



SWEDISH CHAMBER
OF COMMERCE INDIA



EMBASSY OF SWEDEN

New Delhi

Business Climate Survey 2013 - Swedish Companies in India

Swedish Companies' Views of in the Indian Business Market

BCS 13

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Preface

It is my pleasure to launch the Business Climate Survey 2013 together with the Swedish Chamber of Commerce India. India and Sweden have prosperous and long standing relations. Swedish companies have invested in India for over a century and in recent years investments have been growing in both directions.

Sweden is well known for its cutting edge innovations, companies and a sustainable development trajectory. Both Swedish companies and institutions are well placed to contribute to India's economic growth and social development.

I note with interest that this year's Business Climate Survey report shows that despite the economic downturn in Europe and in India, Swedish companies plan to expand operations and invest further in India next year. It is encouraging that a majority of them are envisaging recruiting more staff. Job creation is critical for India.

That said, while being positive about business opportunities, it is noteworthy that Swedish companies still express concern regarding the investment climate. According to the survey, they find that the complexity of and uncertainties around applications and interpretation of laws and regulations, including tariffs and taxation, are the main obstacles to growth of their company in India.

Sweden is a country that has gained immensely from opening up of its economy, liberalising markets and cutting red tape. This has contributed to promote economic growth and social inclusion in our country.

H E Mr. Harald Sandberg
Ambassador of Sweden to India

It gives me great pleasure to release the 2013 Business Climate Survey report published by the Swedish Chamber of Commerce India together with the Embassy of Sweden.

The past few years have seen the emergence of several speed breakers in the Indian economy's growth trajectory. This report focuses on the sentiment of Swedish companies in India on the business climate and their outlook for the future.

I hope you will find this report useful as you formulate your business plans or engage in dialogue with key policymakers. On behalf of SCCI, I would like to extend a big thanks to all of you who took the time to participate in the survey.

Mr Kandarp Singh
Chairman, Swedish Chamber of Commerce India

About the survey

The Business Climate Survey (BCS) is conducted by the Swedish Chamber of Commerce India together with the Embassy of Sweden in 2013 for the sixth year in a row and is designed to gain insights into specific topics, opportunities, and challenges that are most significant to Swedish companies doing business in India. The BCS intends to monitor the business confidence of Swedish companies in India and to gather their joint experiences and knowledge about the market to facilitate future establishments and increase investment and trade.

Consisting of 33 questions, the survey asked for feedback covering the following themes: business climate, economic performance, human resources, competition, CSR, bureaucracy /regulations, and obstacles to trade and investment.

The survey was posted online to 157 Swedish companies established in India from August to September, 2013. SCCI and the Embassy of Sweden would like to thank all respondents who took their time to answer the survey.

Acknowledgment

SCCI and the Embassy of Sweden wish to thank Nepa for being the BCS research partner for the second year running.



www.nepa.in

Survey profile

The survey for 2013 received responses from 69 companies. The response rate for this year's study was 44%, compared to 37% in 2012.

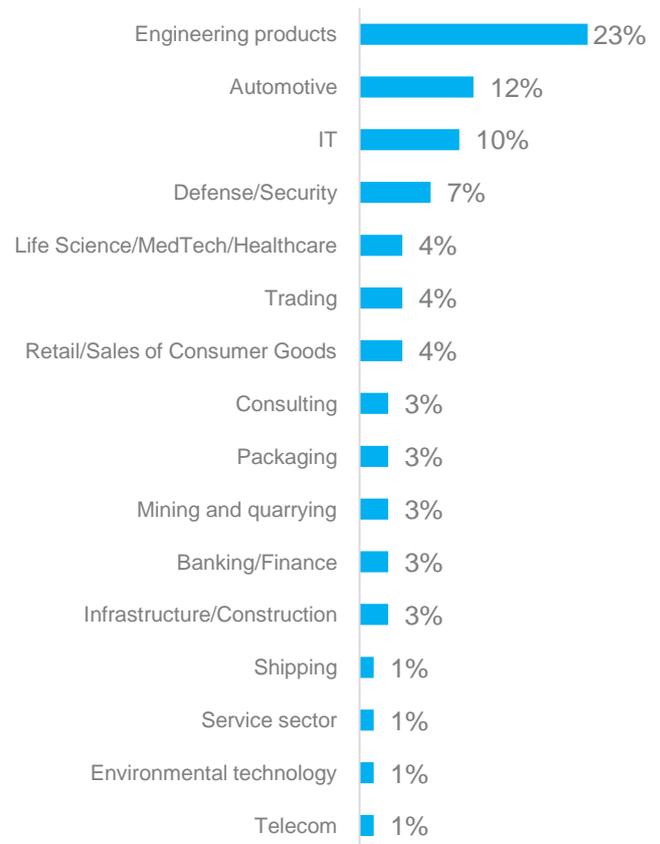
About one quarter of the responding companies are operating in the Engineering sector, 12% within Automotive, 10% in IT, and 7% in Defence/Security. Other sectors that are represented are Retail/Sales of Consumer Goods, Trading, Life Science, Infrastructure, Banking, Mining, Telecom, and Consulting according to figure 1,1 to the right.

About 42 % of the companies taking part in the survey are operating within one business area in India. The three main business areas are marketing/sales (69%), production (42%) and sourcing (41%).

The stated global turnover of the respondents in Euro is:

58%	>50 M
18%	11 - 50 M
8%	2-10 M
15%	<2 M.

**Figure 1.1
Business sectors**



**Figure 1.2
Business areas**



Executive Summary Business Climate Survey 2013

SWEDISH COMPANIES ARE INVESTING AND EXPANDING, INDICATING STRONG CONFIDENCE DESPITE ECONOMIC DOWNTURN

- The number of Swedish companies present in the Indian market has increased by an estimated 85% since 2007.
- Despite some short-term challenges from the current economic slowdown, Swedish companies have a positive view of future business opportunities.
- 8 out of 10 will increase their operations within the three upcoming years and nearly one out of two companies will increase investments with 10 % or more compared with last year - indicating Swedish companies' long-term dedication and belief in the Indian market.

SWEDISH COMPANIES ARE PLAYING TO THEIR INNOVATIVE STRENGTHS IN ORDER TO COMPETE SUCCESSFULLY

- Swedish companies perceive their competitive advantage to be innovation: Product quality, brand recognition and design are identified as key strengths in the Indian market.

SWEDISH COMPANIES ARE RECRUITING – HR ISSUES OF GREAT IMPORTANCE FOR GROWTH

- A majority of the Swedish companies are planning to increase the number of employees with 5% or more by end of 2014.
- However, finding skilled labor, both white and blue collar, is seen as an increasing challenge.
- The Swedish companies find the Indian labor regulations to be problematic for operations and growth of their company.

THE BUSINESS ENVIRONMENT IN INDIA CONTINUES TO PRESENT CHALLENGES BUT SWEDISH COMPANIES ARE FORECASTING BETTER INVESTMENT CLIMATE

- Swedish companies are still rating complexity and uncertainty in taxation and regulations, bureaucracy, and corruption as top challenges for their business growth and investments in India.
- Nonetheless, compared with last year's study, a significantly increasing number of Swedish companies are forecasting a more favourable future investment climate in India in the upcoming years.

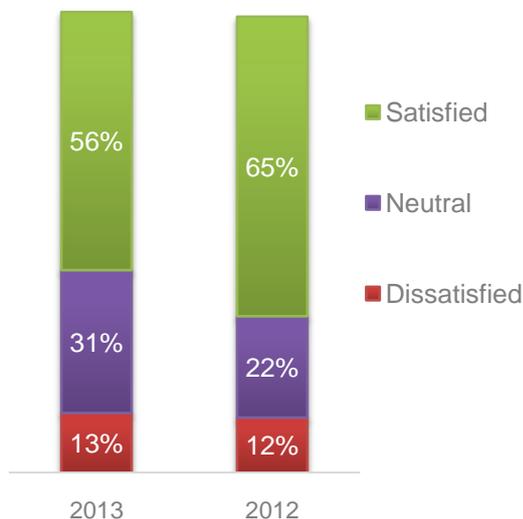
BUSINESS CLIMATE – Confidence in and a continuous commitment to the Indian market and its growth potential

In the wake of the financial crisis, the 2012 BCS captured a decrease in general business satisfaction and business climate perception amongst Swedish companies in India. This year's study indicates an ongoing negative trend.

While the vast majority of responding companies express their business satisfaction as high or neutral – only 13% state that they are dissatisfied doing business in India – satisfaction has decreased somewhat compared to 2012.

The BCS 2013 shows that the business climate has hardened over the last years for the Swedish companies participating in the survey. 40% state that they see the current business climate as not favourable (see figure 2.2). On a scale from 1 to

Figure 2.1
Business satisfaction
2013 vs 2012



10, the average rating of the business climate over a four year period has decreased by 34% from 7.6 in 2010 to current 5.0 (see figure 2.3).

Figure 2.2
Perceived business
climate 2013 vs 2012

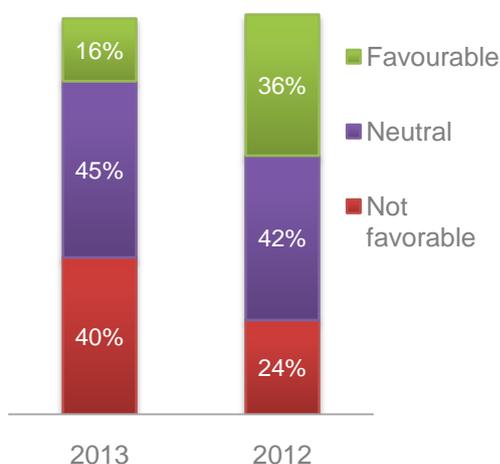


Figure 2.3
Average rate of business
climate perception 2010 -
2013 (scale 1-10)

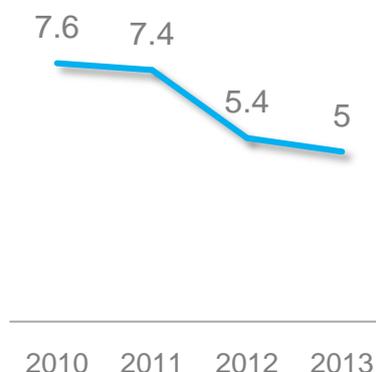
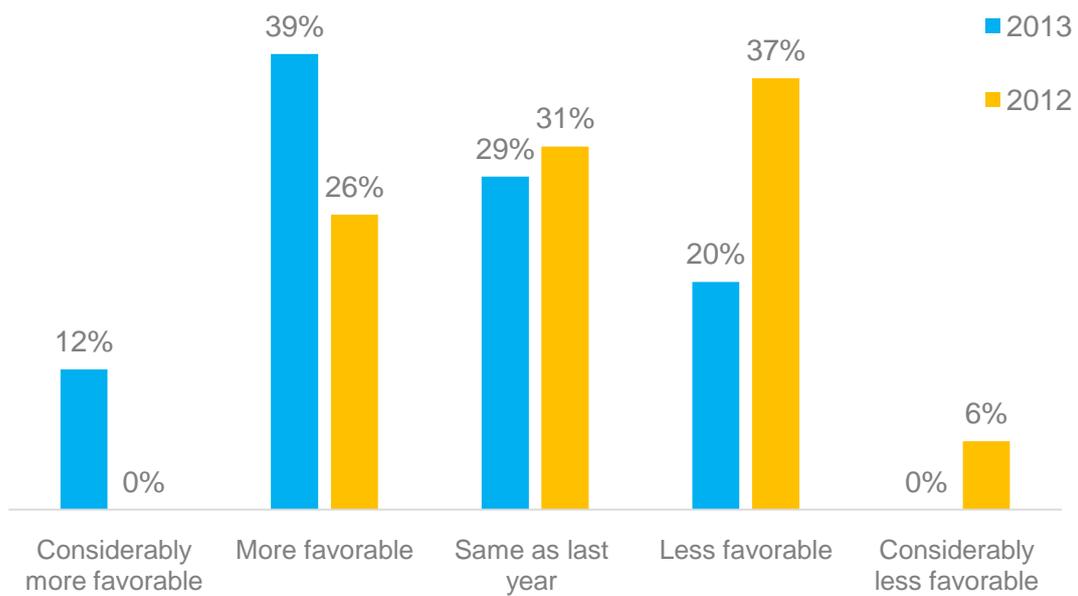


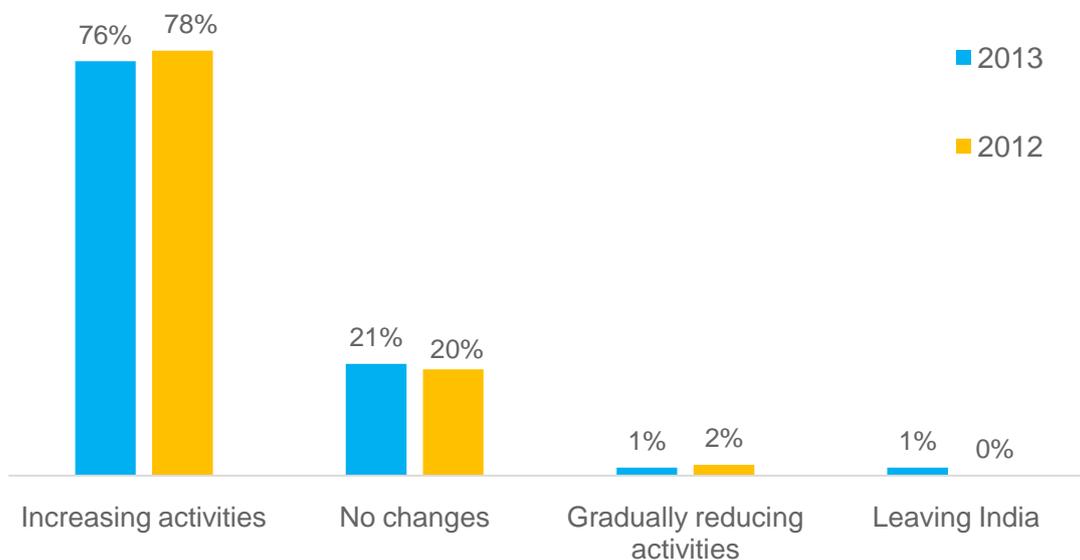
Figure 2.4
Investment climate forecast over a three year horizon



Despite a negative trend in the two parameters, *business satisfaction* and *perceived business climate*, 76% of the responding companies are planning to increase their operational activities in India over the coming years (see figure 2.5). Moreover, companies are more optimistic about the Indian

investment climate – compared to last year’s study more companies (51% compared to 25%) are forecasting a more favourable investment climate in the coming three years. Only 2% of responding companies state that they will reduce activities or leave India by 2016.

Figure 2.5
Operational plan forecast on a three year horizon



When asked what general key factors external from the company contribute to business opportunities in the Indian market in a short term perspective, the responding companies firstly mention macro-economic factors, such as stabilisation and strength of the Indian rupee, price levels, GDP growth, and the growing middle class. Secondly, government measures such as introduction of FDI, investments in infrastructure, import substitution and

consistency in local tax laws are seen as positive key factors contributing to business opportunities. Clearer tax structures, legislation and lower taxes are also mentioned as contributors to business opportunities. Finally, a growing demand for quality products and cost competitiveness add business opportunities for Swedish companies in the Indian market where cited by the responding companies.

ECONOMIC PERFORMANCE–Revenue growth and optimistic

investment forecasts

Even if the perceived business climate has become tougher in India, the BCS 2013 shows that responding Swedish companies remain optimistic about future revenues. A majority of the companies are making profits even though operational costs are increasing.

68% of the responding companies state that the Indian market development and the size of the market are the main drivers for their company's operations in the country.

As figure 3.1 shows, one third of the responding companies report that they have a market share less than 5% while another third estimate their share to be 60% or higher. A majority of responding companies are stating that their market share has increased (43%) or not changed (50%) during the past year (see figure 3.2). Moreover, 35% of the responding companies state that their market has increased in value (see figure 3.3).

Figure 3.1
Estimated current market share for Swedish companies in India

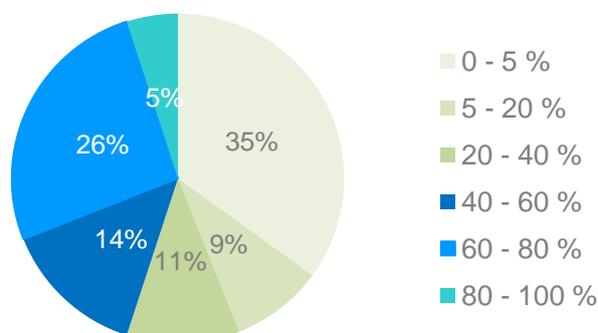


Figure 3.2
Change in market share

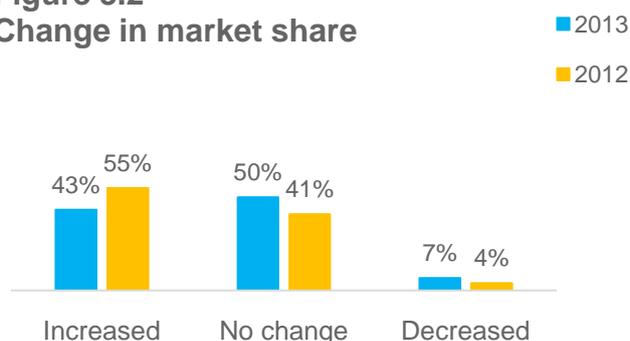
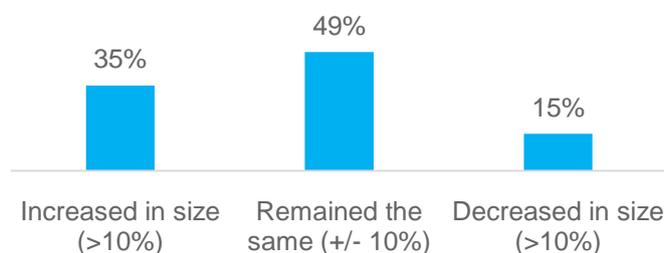


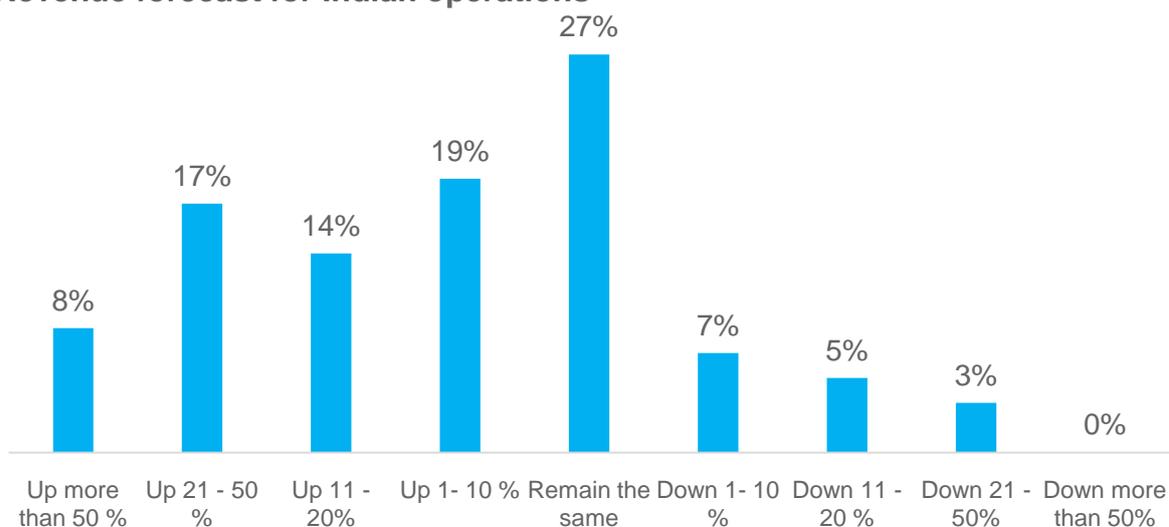
Figure 3.3
Growth in total market value



BCS 2013 shows that 58% out of the responding companies forecast a positive development of revenues of their Indian operations' for FY 2013 compared to FY 2012 (see figure 3.4). Only 15% forecast a decrease in

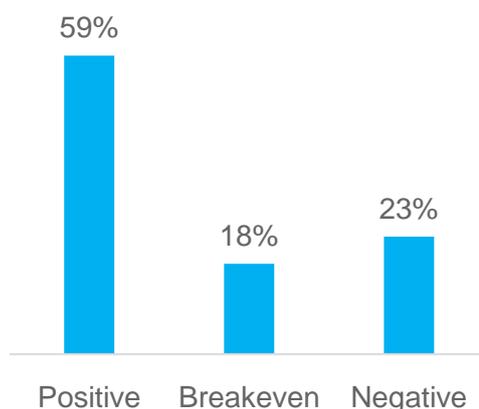
revenues. The trend remains positive, though to a lesser extent than in BCS 2012 when 70% of respondents forecasted a positive development of revenues.

Figure 3.4
Revenue forecast for Indian operations



In addition, as indicated in figure 3.5, almost two thirds of companies expect a positive result for FY 13/14.

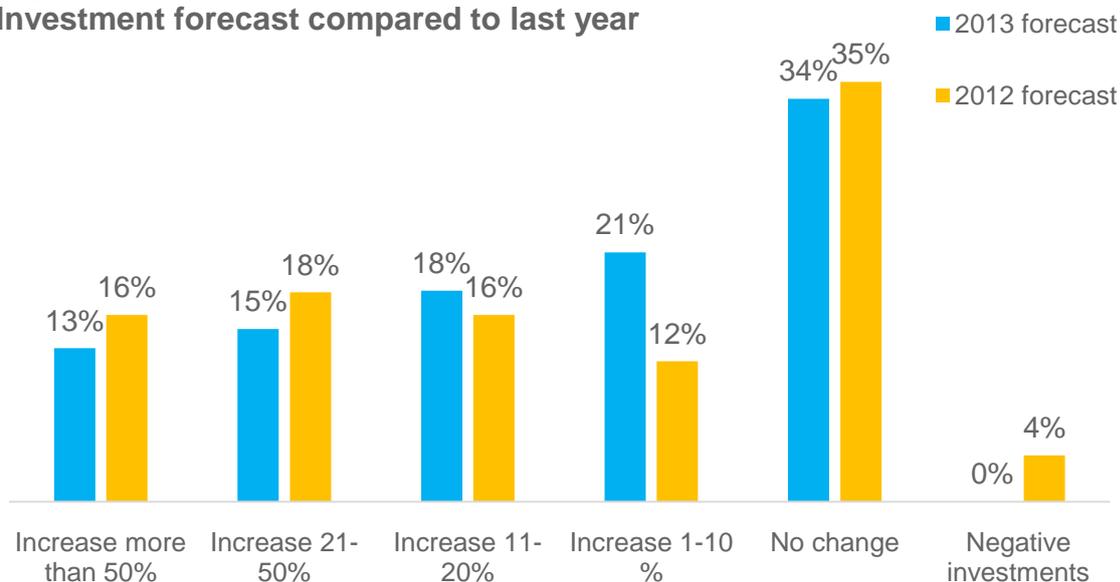
Figure 3.5
Expected profits of Indian operations for FY 2013/2014



Nearly one out of two responding companies report that they will increase investments with 10 % or more compared to last year, which confirms the positive trend from the

2012 study. 34% report no change in their investments compared to 2012. 28% of responding companies are increasing their investments in India with 21% or more.

Figure 3.6
Investment forecast compared to last year



The BCS 2013 indicates that the perceived competitive cost advantage of India is a bit polarized. 22% of the responding companies are stating that their cost advantage has changed positively compared to 2012 while 31% are stating has weakened. Nearly one

out of two companies reports that the cost advantage is still the same as last year (see figure 3.7).

The BCS 2013 results further show that 8 out of 10 companies are expecting their operational costs to increase during 2013 compared with 2012 (see figure 3.8).

Figure 3.7
Competitive cost advantage compared to 2012

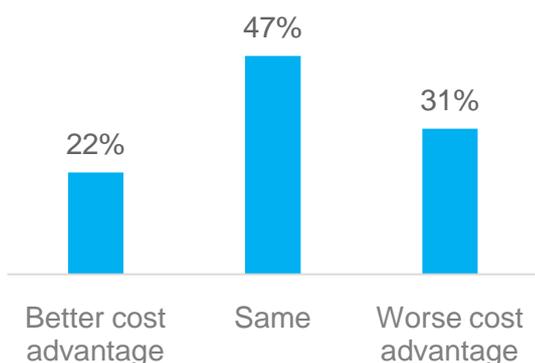
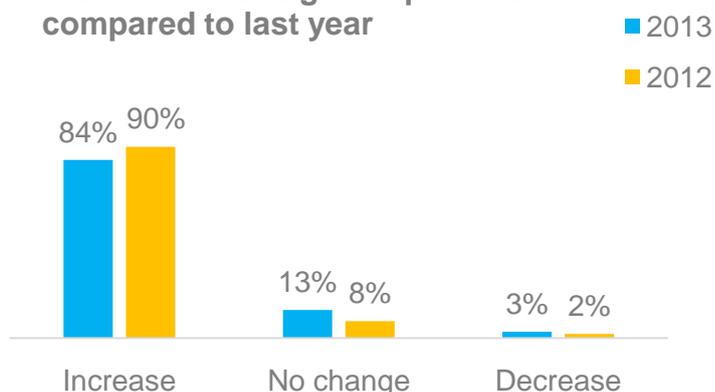


Figure 3.8
Forecast of change of operational costs compared to last year



HUMAN RESOURCES – Surveyed companies are recruiting and looking for qualified employees

The BCS 2013 indicates that planned increased activities of Swedish companies, as shown in figure 2.5, are mirrored in planned increases of workforce. 7 out of 10 responding companies have between 1-100 employees in India. 21% of the responding companies have a workforce of 101-1000 employees while 10% have 1000 or more employees (see figure 4.1)

The majority of surveyed companies (59%) are going to increase their workforce by 20% or more from 2013 to 2014. Only 8 % are planning to decrease their number of employees (see figure 4.2).

These plans for substantial recruitment underline the key importance of human resource issues for concerned Swedish companies.

Figure 4.1
Number of employees in India 2013

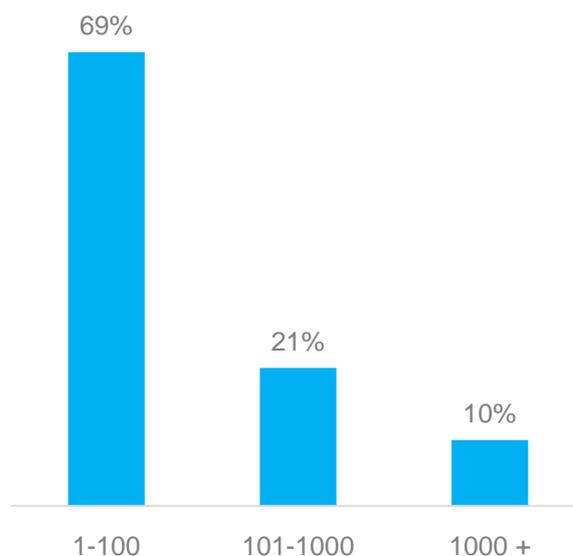
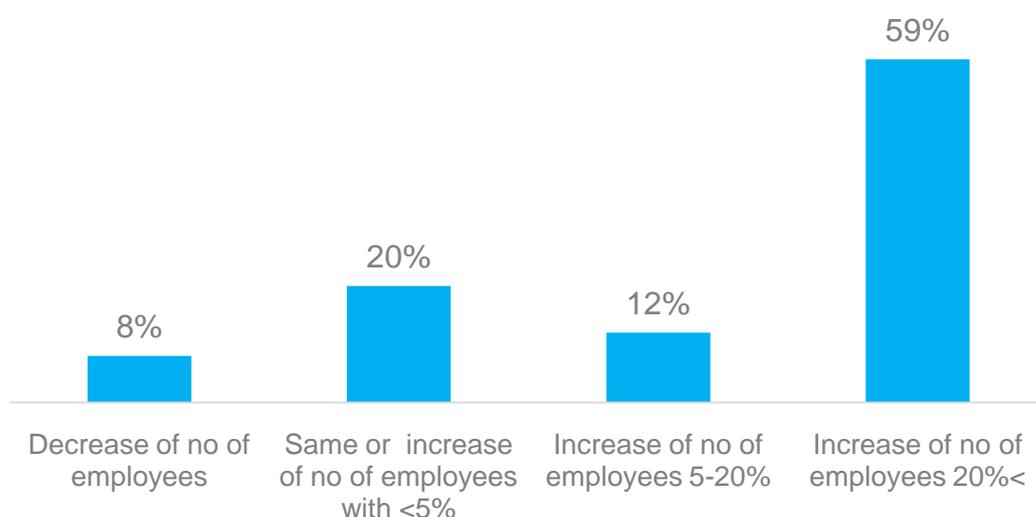


Figure 4.2
Estimated change in local workforce 2013-2014



Responding companies experience difficulties finding the right skills and the impact of rising wages for both blue and white collar is considered a challenge.

The quality of the white collar workforce is rated high by responding companies –65% rated the overall quality to be good or very good (see figure 4.3). This year’s study shows that the increase of salaries remains the main challenge among the white collar workforce, (although the numbers have

decreased from 79% in 2012 to 65% in 2013). Nearly one third of the companies state that rising labour costs within the white collar workforce are affecting their Indian business operations to a large extent.

One noticeable difference between the last two years’ surveys is that almost twice as many responding companies report ethical and cultural differences to be a challenge that they are facing among the white collar workforce (19% compared with 2012’s 8%).

Figure 4.3
White collar workforce challenges

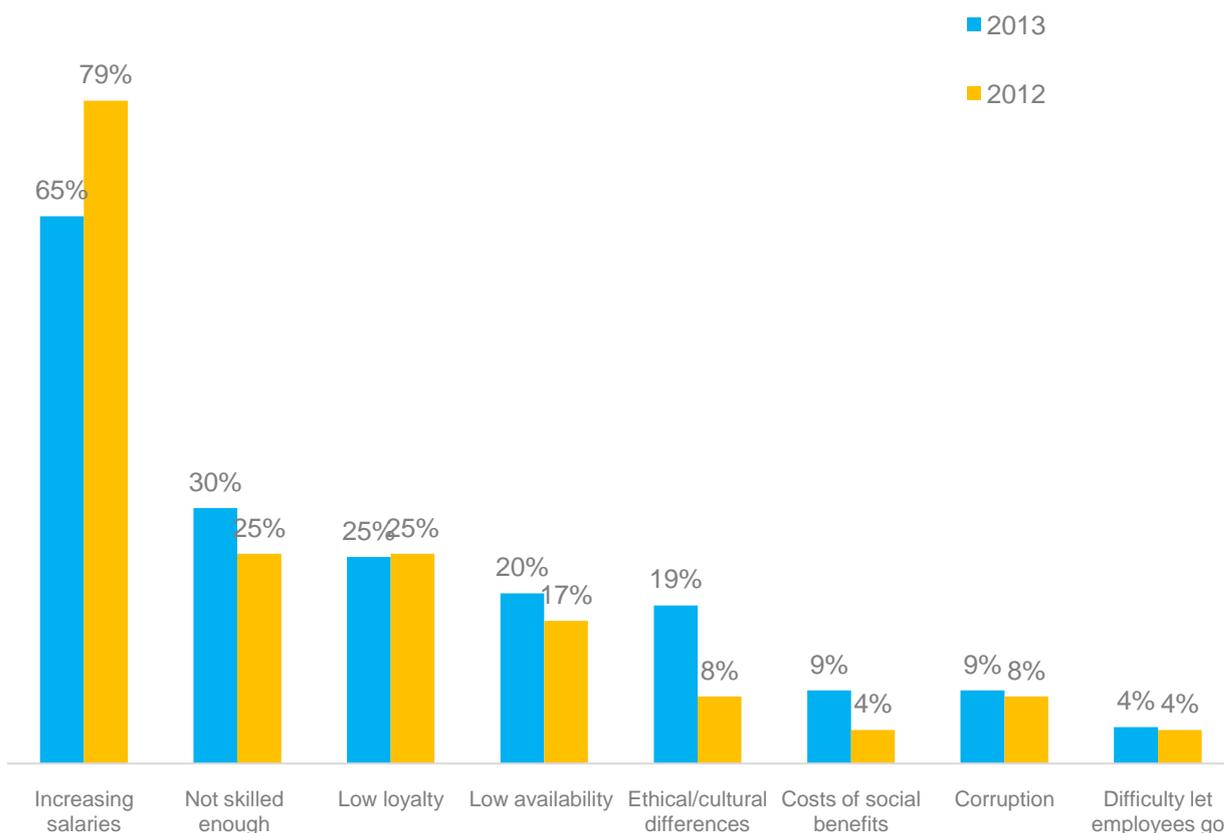
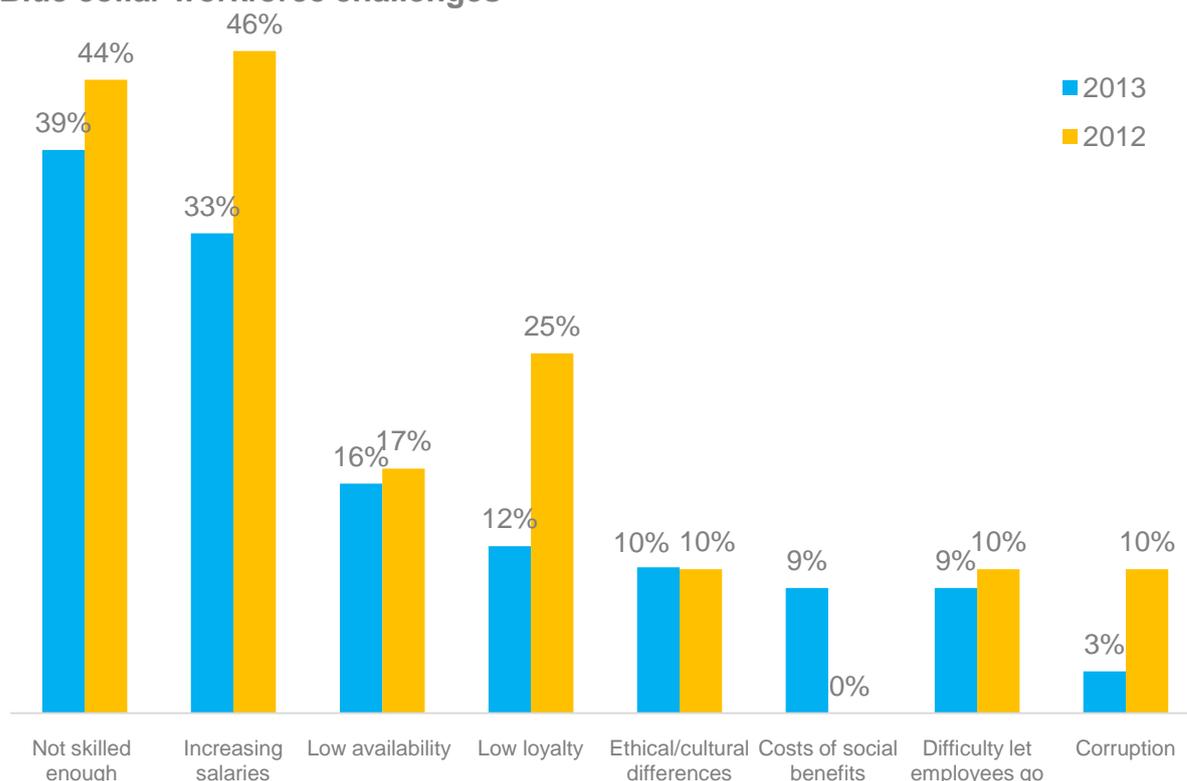


Figure 4.4
Blue collar workforce challenges

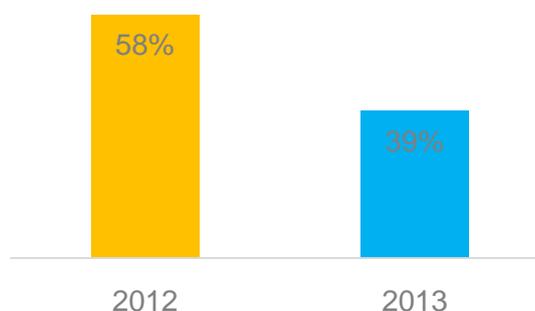


As figure 4.4 shows, 42% of respondents rate the quality of blue collar workforce in India to be good or very good. The main challenges among the blue collar workforce are

that they are perceived to be not skilled enough (39%), rising salary pressure (33%) and low availability (16%).

A year-on-year comparison shows that the number of Swedish companies rating the availability of workforce in India to be good has decreased from 58% to 39% (see figure 4.5). Moreover, 12% of the responding companies state that labour shortage is the greatest risk for their business in India.

Figure 4.5
Companies rating availability of workforce good or very good



The BCS 2013 indicates that the level of education is still perceived to be relatively high, particularly concerning the English language and post-graduate education.

However, general education has faced a significant negative trend in rating compared to earlier years (see figure 4.6.1 - 4.6.3).

Responding companies rating quality of education aspects good or very good:

Figure 4.6.1
Level of English language

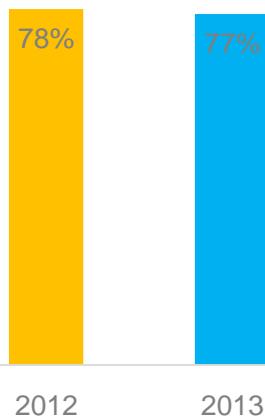


Figure 4.6.2
Education (general)

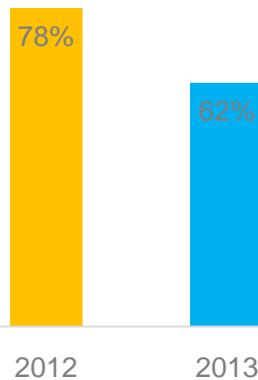
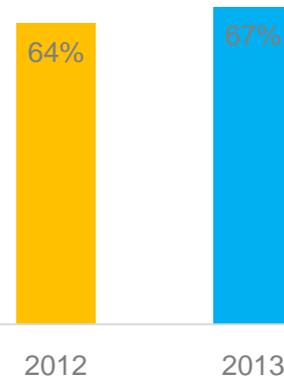


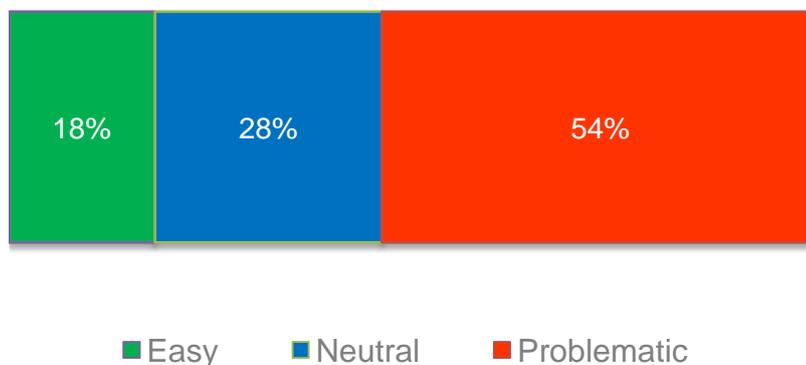
Figure 4.6.3
Post-graduate education



Indian labour regulations are seen as an obstacle for their company's operations and

growth by 54% of responding companies, as shown in figure 4.7.

Figure 4.7
Companies' perception on how easy or problematic Indian labor regulations are to their operations and growth of company



INFRASTRUCTURE – Further investments are required

The Swedish business community in India repeatedly cites poor infrastructure as a major hindrance in doing business in India.

The BCS 2013 shows that the Swedish business community's

ratings of infrastructure and transportations of goods are similar to last year's study. 60% still rate the infrastructure as poor or very poor (see figure 5.1) and 42% rate the transportation of goods as poor or very poor, see figure 5.2.

Figure 5.1
Rating of infrastructure

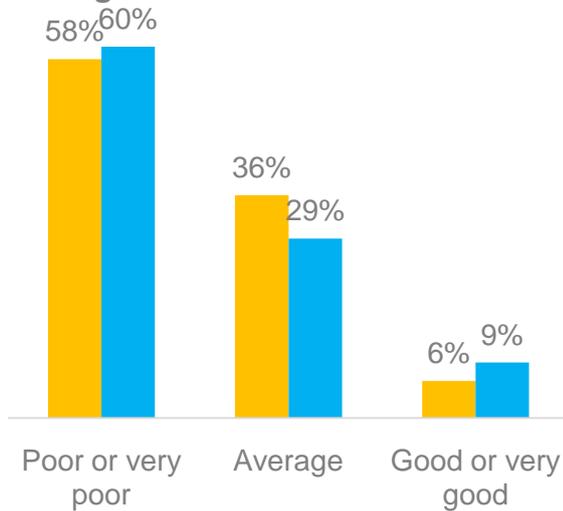
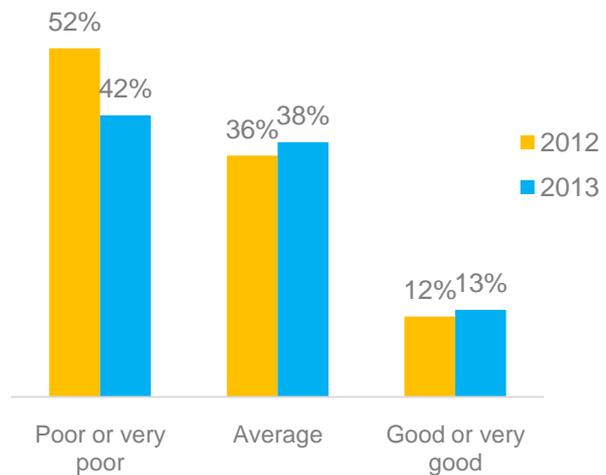


Figure 5.2
Rating of transportation of goods



COMPETITION - Swedish companies are playing to their innovative strengths in order to compete successfully

To understand the dynamics of competition from domestic and other international companies, Swedish companies were requested to share who they regard as the main competitor on the Indian market. They were also asked to highlight advantages and disadvantages in

comparison with these competitors. Foreign firms producing and sourcing from the Indian market are considered the number one competitor by 25% of companies, closely followed by Indian small and medium-sized companies (see figure 6.1).

Figure 6.1
Number one competitor

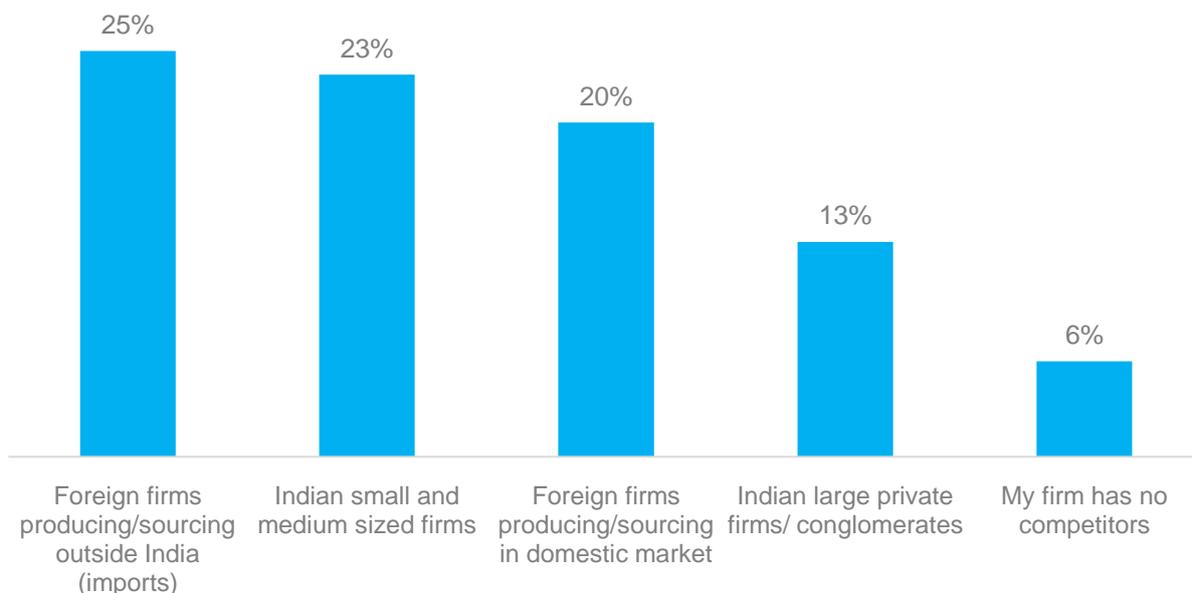
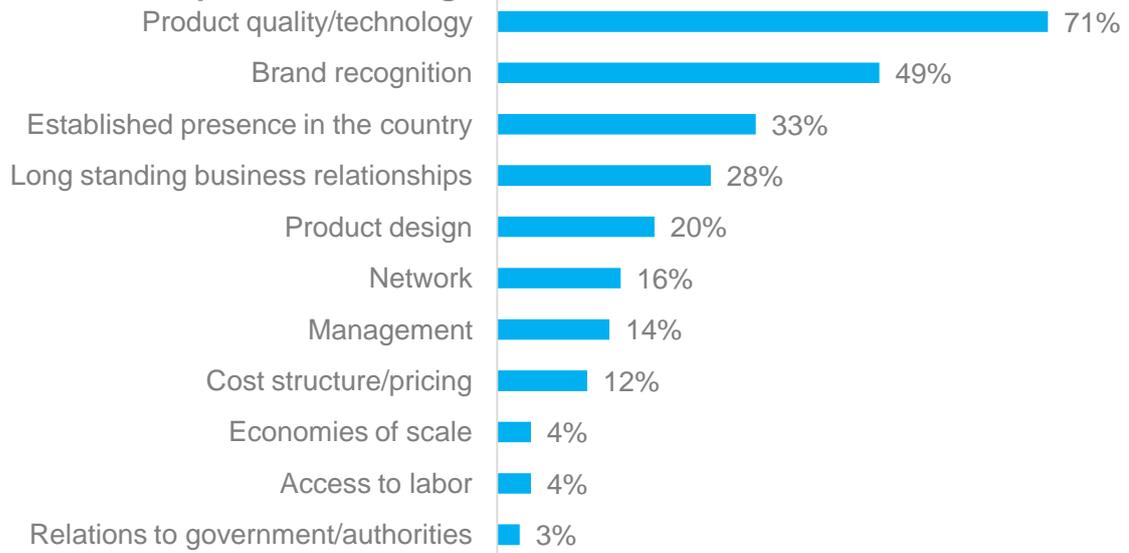


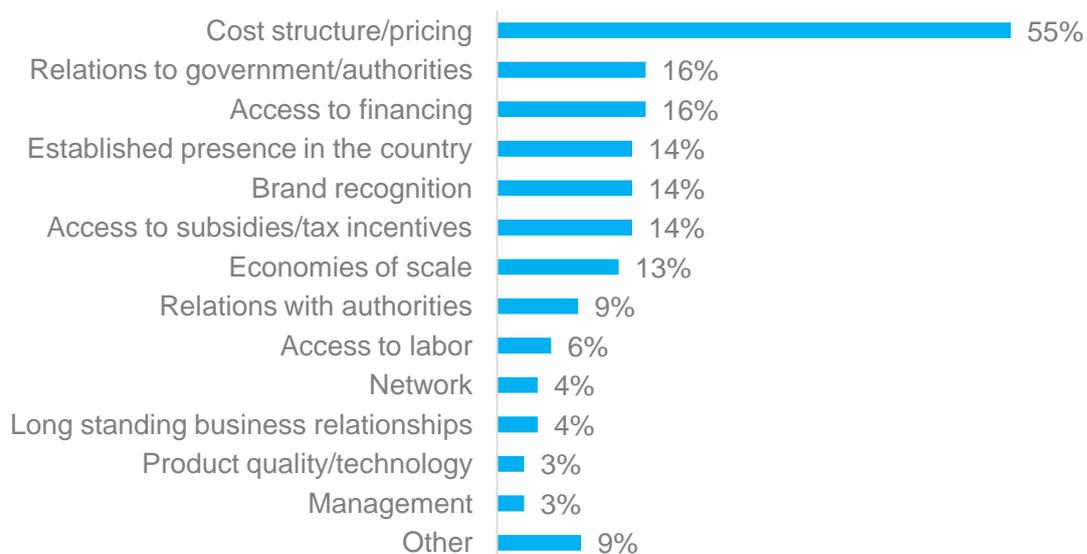
Figure 6.2
Perceived competitive advantages



Product quality, brand recognition, and design are perceived to be Swedish companies' strengths in the Indian market (see figure 6.2). 7 out of 10 surveyed companies are stating product quality and technology to be their companies' prime competitive advantage.

However, only 12% of the respondents report cost structure and pricing as a competitive advantage. When asked about the perceived competitive disadvantages, 55% are ranking this aspect to be the main disadvantage in the Indian market (see figure 6.3).

Figure 6.3
Perceived competitive disadvantages



CSR – An important item on the agenda for the surveyed companies

The new Companies Act was passed in August 2013 in India making it mandatory for profit making companies to spend on activities related to Corporate Social Responsibility (CSR). With the new legislation, implemented from April 1, 2014, India is possibly the first country to have CSR spending through a statutory provision.

This act will make it required for companies to spend two per cent of their average net profit of the previous three years on CSR activities and is applicable for profit-making companies with

1. net worth of Rs.500 crore (530 million SEK) or more
2. a turnover of Rs.1,000 crore (1.1 billion SEK) or more

3. a net profit of Rs.5 crore (5.3 million SEK) or more during the previous three financial years.

The BCS 2013 shows that 64% of responding Swedish companies are already investing in CSR activities in India (see figure 7.1). Education, health and environment programs are the main areas where responding companies are investing (see figure 7.2). The Swedish companies are aiming towards new programs and activities that are closely related to their core business. The event “Inclusive Business Frontier” organized in collaboration with SIDA and UNDP during the Nobel memorial Week 2014 is just one good example of this development.

Figure 7.1
Investing in CSR activities in India

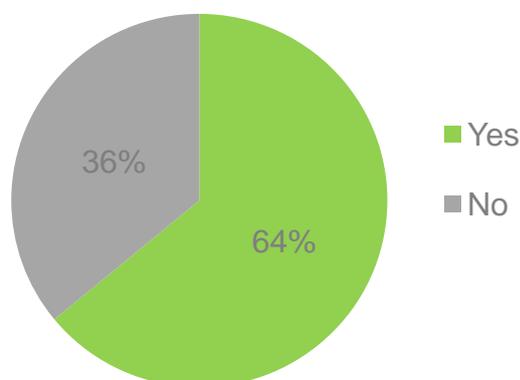
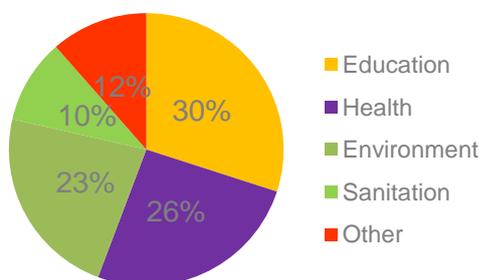


Figure 7.2
CSR areas

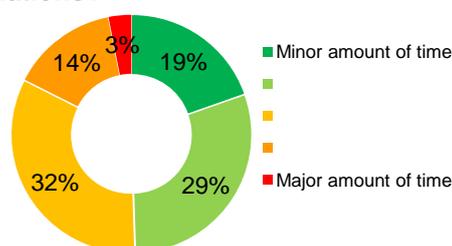


BUREAUCRACY AND REGULATIONS - Challenging the efficiency of doing business

Issues related to bureaucracy and corruptions are continuously pointed out by the respondents in the BCS as the key concerns for their company in the Indian market. Bureaucracy implies delays in the decision making process which is perceived to be vital for efficiency of the responding companies, and corruption is considered affecting the business (see figure 8.1 which presents to what extent certain aspects are perceived as problematic to operation and growth of a company). 72% of responding companies state bureaucracy to be problematic to their operations and growth while 61% state the same for corruption. The BCS 2013 also shows that almost a third of surveyed companies report that increased bureaucracy is the largest risk their business faces in India. Furthermore, as the figure 8.1 indicates,

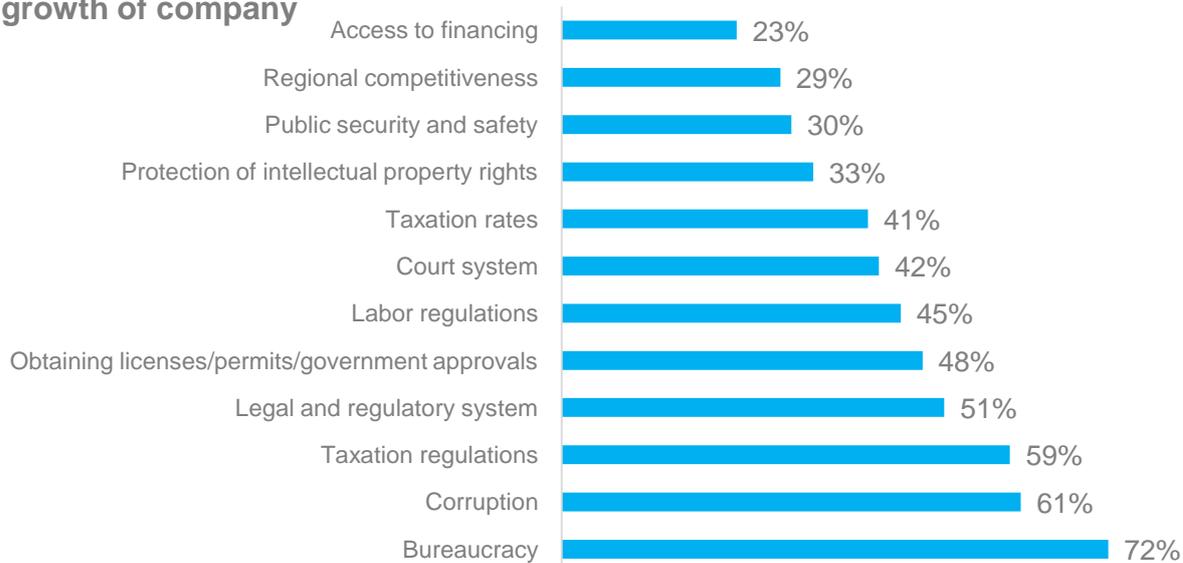
tax regulations and the legal/regulatory framework remain a concern for the responding companies.

Figure 8.2
To what extent is your company's senior management's time spent on dealing with government officials/authorities about the application and interpretation of laws and regulations?



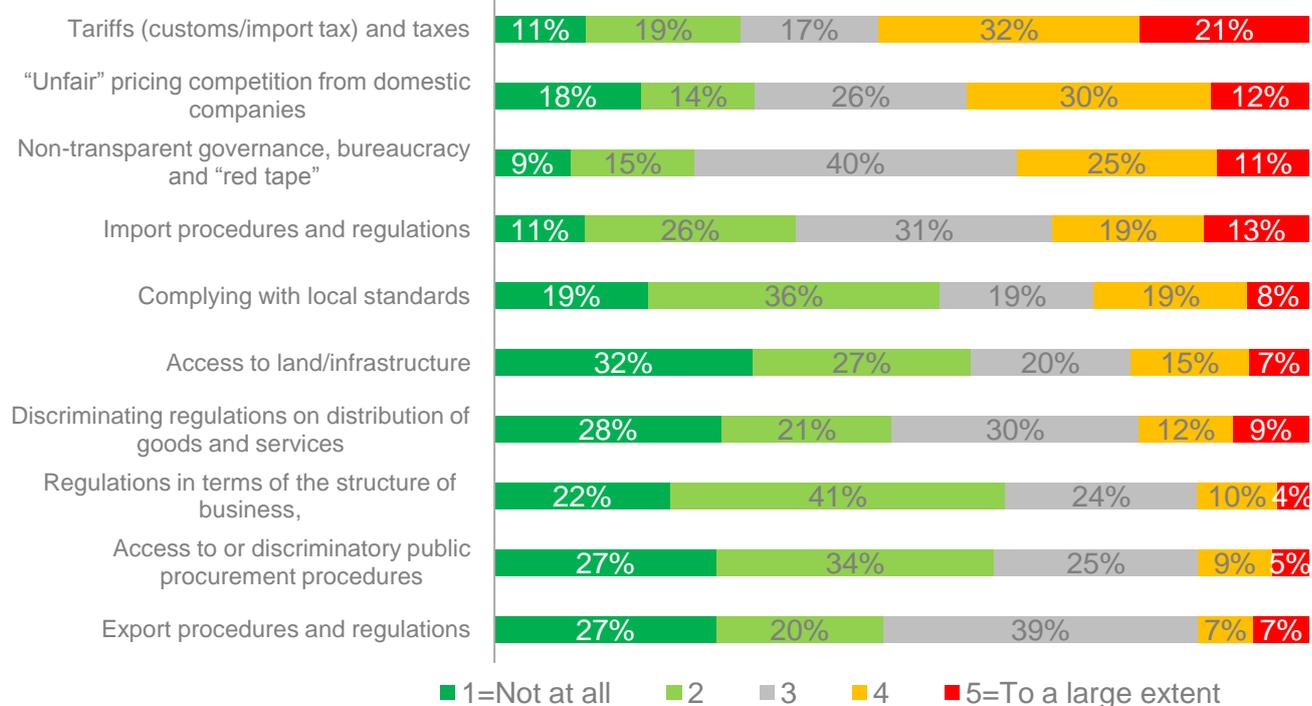
17% of the surveyed firms state that a major amount of their senior management's time is spent on dealing with government authorities regarding application and interpretation of Indians laws and regulations.

Figure 8.1
Companies agreeing these aspect to be problematic to their operation and growth of company



OBSTACLES TO TRADE AND INVESTMENT - Tariffs and non transparency identified as main obstacles

Figure 9.1
Factors affecting company to trade, do business and invest in India in the past year



More than half of responding companies in the BCS 2013 state that Indian tariffs and taxes are affecting their company's ability to trade and to invest to a high extent. Furthermore, 4 out of 10 companies report "unfair" pricing

competition to be a trade and investment obstacle (see figure 9.1). Complex import procedures and regulations affect 32% of the respondents, down from 53% in 2012.

About the Swedish Chamber of Commerce India:

The SCCI is an independent, non profit, organisation with the aim to enable, promote, and encourage Swedish companies to drive sustainable long-term business in India. SCCI provides a business-oriented networking platform to its member companies by promoting Swedish commercial interests in India and encouraging the development of trade, commerce and industry relations between Sweden and India. Also social and cultural relations are encouraged between the two countries.



www.swedishchamber.in