital risk mitigation plan.

While organisations are waking up to HC risks and control framework, the evolving regulatory framework also presents a unique opportunity to have an integrated approach to manage risks through appropriately defined controls.

The Companies Act 2013 emphasises the need to maintain internal financial controls and supporting operational controls, including adherence to a company's policies, safeguarding its assets, prevention and detection

TOP HC RISKS AS PER THE IMPACT-LIKELIHOOD MATRIX

Rank	HCRs
1	Insufficient leadership bench-strength
2	Retention of critical talent segments
3	Capabilities gaps with respect to emerging market/technology
4	Low workforce productivity
5	Inadequate talent attraction programs
6	Lack of compelling capability development and talent management programs
7	Suboptimal workforce planning and organisation design
8	Lack of business-critical systems like performance management

of frauds and errors, accuracy and completeness of accounting records, and timely preparation of reliable financial information. As risks experts would admit, HR process controls are equally critical operating controls and should be effectively monitored. Thus, there is a clear need to move towards *an integrated risk management framework.*

Although HR leaders must lead HCR management efforts, it is critical that risk managers, internal audit teams, executive leadership and the Board understand the risks and potential costs.

WILLIS TOWERS WATSON APPROACH TO HC RISK MITIGATION

Challenges to effective HCR management

There are mixed opinions about who bears the primary responsibility of HCR management. Some might argue that HR is uniquely positioned to analyse and manage the drivers of HCR, while some think that corporate Boards need to be more actively involved in HCR management to help the business meet strategic objectives. Others maintain that the risk/finance function and compliance professionals should play key roles. Hence, it is not a surprise that about 39% of the respondents in the study cited insufficient dialogue between the HR and risk management functions as a barrier to effective HCR management.

The other challenges include lack of human capital risk specialists, limited understanding of these risks by senior leaders and the low priority accorded to HCR management in resource and budget allocations.

HCR management in India

Organisations in India are more likely to undervalue HCR management for several reasons: lack of a well-established governance and human capital infrastructure, a legacy of considering HR as an administrative rather than a strategic function, and rapid growth that prioritises short-term decision making over longer-term risk management. But, the lack of effective risk mitigation strategies can derail the achievement of business objectives and weaken the organisation's values and culture.

Organisations need to adopt a holistic view of potential HCRs and define a practical approach that helps them manage salient risks in a way that does not undermine other critical business objectives, such as innovation, collaboration and speed-to-market.

Intelligent collaboration among HR, risk, audit teams and business leaders can minimise business failures due to talent-related obstacles and enable organisations to maximise strategic opportunities through their people.

A coordinated risk management process is more crucial than ever before. It will help identify human capital risks which the organisation may not have been aware of previously, enable risk prioritisation based on quantifiable evidence and allow leadership to gain advance insights into various risks that impact business performance and perhaps exploit them for driving competitive advantage.

UNDERSTANDING HC RISKS THROUGH THE PRISM OF RISK-BASED AUDITS

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TALENT ANALYTICS
An Introduction

*Author **Arjun Erry** Co-Author **Subir Mitra***

Talent analytics is the use of big data to assess talent at both, the candidate stage and the employee stage. The biggest benefit: it helps shape a more productive and efficient workforce.

What is talent analytics?

In short, talent analytics can help:

- Create the "perfect employee" model.
- Develop optimal promotion strategies.
- Devise paths for employee retention.

Talent analytics addresses questions such as:

- How to get the best from your employees?
- How do investments in your employees affect workforce performance?
- Who are your top performers?
- How can you motivate employees to excel?

Leadership organisations are adopting sophisticated methods of analysing employee data to enhance their competitive advantage. They know how to ensure the highest productivity, greatest engagement and retention of top talent, and then replicate their success.

Developments in talent analytics

- Harrah's Entertainment has used metrics to evaluate the effects of its health and wellness programs on employee engagement and the bottom line.
- At Best Buy, the value of a 0.1% increase in employee engagement at a particular store is US $100,000.
- AT&T and Google have established—through quantitative analysis—that a demonstrated ability to take initiative is a far better predictor of high performance on the job.
- Sprint has identified the factors that best foretell which employees will leave after a relatively short time.
- Cognizant's analytics revealed that employees who blogged were more engaged and satisfied.

The driver of talent analytics is that it takes the guesswork out of management approaches. Concurrently, a large "digital exhaust" from knowledge management systems and social networks are now available for analysis.

Analysing talent is not significantly different from analysing customers or suppliers. It starts with the delivery of historical facts and ends with real-time deployment of talent based on rapidly changing needs.

Applying talent analytics

Human capital facts provide information about individual performance and enterprise data such as head count, attrition and talent acquisition.

Analytical HR integrates individual performance data, such as personal achievement in KRAs, with HR process metrics and outcome metrics, such as engagement and retention.

Human capital investment analysis helps an organisation understand which actions have the greatest impact on business performance.

Workforce forecasts analyse turnover, succession planning and business opportunity data to identify potential shortages or excesses of key capabilities long before they happen.

The talent value model answers questions about what employees value most, to then create a model that will boost retention rates.

The talent supply chain aids in real-time decisions about talent-related demands.

Conclusion

Talent analytics has the capacity to be a powerful descriptive tool by looking at past performance and information to enable strategic change. It is also an incredible predictive tool. By its nature, talent analytics is democratic. It is evolving rapidly, as technology has created more fluid, flexible, powerful tools.

INSURANCE AND WELLBEING OF EMPLOYEES
A New Business Strategy

Author **Anne Prabhu** *Co-Author* **Shrutika Arora**

{ Today's employees are benefiting from customised wellness programs offered by their companies. These reduce insurance premiums and cut down medical costs. }

Indian establishments are increasingly showing interest in the health and wellness of their employees. After all, it has a direct impact on the levels of absenteeism, presenteeism, productivity and efficiency of the resource pool.

Both employers and employees benefited

At the moment, corporate wellness in India is largely unstructured and often curative as well as intervention-based. This means that companies are investing in a plethora of wellness services that employees can avail, ranging from in-house medical teams to knowledge sharing and training programmes. Activities organised for employees are conducted seasonally and deliver generic content. There is an upward trend towards initiatives that include lifestyle tracking and integrated employee engagement with concrete results on improved productivity and health parameters. Services like HealthifyMe, Stepathlon and GetActive are taking strides in bringing digital wellness to corporates through company-wide gamified programmes.

The huge focus on wellness/preventive healthcare is aided by multiple factors that include:

Technology/Fitness apps:

They enable individuals to set health and wellness goals and track their lifestyle in terms of food, physical activity, and stress levels. They also provide tips and advice to drive the right behaviour. Some companies integrate physical fitness into the workplace by incorporating ergonomics and encouraging people to use gadgets like Fitbit. This enables employees to continually work on fitness until it becomes ingrained in their behaviour.

Customer/Employee Centricity:

With growing awareness and rising cases of lifestyle diseases, consumers are demanding more "personalised" products. The purview of insurance products is expanding beyond "in-patient care" to "wellness products". Insurers are offering add-on preventive healthcare and wellness benefits. e.g. Policyholders can file a claim for reimbursement of expenses incurred on enrolling for yoga sessions. Customers have to produce receipts of fees paid to yoga institutes to claim these benefits. In the current health conscious, data-driven age, the reasons for hitting the gym are no longer limited to the standard promises of feeling and looking better. Now, people have the option of racking up financial rewards and other perks through wellness programs offered by numerous insurers and employers.

Most employees believe that Apollo Life has one of the best health packages. They offer various blood tests, scans, Ayurveda and beauty packages, dietary advice, personalised counselling sessions as well as tele-counselling sessions, which can be extremely useful given the hectic corporate lives. They even have programs to help employees quit smoking and alcohol addiction. The greatest advantage of such a program is that it will prevent the breakdown of employees.

Employee Centricity:

Organisations are advocating a healthy lifestyle and incentivising employees to adopt it. The recent death of 47-year-old Chief Operating Officer of the Encyclopaedia Britannica, Vineet Whig, shocked corporate India. Employers have started paying heed to lifestyle issues faced by employees that create tremendous pressure for individuals leading to heart attacks or mental issues such as depression or suicides. In addition to physical fitness, corporates are also investing in mental fitness by offering stress management programs, of which yoga and meditation are predominant features.

Employers also have a vested interest in encouraging their workers to do things like eating right, exercising and not smoking. Healthy employees generally are more productive and have lower medical costs than their less-healthy colleagues. Companies that want to attract and retain good workers have leaders who understand the connection between employee satisfaction and employee health, and believe that *workplace wellness is a business strategy.*

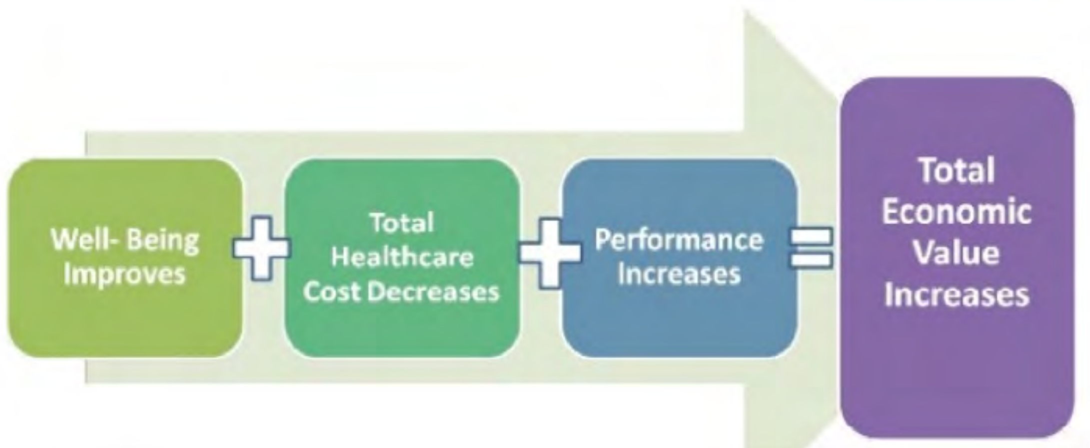
Wellness programmes lower insurance premiums

Over the last three years, 86% employers saw an average of 10% increase in the cost of premiums. Around 55% companies saw an increase in the premium cost during the same year. Organisations spend up to 50% of annual profits on healthcare cost. (Source: Healthcare Insurance, Tower Watson, 2016).

Wellness programmes vary from company to company but generally start out with a health risk assessment. The assessment evaluates an employee's current health and their risk of developing a chronic illness like diabetes. It typically comes with an incentive for taking the assessment, such as a decrease in health insurance premiums or reward points to purchase merchandise or cash. Health insurance premium discounts and reductions in co-payments are the most popular incentives that employers are giving, but they aren't the only options.

For employees, participating in a wellness programme reduces health insurance premiums and saves money on medical costs. The goal of wellness programmes is to become healthier, leading to less spending on doctors, hospitals and prescription drugs. It's not uncommon for employees to save on pay cheques towards health insurance premiums by participating in incentivised yearly wellness programmes.

Gone are the days when people were satisfied with the group health insurance cover taken by their employer. Today, consumers/employees do not refrain from choosing a policy that best suits their lifestyle and needs, without looking at the price. Companies in the health insurance industry will have to innovate and come up with new products and services that are customer-centred and tailor-made to the needs of the customers to keep up with the competition.



SECTION 3

SECTORAL INSIGHTS

EVOLUTION OF PRIVATE EQUITY REAL ESTATE
The Hunt Perspective

Author ***Sunit Mehra*** *Co-Author* ***Nikita Garg***

{ The requirement for immediate last-mile financing represents opportunities for private equity in real estate. Also, a shift to long-term strategic capital elicits the need for new talent. }

India is emerging as the most vibrant market for foreign investments. Thus, private equity real estate (PERE) can reclaim its position as a major contributor to the housing needs of a developing economy. One notices a change in the investment philosophy of committing long-term strategic capital to quality commercial (rent-yielding) assets from being an alternative source of capital for medium-term high returns across development asset classes.

Greater focus on "Fix" in the Buy-Fix-Sell value chain

There is significant activity seen in last-mile funding to plug last-stage liquidity gaps. This has enabled developers to complete project delivery milestones and ensure better cash flow realisations. This tripartite relationship between investors, fund managers and developers is giving shape to a long-term partnership. Hence, there is a greater need to focus on "Fix" solutions in the Buy-Fix-Sell value chain. Be it domestic or international private equity (PE) funds or sovereign and pension funds, most seem to rely on providing *operational expertise* on how to build-lease-manage assets to create value for all stakeholders involved.

PERE has taken a step forward to help developers shape their businesses for future growth by driving focus on the following activities during its "Fix" phase:

- Bring the best-in-class international advisors in the process and also assemble world-class managing teams.
- Help developers build a stable, honest and simplified business model by advising on a clear growth strategy.
- Provide access to a broad range of investment and asset management skills.

BUYOUTS	
Brookfield	Unitech Corporate Parks (SEZs) and 5 IT Parks
Xander Group	Tata Realty's Infinity Technology Park
PARTNERSHIPS	
Blackstone	Embassy Office Parks
Baring PE	RMZ Properties
KKR India Asset Finance	Puranik Builders
Standard Chartered PE	Tata Realty & Infrastructure
Goldman Sachs	Nitesh Estates
Warburg Pincus	Embassy Group
GIC of Singapore	DLF Home Developers
Goldman Sachs	Piramal Realty
Warburg Pincus	Piramal Realty

A clear example is Blackstone's buyout of a Gurgaon-based real estate developer, Alpha G Corp., in 2015. Incidentally, this also marked the country's first full buyout deal in the sector. Hunt categorises such deals or partnerships in the buyout and partnerships categories as follows:

Such deals are now being extended to the larger infrastructure including the energy sector in India, leading to the rise of asset reconstruction companies. Several big international investors have recently created funds to buy debt or assets of troubled companies. Here, TPG Capital, Apollo Global Management, KKR and Carlyle seem to be in the lead.

PERE–Consolidation and Skill sets

This has also given rise to new skill sets required to manage differently owned and structured assets, from plain vanilla investments in residential projects to partnerships in commercial projects, to now buyouts across projects. In certain cases, Hunt Partners has led the search, in the recent past, to attract international talent to the Indian real estate sector with specialised skills in the areas of design and architecture, commercial management of properties and a global outlook for investment strategies.

To some extent, PERE has also influenced consolidation in the sector. A few trends below can help us build perspective in this regard:

- Large investors chasing fewer high-quality assets across the country, signalling an appetite for big-ticket investment deals, and coming together to strike such deals:

- Goldman Sachs and Warburg Pincus – Piramal Realty

- Standard Chartered PERE, IFC and ADB – Shapoorji Pallonji Group

- Real estate developers coming together to raise funds from a single investor for proposed commercial projects and affordable housing or integrated projects

- Simplification of holding (hence, ownership) structures through buyouts and mergers by equity dilution across the development community in India

- This leads to an increased number of exits in order to exhibit performance to investors. Hence, there is a slowdown of investment activity in this sector.

PERE – Moving forward

In Hunt's view, opportunities do exist in the market for PE as there are several projects that may require last-mile financing options on an immediate basis. However, on the basis of the trends mentioned previously, funds today seem to have a leaner risk profile that depends on the developer's track record of delivery. In such a scenario, we foresee investors being more cautious while assessing potential deals, which may also result in subdued PERE activity.

The shift, however, to long-term strategic capital is beneficial for the sector as it drives risk mitigation, unlocking of value and better governance standards across the industry. It also makes the industry more open to acquiring new skill sets that combine the twin goals of long-term sustainable growth and astute management of assets to unlock value for shareholders.

THE FINTECH INDUSTRY
New Developments, New Demands

Author *Suresh Raina* Co-Author *Pranjal Kumar Das*

{ Despite cash still being king in India, mobile wallets are making headway. The implementation of UPI and the launch of payments bank licences is expected to give a boost to online lending. }

Brexit

London's position as the gateway to the European market could come to an end with Brexit, thus impacting the growth and funding of the Fintech industry in the UK. It may lead to a positive outcome: that of private equity (PE) and venture capital (VC) funding being diverted to India, given the potential and growth of the Fintech industry in India.

Disintermediation, Adoption of near-field communication (NFC) and mobile wallets

The mobile payment industry in India has been valued already at about $1.15 billion for the year 2016. Over the past few years, Fintech providers have been instrumental in paving the way for the adoption of next generation payments in India. The increasing adoption of smartphones, especially in rural areas, has fuelled this phenomenon. It has also accelerated the talent requirement for these cash-rich start-ups, who are hunting to fill leadership positions including Business Heads to Product Heads. The key developments have been initiated in companies like Flipkart, Paytm, and Scripbox. In fact, as per reports, more than 25% of senior executive hiring in the technology space in India is expected to come from the Fintech industry in the next two years.

Impact of unified payment interface (UPI) on mobile wallets

In India, cash is still king. It is still growing and remains a hurdle that the UPI system has to overcome in order to drive mobile payments into mainstream use. The implementation of UPI is expected to have a significant effect on mobile wallet companies. Wallets which focus only on providing limited liability and the ease of making transactions will be impacted as the UPI system will directly challenge their value proposition. But, players like Paytm and other wallet companies with payments bank licences will be the major beneficiaries.

The implementation of Bharat Bill Payments System (BBPS) standards will further help companies get aligned and consolidate their position. Infact, all the leading wallet companies including Paytm, Oxigen, PayU, and Billdesk are lining up their new products and hardware to accommodate the change. This will further accelerate the talent need to allow for the capture of more than 1.5 million utility service points across the country. The key challenge will be to have a team to penetrate the semi-urban and rural markets, where the bulk of the acquisitions will happen. Global giants like Google and Apple are also carefully planning their moves and local partners.

Payments bank licences

As the proposed day of the commercial launch of payments banks is nearing, there are only eight players left to fulfil the RBI's ambitious plan to start niche banks in the country. This promises to be a watershed in the financial history of the country.

Profitability concerns, coupled with the limited scope of business activity, are proving to be the biggest deterrent. At the same time, product specialists and business leaders, who will be in demand by these potential banks, will find interesting opportunities. Once the UPI system reaches its full potential, an added fillip will be provided to the sector.

Consolidate and compete– future trends

The Indian online market is also looking at consolidating various loose ends in order to compete with global players. Snapdeal's acquisition of Freecharge and Flipkart's taking over of PhonePaisa is reflection of this trend. More recently, PayU's acquisition of Citrus is aimed at consolidating their position in the Indian market. This trend is also expected to throw light on the first set of winners and losers in the market.

Online lending to see further growth

The significant development of technology platforms and the emergence of a new generation of young Indians willing to conduct transactions online is contributing to a boom in both the number of online lending platforms and users. The number of start-ups in the online consumer lending space has grown significantly from a mere two in 2013 to more than 35 in 2016. Leading non-banking financial companies (NBFCs) like Capital First, Neogrowth, Bajaj Finserv, Neogrowth, Lending Kart, and Capital Float are trying to capture a slice of the e-commerce transactions pie by offering instant lending facilities to consumers. The last two years have also seen a significant growth of peer-to-peer lending platforms like India Lends, Lendbox, Loancircle, Loanmeet, Faircent and Cashkumar in the market.

PEOPLE MOVEMENT >>

AMBER KRISHAN May-16

FROM Human Factors International	TO PayU India
WAS VP - Advanced UX	AS Head of User Experience

SARANJEET SINGH Jun-16

FROM PayU Payments Pvt. Ltd (Naspers Limited)	TO Airtel Payments Bank
WAS Head - Digital Marketing	AS Head - Digital Marketing

GAURAV SHARMA Feb-16

FROM PayU Payments Pvt. Limited	TO Capital First Limited
WAS Vice President Sales	AS Head - Digital Channel

VIRENDRA GUPTA Feb-16

FROM PayU Payments Pvt. Limited	TO Airtel Payments Bank
WAS Head - PayUmoney Wallet & Checkout	AS Head - Airtel Money Wallet

VIKRANT KHORANA Mar-16

FROM PayU India	TO JunoTele Private Limited
WAS SVP & Business Head - Non E-Commerce Vertical	AS Chief Business Officer

VINEET KUMAR Mar-16

FROM EMVANTAGE Payments Pvt Ltd	TO Amazon
WAS Co - Founder & Director BD & Operations	AS Amazon India Payments Team

KRISHNA HEGDE Feb-16

FROM Barclays	TO Paytm
WAS Managing Director, Head of Asia Credit Research	AS Vice President - Business

ASHOK KUMAR Oct-16

FROM Cisco	TO Scripbox
WAS VP & Country Head - Services, Cloud & Smart Analytics	AS CEO

SHINJINI KUMAR Mar-16

FROM Pwc	TO Paytm Payments Bank
WAS Director	AS CEO

DISTRESSED ASSETS
A Zero Opportunity Cost?

*Author **Sunit Mehra** Co-Author **Tehsin Danawala Amdani***

In India, the stressed loan book of banks is estimated at $82 billion. The Reserve Bank of India has underlined the rising incidence of stressed assets as a serious issue and has taken several policy measures to address it.

The silver lining

This year, the Insolvency and Bankruptcy Code 2016 was passed by the Parliament. In addition, the government approved 100 percent foreign direct investment (FDI) in asset reconstruction companies (ARCs) as part of the Union Budget of 2016. This is seen as a renewal of focus in this area and an opportunity for the entire ecosystem of stressed assets that includes lenders, investors, promoters and industry professionals to recover.

With stock market valuations sliding fast and cash-strapped companies desperately seeking a lease of life, we believe it will be apt to say that "in the midst of chaos, there lies immense opportunity".

With encouragement from the Prime Minister's Office as well as regulatory support, this space looks very promising for private equity credit funds. They can invest in the non-performing assets (NPAs) of banks as well as structured debt extended to companies directly, amongst many other approaches.

New players

This expression of support has caught the interest of the likes of CDC, TPG, the Abu Dhabi Investment House (ADIH), Global Realty and Yes Bank, who are all planning to launch their distressed asset funds. Early movers in this space are Kotak Mahindra, CPPIB, AION Capital and the Ajay Piramal Group. Other potential takers of distressed assets are the ARCs, which are either funded by private equity firms or are setting up greenfield operations. Such an investment was most recently exemplified by KKR and Bharti's investment in ARCIL and SSG Capital and the Ambit- JC flower joint venture. Many global players, like Loan Star and Oak Tree are also taking a keen interest in this segment.

Impact on talent movement

The increase in funding in the distressed segment has started showing signs of talent movement. We see talent coming from the ARCs, special situation investing backgrounds, mezzanine and alternate solutions, and structured credit space amongst others.

Taking a step forward, regulators have introduced a strategic debt restructuring mechanism that enables lenders to convert a part of their debt into equity. This enables the private equity firms to play a key role in providing risk capital to recapitalise the stressed assets held by the banking sector.

Regulatory and policy support of this level and the availability of investor interest is very timely. But, the question is, how willing are the banks to share the NPA pie? Also, is the ground-level execution equally smooth? It is only with time that we will see the true picture.

However, there is no doubt that this heralds a revolution in the Indian Banking sector with immense opportunity for all stakeholders.

PEOPLE MOVEMENT >>

SHOBHANBABU MANDOLLA

FROM Ojas Asset Reconstruction Company

TO Ojas Asset Reconstruction Company

WAS Company Secretary

IS Compliance Officer

VINAYAK BAHUGUNA

FROM Vie Capital

TO ARCIL (Asset Reconstruction Company of India)

WAS Managing Partner

IS MD & CEO

SUMANTH CIDAMBI

FROM Alvarez and Marsal

TO Edelweiss Group

WAS Director

IS CEO, Distressed Assets Resolution Business

KARTHIK ATHREYA

FROM Altico Capital

TO Mandrake Ventures

WAS MD

IS Partner

RAHUL SHAH

FROM Edelweiss

TO CDC

WAS Principal

IS Director

SURYA MAHADEV

FROM W L Ross

TO Multiples

WAS MD

IS Advisor

THE DISINVESTMENT PROGRAMME
Need for Advisors

Author ***Arjun Erry***

Disinvestment and privatisation are two different terms in the technical sense, although both involve the sale of the government's share in public sector enterprises (PSE). The overarching rationale for both programmes is that private ownership leads to better use and more efficient allocation of resources.

The term *privatisation* is used for a stake sell in which the residual shareholding of the Government falls below 51%. On the other hand, in *disinvestment, the Government maintains a post-dilution shareholding of greater than 51%. In addition, it maintains management rights*

History of disinvestment

The Rangarajan Committee of 1993 was constituted by the government for making recommendations with respect to disinvestment. The committee recommended that disinvestment should be a transparent process, duly protecting the rights of workers. The recommendation led to the formation of the Disinvestment Commission in 1996. The Commission was required to advise the government on, inter alia, the extent, mode, timing and pricing of disinvestment. The first important strategic sale in India was that of Modern Foods to Unilever India in 2000.

The government has set itself a target of raising INR 560 billion through disinvestments in the fiscal year ending March 2017. The government renamed the Disinvestment Committee; it is now called the Department of Disinvestment and Public Asset Management (DIPAM).

Transformation in PSEs

Global learnings indicate that several transformations take place in the PSEs that are wholly or partially privatised[1]. This was witnessed during the first phase of disinvestments during the time of the National Democratic Alliance (NDA) government (2000–2004). PSEs like VSNL and Hindustan Zinc were privatised, and the acquirer did the "heavy-lifting" in terms of integration, business process re-engineering, right-sizing headcount, and normalising pay scales, to name a few.

Need for Advisors

To ease the burden on the acquirer—and to hasten the integration process—it will become imperative for the DIPAM to make changes to the HR policies of the PSEs slated for disinvestment. We believe this will necessitate the role of Advisors to guide the DIPAM and the Board of the PSEs during the disinvestment process. They will also be instrumental in transforming the PSEs from a government-owned culture towards the performance-oriented and governance-led culture of a publicly listed company.

These Advisors will ideally come from a strong business background, having worked across a cross-section of industries and corporate set-ups. They will also have experience in dealing with government departments and/or PSEs. They will be accountable to the DIPAM, while being operationally aligned to the PSE Board.

The PSEs and DIPAM will also need help in managing the disinvestment process. This could be in the form of external investment bankers (merchant bankers) who will execute the mandate. In addition, a senior corporate figure should be brought on as an Advisor to the PSE / DIPAM with the express purpose to "own" the divestment process. Herein, the model used to launch and scale Aadhar—wherein an executive from the private sector, Nandan Nilekani, ran a government-sponsored programme—can serve as a successful template.

We anticipate that the critical role of Advisors within the PSEs and Advisors to the DIPAM will drive the demand for senior and eminent corporate figures. This will create opportunities for individuals already in advisory roles or contemplating moving into such roles.

[1] This is not be an issue when simply a financial asset is being divested, as in the case of the equity shareholding of public companies held by Specified Undertaking of Unit Trust of India (SUUTI).

INFRASTRUCTURE SECTOR
Green Shoots

Author ***Suresh Raina*** *Co-Author* ***Pooja Agarwal***

The renewable energy market (solar and wind) in India is gradually gaining pace. However, talent crunch is an alarming reality. Roadways is going strong and is expected to continue that way.

The renewable energy sector in India continues to get stronger with almost 300 global and domestic companies committed to generate more than 250 GW of solar, wind, mini-hydel and biomass-based power in India over the next decade with an investment of approximately US$ 300 billion.

Solar power industry

The Indian solar market is set to move into the next phase of development, but the liquid secondary market is essential for its sustainable growth. Hence, there is growing pressure on developers to raise capital. Therefore, mergers and acquisitions (M&A) in the sector are gathering pace. Both new and established players are vying for existing assets. This comes on the heels of successful closure of Welspun's sale of 990 MW of solar assets to Tata Power. Another reported sale of 337 MW of renewables capacity was made by NSL to Brookfield Asset Management. Amplus Energy acquired 7MW of SunEdison's roof-top solar assets in India and CLP acquired 49% stake in Suzlon's 100 MW solar project in Telangana and Sun Edison's remaining operating assets should also see a transaction before the end of this quarter.

There is a demand and supply gap creeping in as more and more solar projects are being awarded. Hence, we see new developers emerging, but only a handful of them are Tier 1 engineering, procurement, and construction (EPC) players. This has created growth opportunities that are being capitalised by electrical majors like KEC, Godrej, Schneider, and ABB apart from a few other smaller players. We could also see much larger GW projects being awarded by the government, a scale yet not seen in the country.

We expect a healthy demand for skilled professionals in project management, engineering design, and business development. Also, corporate finance personnel will be in demand as significant debt capital will be required to support 10GW projects.

Wind power industry

The Indian wind market is seeing favourable policies that are making it easier to set up wind projects. The turbine capacity is also increasing, which will help reach grid parity. Hence, the sector may potentially attract INR 1 lakh crore investments by 2020, with the addition of about 4 GW of annual capacity.

However, the impending GST norms may have a negative impact on the wind market due to escalation of costs. Hence, there is a visible shift in the way some large and serious players are building their wind portfolio. The large independent power producers (IPP) are now executing projects on a turnkey basis with the help of turbine manufacturers. As wind is an integrated segment, turbine manufacturers are also handling EPCs and original equipment manufacturers (OEM), with two-thirds of the market set to be controlled by players such as Suzlon, Vestas, GE, Gamesa and Senvion.

However, the business has been under pressure. Hence, we see limited hiring formanufacturing roles and greater hiring for business development and project management roles.

Roads sector

The Indian roads sector is projected to continue its high growth trajectory and is expected to touch US$ 19.2 billion by 2017.The construction of highways had reached an all-time high of 6,029 km this year, which is expected to continue with a target of 25km/day.

With 100 percent equity divestment allowed for build-operate-transfer (BOT) projects and more than 20 expressways under construction, we will see talent requirement in the domains of engineering and finance along with business leadership roles.

Private equity (PE) funds are showing interest in the sector with several completed projects available for acquisition. Goldman Sachs' Private Equity fund has invested US$ 200-250 million in Essel Highways and the Canadian pension fund gets four road assets totalling 710Km from Isolux Corsan.

Some key developments in this sector are:

- The Cabinet has approved four-laning of three national highways in Punjab, Odisha and Maharashtra, with an investment of nearly INR 6,000 crore.
- China Railway Construction Corporation has evinced interest in bidding for around 3,000 km highway contracts in India worth INR 35,000-40,000 crore.
- Ashoka Buildcon wins an INR 1,600 crore-road project in Punjab from the National Highways Authority of India (NHAI).
- MBL Infrastructures has been awarded projects by the NHAI worth INR 2,126 crore.
- MEP Infrastructure Developers in a joint venture (JV) with its Spanish partner has received letters of award for INR 1,765 crore

PEOPLE MOVEMENT >>

NAME	FROM	WAS	TO	AS
CHOCKALINGAM PALANIAPPAN	Suzlon Energy Ltd	VP Finance	SB Energy (SoftBank Group)	Director - Finance Control
AMIT KANSAL	Vestas	MD & VP Sales	Senvion	CEO & MD
SUSHIL PALIWAL	Inspira Power	COO- Solar	Rattan India	Executive Director–Solar
PANKAJ GARG	Jindal Steel & Power	VP-Finance	Dalmia Bharat Group	CFO
ABHAY RAINA	Reliance Power	Asst. VP - Renewable Energy	Hero Future Energies	Head Solar Business
PINAKI BHATTACHARYYA	Sterlite Technologies Ltd. (Vedanta Group)	Chief Strategy & Investment Officer (Head) - New Ventures	AMP Solar	CEO
BRIJESH GUPTA	ESSAR STEEL	Sr. Vice President & Head Special Projects	Atha Group	CEO
SHAILENDRA BEBORTHA	Sunborne Energy	Chief Operating Officer	IBC Solar	Managing Director
RAKESH SARIN	Wartsila Corporation	President Energy Solutions & EVP on Board of Management	Suzlon Energy	CEO - International Business & Global Services
RAM SWAMINATHAN	SunEdison	Global Human Resources Director	Vishvaraj Infrastructure	Chief Human Resources Officer (CHRO)
VIJAY YADLAPALLI VENKAT RAMANA	Wind World India	Country Head Operations (India)	Suzlon Group	COO-O&M India
PAVAN TSUNDURU	Reliance Group	VP and Head IT Strategy	Adani Ports & SEZ	CIO
SRINIVAS TATA	Adani Ports & SEZ	CIO	Kalpataru Group	Group CIO
JP CHALASANI	Punj Llyod	MD and CEO	Suzlon	Group CEO
KRISHNA PRAKASH MAHESHWARI	UPL Limited (formerly known as United Phosphorus Ltd.)	CEO - Tatva Global Environment Ltd.	Essel Highways	CEO & President
RAHUL JAIN	JMC Projects (India) Ltd - Kalpataru Group	Sr. Vice President / Head - BD and Tendering	ISOLUX CORSAN	Director - BD & Proposals

DEFENCE MANUFACTURING
Challenges and Changes

Author ***Suresh Raina*** *Co-Author* ***Pooja Thakker***

> The DPP 2016 and the approval for 100% FDI has given a fillip to the defence manufacturing sector in India. However, suitable talent remains in short supply.

The Indian defence industry is on its way to becoming one of the most lucrative industries with an ocean of opportunities for design, prototyping, testing and manufacturing. Global original equipment manufacturers (OEMs) and Indian companies alike are keen to leverage the opportunity under the impetus provided by the "Make in India" initiative. More projects have been kicked off in the past 18 months then in the previous decade.

Effect of DPP 2016

With the release of the Defence Procurement Procedure (DPP) 2016, there is also an apparent shift in policy from the overriding focus on offsets to a larger role for Indian primes as they become the key delivery point of solutions.

Buy Indian (Indigenously Designed, Developed and Manufactured) has responded positively to DPP 2016 and the 100 percent FDI, along with "Start up India", by endorsing the contribution of small and medium industries in the defence sector.

Recognizing the importance of design as well as research and development (R&D), this move will ensure significant inflow of funds into R&D and provide the right opportunity for talent in India to contribute towards developing cutting edge technologies. There is huge potential in areas like submarines, nuclear power and artillery guns.

The challenge: finding talent

However, talent availability is a challenge in the sector, especially for engineering and technology development.

The Indian defence industry faces a shortage of skilled professionals at the leadership level who can drive and support growth targets. The issue is critical from a managerial and technical standpoint and also from the perspective of adequate capability of monitoring programs to build a robust homegrown industry, using R&D and innovation.

The growth of the defence industry depends on the ability to secure, retain and develop the right talent. Even if we get access to advanced technology, we will still need trained resources who have exposure to its adaptation and application. The increasing number of joint ventures (JV) in the sector necessitates the presence of seasoned professionals who understand multiple stakeholder management and the building of businesses in a highly regulated environment.

Membership of the Nuclear Suppliers Group (NSG) will be helpful in strengthening investment for the nuclear sector and can be leveraged for strategic and economic benefits, with commercialisation of the production of nuclear power equipment.

What's new in the defence sector?

- The government is working on INR 30,000 crore corpuses for venture capital funds in the defence sector.
- Ashok Leyland has tied up with SAAB for developing truck driving simulators and with Lockheed Martin for a technology transfer and licensing arrangement for a 4x4 light armoured vehicle under a $1 billion order.
- A JV between Ashok Leyland and Krauss-Maffei Wegmann will develop defence systems for international markets.
- Bharat Forge's arm, Kalyani Strategic Systems, has entered into a JV with Israel's Rafael Advanced Defence Systems.
- Reliance Defence has signed a JV with Israel's Rafael for air-to-air missiles and another defence systems player.
- Tata Motors and Bharat Forge have tied up with General Dynamics in a JV for a Future Infantry Combat Vehicle program.
- Lockheed Martin is in discussions to establish a JV to locally build its F-16 Fighting Falcon.
- L&T has signed Samsung as its technology partner to produce 100 new mobile artillery guns.

PEOPLE MOVEMENT >>

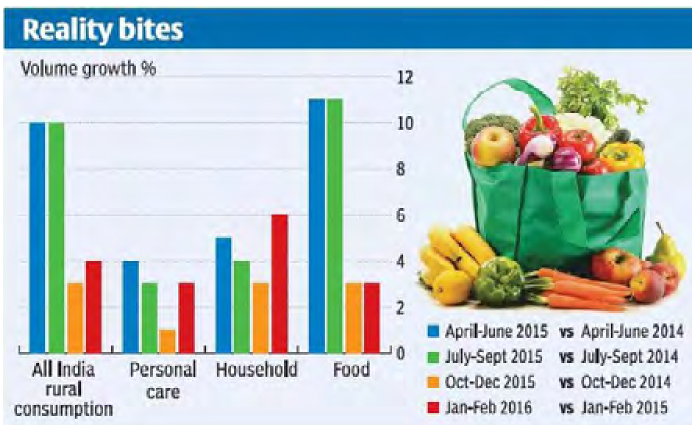
GUENTER BUTSCHEK Jan-16	
FROM Airbus	TO Tata Motors
WAS Chief Operating Officer	AS Managing Director
SANDEEP BATHLA Aug-16	
FROM Bharat Gears	TO Motherson Sintermetal Technology Ltd
WAS Corporate Head - Operations	AS Chief Operating Officer
VIVEK ANAND Jul-16	
FROM British Airways	TO General Motors
WAS Head Customer Service & Ops	AS Director Customer Experience
SUSHEEL TODI May-16	
FROM Crompton Greaves	TO Capacit'e Infraprojects Limited
WAS Global Head -Accounts & Direct Tax	AS Chief Financial Officer
SUNIL TREHAN Jul-16	
FROM Electrosteel Castings	TO Jindal ITF
WAS President & Chief Executive Officer	AS President and Whole-Time Director
NALIN JAIN May-16	
FROM Equnev Capital	TO Volvo Auto India
WAS Partner	AS Chief Financial Officer
ANIRBAN DASGUPTA Aug-16	
FROM Hindalco Industries	TO RPG Enterprises
WAS Joint President - Head of Internal Audit & Controls	AS Group Head - Assurance and Internal Audit
SAJEEV RAJASEKHARAN Jul-16	
FROM Panasonic India	TO Suzuki Motorcycles
WAS Deputy Divisional Managing Director, Channel & Retail	AS Executive VP- Sales & After Sales
VIKRAM BECTOR Aug-16	
FROM Reliance Industries	TO Ajay Piramal Group
WAS Chief Talent Officer	AS Chief Human Resource Officer
SUBBA RAO AMARTHALURU May-16	
FROM RPG Enterprises	TO CLP Holdings
WAS Group CFO and Member of the Management Board	AS Executive Director - Finance & Strategy
SACHIN RAOLE Jul-16	
FROM RPG Life Sciences	TO Praj Industries
WAS CFO & SVP - Corporate Services	AS CFO & President (Finance & Commercial)
RAJ NEHRU Sep-16	
FROM Synex Corporation	TO Schneider Electric
WAS Associate Director Human Resource	AS Director Human Resources

THE ELEPHANT IN THE ROOM
Compounding Rural Distress?

Author *Praful Nangia*

{ The slowdown in consumption in the rural markets has hit the FMCG sector the most. However, Patanjali has been successful in making inroads in the market without resorting to traditional marketing tactics. How will the FMCG industry adjust to this revolution? }

In the financial year of 2016, drought conditions hit consumption in rural markets, causing volume growth to slow down to 3-4 percent in Half Two (H-2) as compared to the 10 percent growth in the beginning of the last financial year. Things are not really different as we are coming to an end of the First Half (H-1) of the current financial year. According to data from the market research agency IMRB, consumption volume in rural areas across three categories—household goods, personal care and food & beverage (F&B)—grew by just 4 percent in January-February 2016 versus the corresponding period last year. This is definitely bad news for fast-moving consumer goods (FMCG) companies who were depending on rural consumption to fuel demand, given the deaccelerating growth in urban consumption since last year.



Source: IMRB

Slowing rate of rural consumption

While economists and policymakers talk about the country's robust economic growth despite global challenges, FMCG marketers do not see any signs of a pickup in demand. Companies and analysts suggest that weak disposable incomes and sustained inflation have caused consumers to opt for cheaper products. Interestingly, among the three broad FMCG categories, F&B has been the hit most severely.

As per a Nielsen estimate, rural markets today account for nearly 64% of all the retail stores but only one-third of the FMCG sales in the country. This has not gone unnoticed, with many questioning the logic of continuing to invest in distribution and a differentiated product portfolio for the rural markets instead of focusing on developing premium categories such as healthcare and beverages in urban markets. However, the contours of the Indian landscape do not permit a one-size-fits-all solution and companies will need to take a call on the basis of the state-wise extent of the monsoon.

The elephant in the room

While analysing the actual effect on the talent scenario, we came across an interesting trend in the stock markets on the changing risk perceptions in the sector. Traditionally, FMCG along with pharmaceuticals has been seen as perennials. Currently, the FMCG sector faces more than the risk of rural distress—there is also an elephant in the room.

Patanjali, the new kid on the block, has turned conventional FMCG marketing on its head and has built a big distribution and marketing network in a short period. While everyone loves to agree that Patanjali has much lower costs, unattractive packaging and uncertain quality controls, yet the fact remains that it has made major inroads into multiple segments. This has made things tougher for listed FMCGs that have a high possibility of reporting stagnant growth in this financial year.

Taking stock of threats

On the bourses, FMCG is a highly valued industry. Investors who exit the pharma and FMCG sectors have few choices if they do not want to exit the equity market. However, analysts suspect that investments could be moving into highly risky areas such as cement, steel or construction, all beaten-down sectors where the prospects might have improved in the recent past.

There is a deeper worry as these are not the standard sector rotations, whereas pharma and FMCG are not considered cyclical and are backed by long-term investors who want steady returns, including stable dividend pay-outs. If these two industries cease to be cash cows, then what are the options? The issue is compounded by the fact that the big boys in the sector are local subsidiaries of global multinational companies (MNC) and a sustained sell-off in these stocks will have an unpleasant effect on global sentiment vis-à-vis India.

Changing strategies

A more nuanced view is that rural distress will be mitigated significantly due to the current run of the monsoon. However, there is no ignoring the fact that the markets will have to review the historical valuations accorded to the sector due to the presence of a high-growth, low-end competitor. While Nirma is a case study to the effect, a blitzkrieg across multiple segments has never been attempted before.

Watching this re-adjustment will be interesting, to say the least.

PEOPLE MOVEMENT >>

	FROM	WAS	TO	AS
MANISH TIWARY	Unilever Gulf	MD & VP CD - North Africa and Middle East (NAME)	Amazon	Vice President
VISHAL GOLCHHA	Wrigley	National Head - Route to Market Transformation, Modern Trade, Exports & Sales IT	Johnson & Johnson	General Sales Manager- West & South India
MANISH SETH	Bacardi	Marketing Director - India and South East Asia	Allied Blenders & Distillers Pvt. Ltd.	Sales Director
HEMANT RUPANI	Britannia Industries Ltd	VP Sales & Business Head Breads	Mondelez India	Sales Director
AVANI DAVDA	Tata Starbucks	CEO	Godrej Nature's Basket	MD
GIRIRAJ BAGRI	ITC	Chief Operating Officer	Raymond	President & Group CEO -FMCG
VINEY SINGH	Max Hypermarkets	MD	FabIndia	MD
SUBRATA DUTTA	Fabindia Overseas Pvt Ltd	Chief Executive Officer	Samsonite Asia Limited	President - Asia Pacific
SANDEEP JAIN	Perfetti Van Melle	Regional Director Finance - Asia Pacific	HT Media	Chief - Strategy, International Business and Procurement
RAKESH THAKUR	Samsung	Commercial Controller - Organised Trade (Samsung - Mobile Div)	GSK Consumer Healthcare India	CFO, Bangladesh

E-COMMERCE SECTOR
Is This the Right Time to Enter?

Author *Sinosh Panicker*

{ The e-commerce sector saw a mass exodus of senior executives due to various reasons. By keeping the ELWIS set of value drivers in mind, companies and candidates can take the right decision. }

The last 18 months have been a rollercoaster ride for e-commerce firms with respect to hiring talent at the leadership level. It is fascinating to see that the industry has been in news for hiring leadership talent but oscillating from one end of the spectrum to another during this period. At first, the industry was in news for attracting leadership talent from various industries and geographies, (including the Silicon) and recently it has been in the news again for the exodus of leadership talent back to traditional and established sectors. So what apparently went wrong during this period?

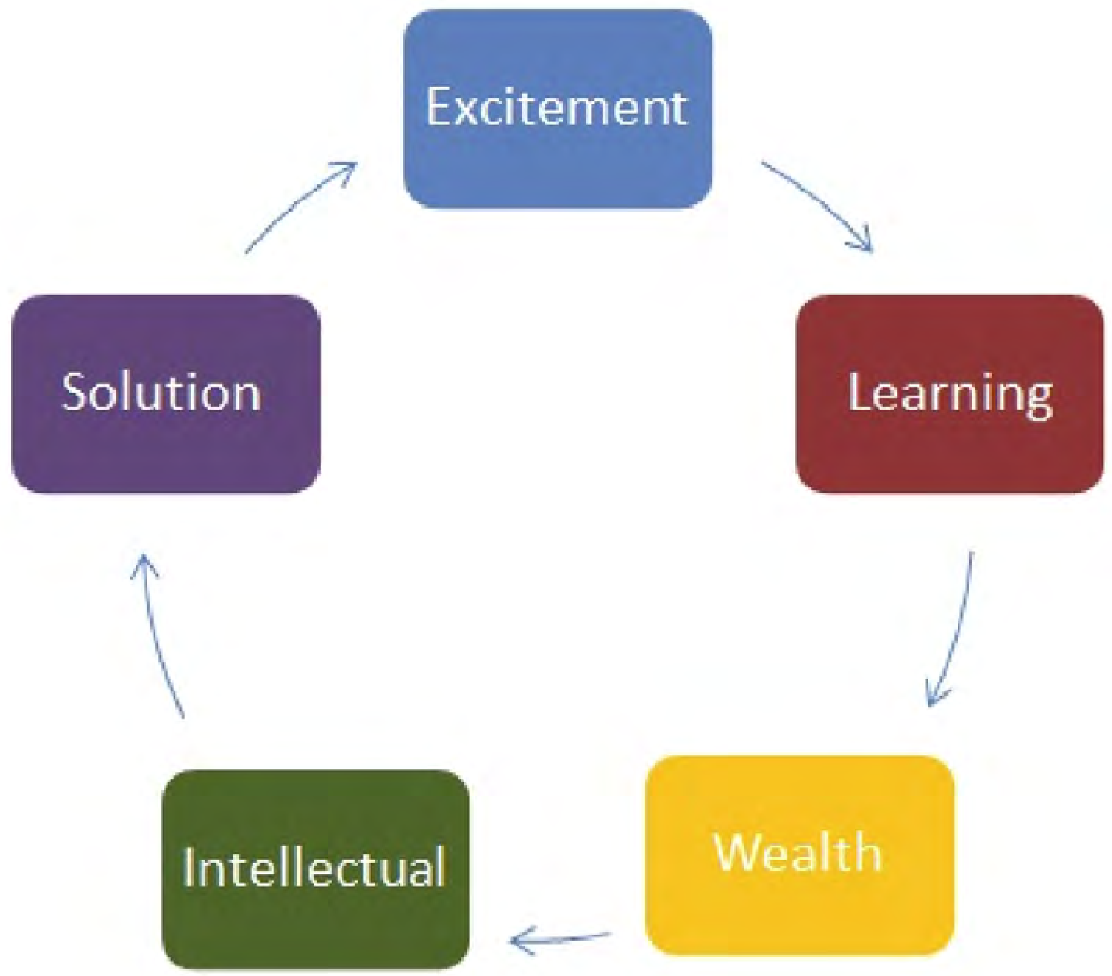
Let us look at some of the plausible reasons for these exits:

- Some people have claimed that the innovation opportunities with e-commerce firms are limited and not really motivating enough.
- Sometimes, companies and executives both have realized that they need a different cultural environment to thrive i.e. a case of being a cultural misfit.
- Some executives have been victims of constant alignment and realignment of organisations, making senior roles redundant.
- Some e-commerce companies hired in frenzy with all the investor cash they received and became top-heavy, exacerbating the problem of cost effectiveness and profitability.

Irrespective of the reasons, when such a fiasco happens, both parties are to be blamed. As a recruiter, we are taught to focus on the drivers of change for the candidate. The same principle applies to companies who hire executives. It appears that both parties probably compromised on these areas. Candidates moved because:

- They found e-commerce more exciting and fast-paced than their respective sectors—**Excitement (E)**
- Digital experience was a learning opportunity and building the market would be a Greenfield opportunity—**Learning (L).**
- There is a genuine problem that can be solved and the market is ripe for the product/ technology—**Solution(S).**
- They were intellectually motivated to work with some of the brightest minds in a high-pressure environment—**Intellectual (I).**
- The most important reason, which very few people emphasised during the process, but is usually the biggest deal breaker—**Wealth Creation Opportunity (W).**

While it is not wrong to make a move on the basis of any of the drivers mentioned previously, the issue was that each of these drivers existed in isola-



tion for various cases. The key to making any move work, especially in a new age industry, is to ensure that all these drivers are addressed affirmatively with sufficient conviction. They represent what I call the "ELWIS-Set of Value Drivers". They can be mutually exclusive, but the key to a successful move to e-commerce is to ensure that the ELWIS drivers are interdependent, not mutually exclusive.

The e-commerce companies also made a mistake by hiring the kind of individuals that they did. Having worked in an environment where they have scaled up and managed large businesses does not guarantee that they will be able to repeat their success. Most of the time, these people were successful because of the environment they operated in. In the VUCA (Volatility, Uncertainty, Complexity and Ambiguity) world, it is not always a fungible talent across industries or even within industries in many cases.

However, the e-commerce sector is still a sunrise industry and the industry for the future. The online consumer is rapidly evolving and experimenting, showing unprecedented eagerness to adopt new approaches. From buying standardised electronics to buying personal care items and from traditional avenues of entertainment to on-demand videos, the story keeps evolving. E-commerce will need serious leadership executives and executives from other sectors will always be tempted to take the plunge.

Round one is over and hopefully both parties will learn from the mistakes made in the past. Companies must hire only when they cannot do without the candidate and not because they have investor money in the bank. Candidates must join because they believe that the "ELWIS drivers" are in place and not because they can't refuse the stock options thrown at them. It is now the right time to take a closer and deeper look at the industry and take a plunge based on the "ELWIS - Set of value drivers"…And when you do that, the chances are that you will get it right!

Round One went to none; may Round Two go to both.

TELECOM SCENARIO
Impact on Players and Talent

Author ***Sinosh Panicker*** *Co-Author* ***Praful Nangia***

{ Industrial transformation, led by the introduction of LTE technology, has contributed to a shift in the kind of talent required by telecom firms. Reliance Jio has shaken up the industry with its radical offerings and is expected to cause a price war between existing players. }

For some time, the telecom industry has been dominated by operators who have managed to establish themselves as the key players in the industry: Airtel, Vodafone and Idea (in that order). One would imagine that after fighting the battle for more than 15 years and establishing themselves with combined revenues of over INR 1,60,000, these players can now run the business as usual and reap the benefits of a matured industry. But, consolidation and a very large new entrant are set to change the dynamics of the competition. The first phase of consolidation is resulting in a merger between Aircel (owned by Maxis) and Reliance Communications (which has already acquired MTS operations). This is expected to place them at a comfortable and strong fourth position after Idea (in terms of revenue). On the other hand, Reliance Jio has already extended its services from (only) employees to consumers in the market with a 4G-enabled handset and that too for free till the end of the year. So, the impending onslaught from Jio is already in play.

Reliance spawns déjà vu

Now isn't that déjà vu? In the beginning of the 21st century, Reliance Infocomm launched its services through a bundled offering on a device with substantially low calling rates. Its competitors had no choice but to match these rates, leading to an inflection point. This led to India becoming the fastest-growing telecom market in the world.

This time, we have the same name, Reliance (but in a different avatar), rocking the boat with its 4G services. Although the long impending launch has given other operators the time to be prepared, their bottom line and market share will come under pressure as lot of the subscribers for Jio will come from the incumbent players. On the other hand, the intense competition will increase options for customers, reduce costs and most likely (read hopefully) improve the quality of networks and services in the long run. And like before, it will also benefit the surviving players because the industry will have grown in general.

Long-term evolution technology transforming the industry

Long Term Evolution (LTE) technology is at the forefront of this industrial transformation and has not only impacted the overall industry, but also how companies structure themselves internally to go-to-market with their data proposition. Also, the kind of people required now is very different from what was needed earlier.

In the short run, the biggest impact on talent will be in the following verticals of a telecom organisation:

Technology:

- Network leaders who understand 4G as a technology and the challenges of planning and launching a service with sub-optimal spectrum levels: The network needs to be scalable at every point of evolution for the next 3 years and thereafter as well. Network leaders also need to be adept at stakeholder management, as they have to deal with the Board in terms of budgets and expansion. At the same time, they must act as a catalyst to bring about a change in the organisation during implementation.

- IT leaders who appreciate that the convergence of network and IT is inevitable: The importance of this phenomenon is emphasised by the convergence of various sectors like m-commerce, m-banking, m-health, m-education and so on.

As companies are adopting the concepts of cloud storage and Big Data, the impact of these technologies will be transformational in the coming days.

Commercial

- Gone are the days when telecom operators grew through subscriber acquisition. With the proliferation of smart phones and the availability of LTE, the ability of organisations to drive consumption has become extremely important. With the dynamic requirement for product management, consumer insights and communication, marketing function has never been so significant for telecom organisations.

- Product Development: Leaders who can anticipate what sort of content will increasingly be consumed on mobile phones will be highly valued. This could be in the form of videos, music, games, utility services etc. but the ease at which they are available and the application platform that allows consumers to use them seamlessly will be critical.

- Analytics: Leaders who can develop systems and processes that will enable churn management and the uptake of consumption will be in demand. Ability to build the ecosystem around the need and adoption of services will be highly appreciated.

Consolidation will also have its impact on the kind of leaders that a firm will need. Leaders who have the ability to be catalysts of change, build consensus and take people along with them will be highly valued in an environment of mergers and acquisitions.

Today, it is anybody's guess as to who will survive the most important phase of transformation of the telecom industry but organizations that will have better leaders in the above functions will have an advantage over others. Interesting years coming ahead!

ARTIFICIAL INTELLIGENCE IN INDIA

Where Start-ups Rule the Roost

Author ***Sameer Karkhanis***

In India, artificial intelligence has been taken up in a big way by start-ups instead of technology giants. The high demand for AI experts is not met by the current supply, thus prompting firms to scour the Silicon Valley for suitable candidates.

The pursuit of artificial intelligence (AI) dates back to the great philosophers who believed that they could mechanise the process of thinking. This gave birth to mechanised calculations, which in turn, led to the development of the first computers. The growth of modern AI started in the 50s, spurred by the discovery of neurons in the brain.

Early developments

In the 1950s, Alan Turing published a landmark paper, wherein he speculated the possibility of a "thinking machine". With computers becoming more available, scientists realized that machines that could also work with symbols—the essence of thought. The first attempts at AI were focused on reasoning and natural language and solutions based on simplified models of the world. The early successes were a robot that could stack blocks and a machine that could construct simple sentences and do basic planning. However, these early developments were not sustainable because computing power and memory were limited, whereas data processing requirements were immense. Scientists had also underestimated the extent of the challenges.

AI received a shot in the arm in the 1980s with the development of expert systems i.e. programs that solve domain-specific problems. The key here was usefulness as the expert systems addressed real-world problems in specific areas. There was also the realisation that AI could be achieved only by massive amounts of data and computation.

AI's evolution during the 1990s has been steady, with some innovations bettering humans in areas requiring considerable reasoning, logic and cognitive abilities. IBM's Deep Blue beat Garry Kasparov in 1997, the first driverless cars underwent successful runs, and IBM's Watson defeated Jeopardy champions. In 2016, Google's AlphaGo defeated a world-class player in Go, a Chinese game considered more difficult to master than chess. The earlier pursuits were largely academic, whereas later the focus shifted to commercial gain.

Widespread applications in various sectors

AI has had ripple effects, mainly on computer science and information analytics. It has applications in areas like data mining, industrial robotics, logistics, speech recognition, banking software, and Google search. Today, AI is present in many interactions that we consider an essential part of our daily lives. It powers Siri, Cortana and Google Now—the key voice-based interaction agents for our smart phones. It is present in the cloud services, healthcare, robotics, and marketing and communication insights. AI-based apps power many of our smartphone apps for document organisation and management, schedule coordination, and natural language processing.

In finance, AI is used for fraud detection, operations optimisation and trading. In healthcare, it is used for image interpretation and medical diagnosis. In the communications industry, it appears as online chatbots and online assistants. In aviation, AI technologies are used to train air traffic controllers (ATC), in speech recognition and in aircraft design. It is employed in optical character recognition, handwriting recognition, speech and face recognition, virtual reality and image processing. It also finds application in fields like automated reasoning, data mining, robotics, hybrid intelligent systems and intelligent agents.

Artificial intelligence in India

Although India is in a position to directly implement AI-based systems that will drive our economy, it has not been adopted on a large scale. The technology can also have a huge impact on traditional sectors such as auto manufacturing, healthcare and banking. Some Indian tech majors have embraced AI, like TCS (Ignio), Infosys (AiKiDo and Mana), and Wipro (Vicarious, an AI-based company in California). However, it is the start-up ecosystem that is taking up AI in a large way.

AI startups in India

There are a few Indian AI start-ups—Niki.ai, Arya.ai, Snapshot and vPhrase—that have been making their mark globally. Niki.ai runs AI-powered chatbots that simplifies the online ordering experience. It is the first AI-powered smart purchasing assistant in the world and has received an investment from Ratan Tata's fund. On the other hand, Arya.ai has been chosen as one of the 21 companies globally that work on standout innovation. Arya.ai provides AI tools that developers can use to make their own robots. vPhrase analytics helps companies communicate insights from their data in their own personalised way. With the interest in AI only set to increase, India is bound to have more start-ups in the space doing breakthrough work.

Dearth of talent in AI in India

In terms of talent, AI is similar to the semi-conductor industry of the 1950s. A lot of work has been done in universities for many years, even as commercial companies ignored AI. However, with the emergence of faster computing, all-pervasive mobile phones, increasing human-computer interactions and an emphasis on automation, companies are seeking AI expertise from the academia. Indian talent in AI is witnessing a strange scenario: the few people in the sector are experiencing very high demand, almost giving them unicorn status, but supply remains limited. The problem is an inability to find the correct mix of technical skills and cultural fit. Companies are looking to the West to find people who have the requisite expertise. Not surprisingly, it is Google, Microsoft and other Silicon Valley behemoths that are the prime hunting grounds for talent. The brain drain syndrome appears to be happening again, but in reverse.

In a world characterised by automation and insight-driven decisions, artificial intelligence and its offshoots—deep learning and machine learning—are here to stay in a ubiquitous, transparent and seamless manner. With driverless cars and machine bots fulfilling shopping orders becoming more common, we can expect the demand for AI talent to increase.

GLOBAL DEVELOPMENTS IN AI	
FACEBOOK	- Using facial recognition since 2005
	- Mark Zuckerberg opened AI labs within the company
	- Working on technology to allow the blind to see
	- Invested in Vicarious, a start-up focused on AI
GOOGLE	- Acquired DeepMind, an AI specialist company
	- Betting on simple image processing tasks through AI, which can then later be scaled to higher order tasks
IBM	- Has developed Watson, which was the first computer to beat humans at Jeopardy
	- Applying these learning to commercial business
	- Also setting up a Cognitive Solutions and Services group with a $1 billion investment
MICROSOFT	- Working on Project Oxford, with face recognition and speech AI
	- Microsoft Ventures backing AI start-ups.
OPENAI	- A start-up backed by Elon Musk and Sam Altman, this initiative is a non-profit organization that aims to develop AI that benefits humans rather than harming them
APPLE	- Acquired Emotient, an AI start-up in the facial recognition area
	- Aims to leverage this for the next level of interactive systems
	- Earlier acquisition, Vocal IQ, led to development of Siri—a breakthrough way of interacting with personal devices

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