



India business barometer

Digital ecosystems

Introduction

Optimism abounds among India's business leaders about what the future holds for their companies and for the health of the economy. Some bullishness was apparent earlier this year even as India was emerging from the devastating second wave of covid-19, but it is considerably more in evident today with the economy's recovery from the second-wave contraction in full swing. This is more than just exuberance from executives looking to rally their troops: it is feeding through to business investment, where companies appear to be ramping up spending on digital technology and talent acquisition.

This second edition of the India Business Barometer (IBB) is based on a survey of senior executives in the country completed in August 2021.¹ It tracks business sentiment in the country and also how corporate leaders are looking to build their firms' digital capabilities in order to drive transformation and ensure their competitiveness into the future.

Around the world, tapping the know-how and energy of technology entrepreneurs and their start-ups has been integral to such efforts. The same is true in India, but far from all large businesses have been able to benefit from the ecosystems that tech start-ups populate. Many in our survey intend to rectify this in the months and years to come.

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¹ The survey sample consists of 30 respondents, 53% of whom are board chairs, other board members, chief executive officers, and others holding C-level positions.

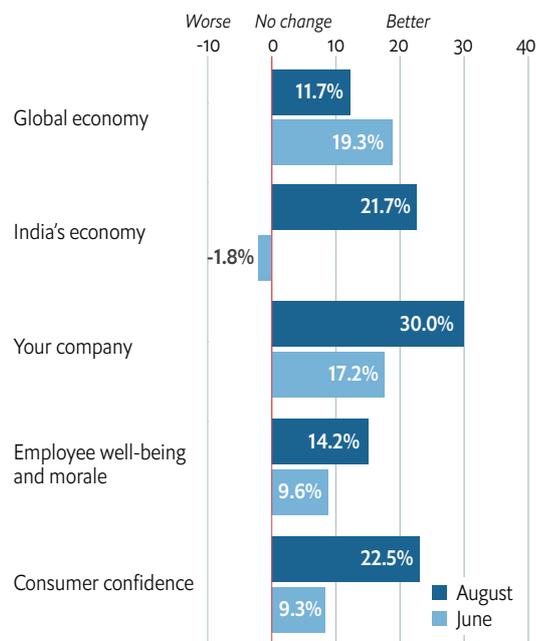
A brightening outlook

A 7% quarter-on-quarter contraction of GDP in April-June 2021 is now almost a distant memory for Indian business leaders. Economic growth for the fiscal year beginning in April is projected to be 10.4%, even *after* incorporating the first quarter (April-June) decline.² Such projections help explain why the majority of our respondents believe better times are ahead according to each of the five indicators tracked by the IBB. In four of the five, executive buoyancy is more pronounced than it was in the previous edition.

The change in sentiment compared with June is most striking in expectations for the domestic economy. That reading was previously in negative territory but is now decidedly positive—21.7 on a scale of -50 to +50 (a change of 23.5 points overall). Not surprisingly, most executives think the economic recovery will benefit their markets and their own business. Consumer confidence

Figure 1: Optimism abounds

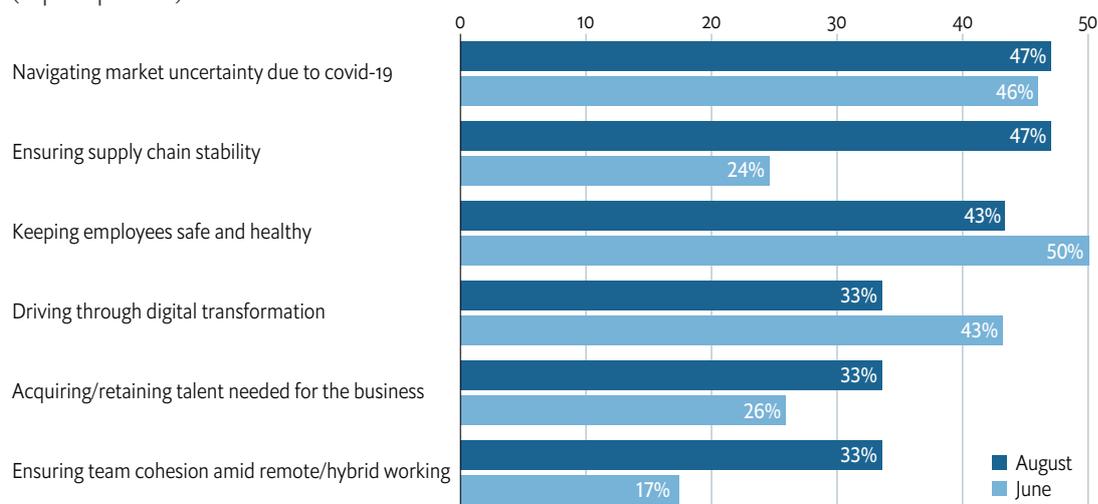
Barometer reading—business expectations for the next three months



Source: Economist Impact

Figure 2: Supply chain challenges to the fore

The most significant challenges faced by respondents' businesses over the next three months (top responses)



Source: Economist Impact

² See <https://country.eiu.com/india>.

is returning, most believe, and a resounding 87% expect their company's performance to improve in the next three months. This translates into a barometer reading of 30.0, compared with 17.2 in the previous edition.

The possible fly in the ointment for survey respondents is a softer-than-expected recovery in the overseas markets they sell their products and services in. Although a majority of respondents expect the global economy to improve in the next three months, that sentiment is weaker than in the earlier IBB edition.

With the recovery in swing and covid-19 infection rates seemingly stable,³ supporting revived business growth is at the top of executives' list of short-term challenges. If in June 24% of survey respondents cited ensuring supply chain stability as a top challenge, 47%

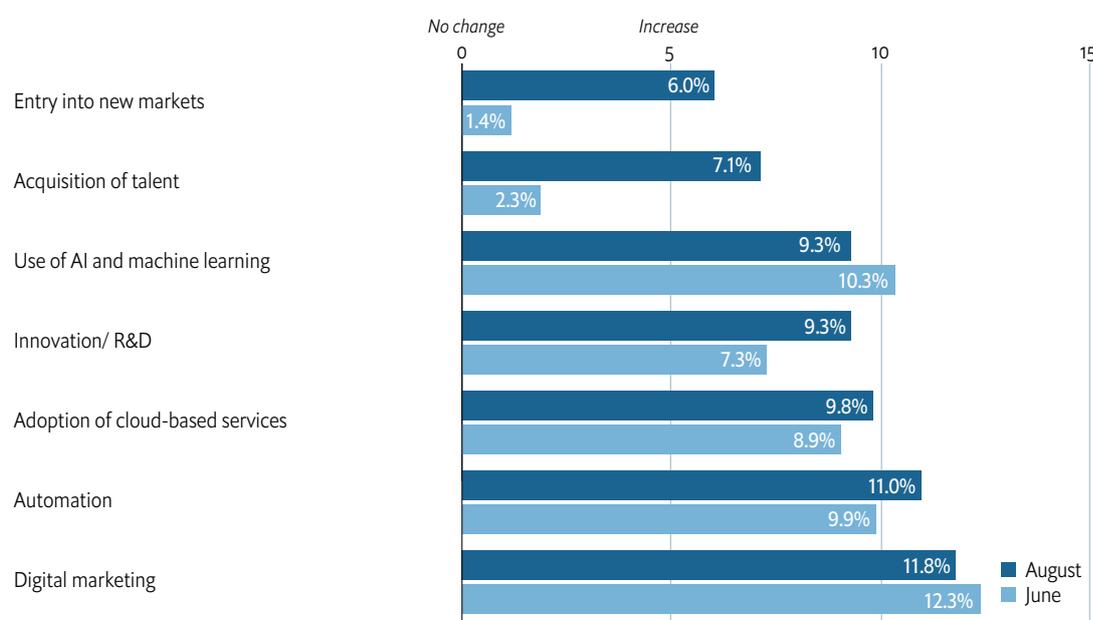
do so now, the same figure that continues to cite navigating market uncertainty. Ensuring the safety of employees has declined slightly as a perceived challenge, although it is on the list of 43% of executives. One-third (33%), meanwhile, are facing challenges acquiring and retaining talent as growth prospects improve, higher than in June.

Investing in digital

Digital transformation remains a major driver of investment for Indian businesses in our survey. Large majorities expect to increase their spending on digital marketing (80% of respondents), on cloud-based services (77%), on automation technologies (70%), and on artificial intelligence and machine learning (AI/ML – 70%). The extent of intended spending increases on digital marketing and AI/ML is slightly lower in the present barometer than

Figure 3: A continued focus on tech

Barometer reading—investment expectations for the next three months



Source: Economist Impact

³ The Delta variant that ravaged India between March and May has receded, but experts are concerned about a potential resurgence. (See <https://www.independent.co.uk/news/covid-live-updates-cases-travel-b1899831.html>). Economist Impact considers the risk of another covid-19 surge to be high and a significant downside risk to its economic growth projections for the year: <https://country.eiu.com/india>.

in June, but the declines are barely noticeable. That these remain investment priorities for Indian businesses is clear in the response to questioning about their businesses' top priorities for technology investment: 53% of respondents put data analytics—so integral to improving digital marketing capabilities—at the top of their lists, and 43% do the same for AI/ML. (In June these figures were 40% and 39% respectively.)

Building ecosystems

Transforming a business through digital means requires more than investing in advanced technologies alone. Processes and behaviours must change on the back of such investments, and new ideas must flow that build on the technology capabilities that have been developed or acquired. Technology start-ups can provide large businesses with the know-how and energy to spark such change. The executives we surveyed recognise this: 86% agree (39% “strongly”) that

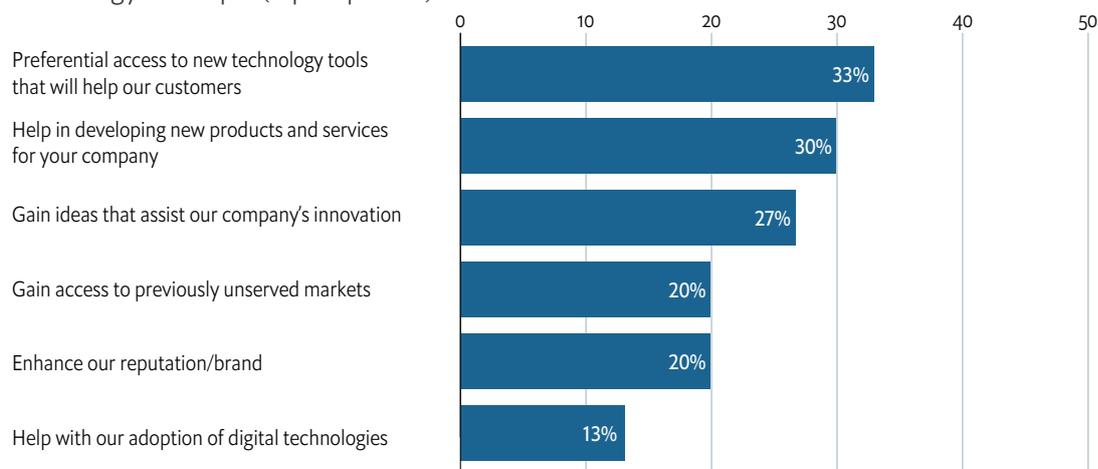
their business needs the new ideas and entrepreneurial drive that start-ups provide.

When asked about the chief benefits that their businesses seek to obtain from tech start-ups, the respondents cite most frequently the access start-ups provide to new technology tools that can help larger firms satisfy their customers. Innovation follows closely behind, in the form of new ideas and help in developing new products and services.

In many respects, India has a thriving tech start-up ecosystem. Bangalore has long featured in the world's top 20 start-up hubs ranked annually by Startup Genome, an entrepreneurship research firm. (The ranking is perennially led by Silicon Valley.) Delhi has risen up those ranks of late, and Startup Genome now deems Mumbai to be the world's foremost “emerging” start-up ecosystem.⁴ These hubs have spawned over 20 unicorns (young, privately-owned businesses valued at over US\$1 billion) in 2021, bringing the country's total to over 100.⁵ Venture capital

Figure 4: How Indian business stand to benefit from tech start-ups

What are the chief benefits that businesses like yours can obtain from actively supporting technology start-ups? (top responses)



Source: Economist Impact

⁴ See <https://startupgenome.com/report/gser2020>.

⁵ See <https://www.bloomberg.com/news/articles/2021-07-17/flush-with-unicorns-india-s-tech-moment-arrives>.

(VC) experts consider India to be among the world's hottest start-up ecosystems in 2021 in terms of deals and fundraising.⁶

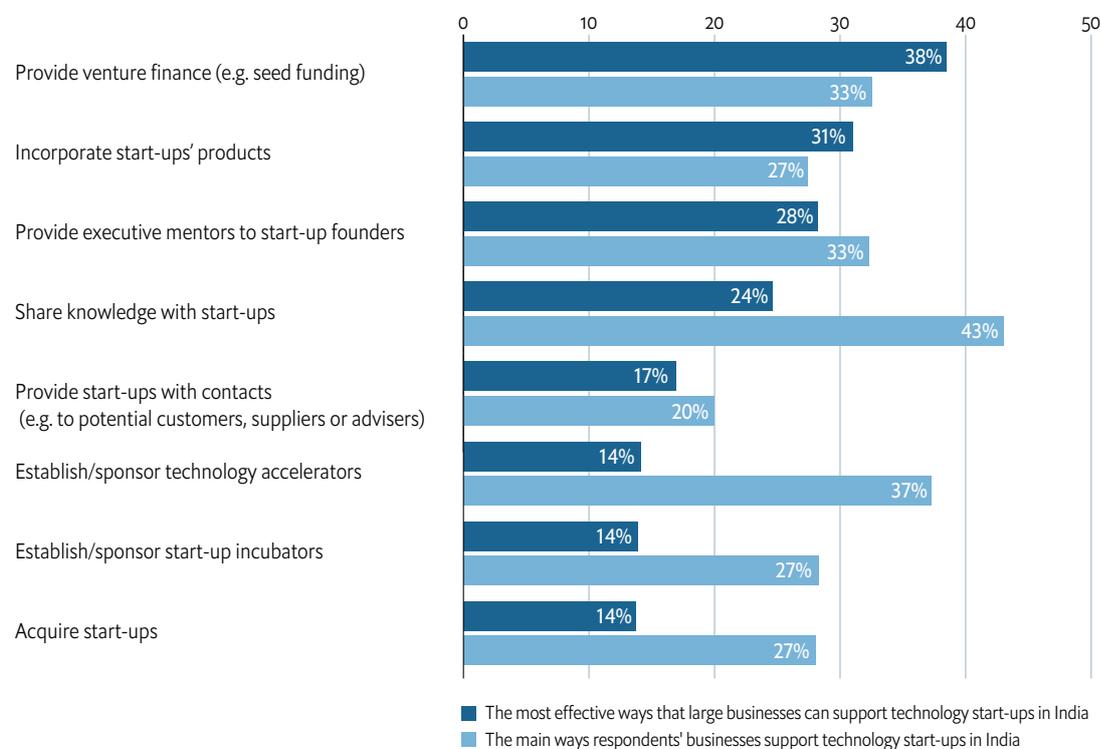
Limited availability of domestic start-up funding has been an impediment to these hubs' growth. As noted above, the flow of venture capital to these firms has increased in 2021, but much of it has emanated from overseas. One expert laments that, although corporate participation in India's start-up ecosystem is growing, it remains over-reliant on foreign capital.⁷ This suggests that corporate India is not fully leveraging the capabilities and ideas that the country's vibrant tech start-ups offer.

India's technology entrepreneurs face other obstacles to their growth, of which the survey respondents believe competition from large technology companies is the most formidable. Several executives also point to what they feel is a weak entrepreneurial culture in the country, as well as to excessive red tape and a shortage of experienced business mentors.

Many of our surveyed respondents (38%) acknowledge that providing seed funding and other forms of venture finance is the most effective in a range of different ways that large firms can support tech start-ups. Fewer, however (33%), actually do this. The main type of help the respondents' firms provide to start-

Figure 5: How corporate India can help start-ups and how they actually help

What are the most effective ways that large businesses can support technology start-ups in India? In what ways does your business support technology start-ups in India? (top responses)



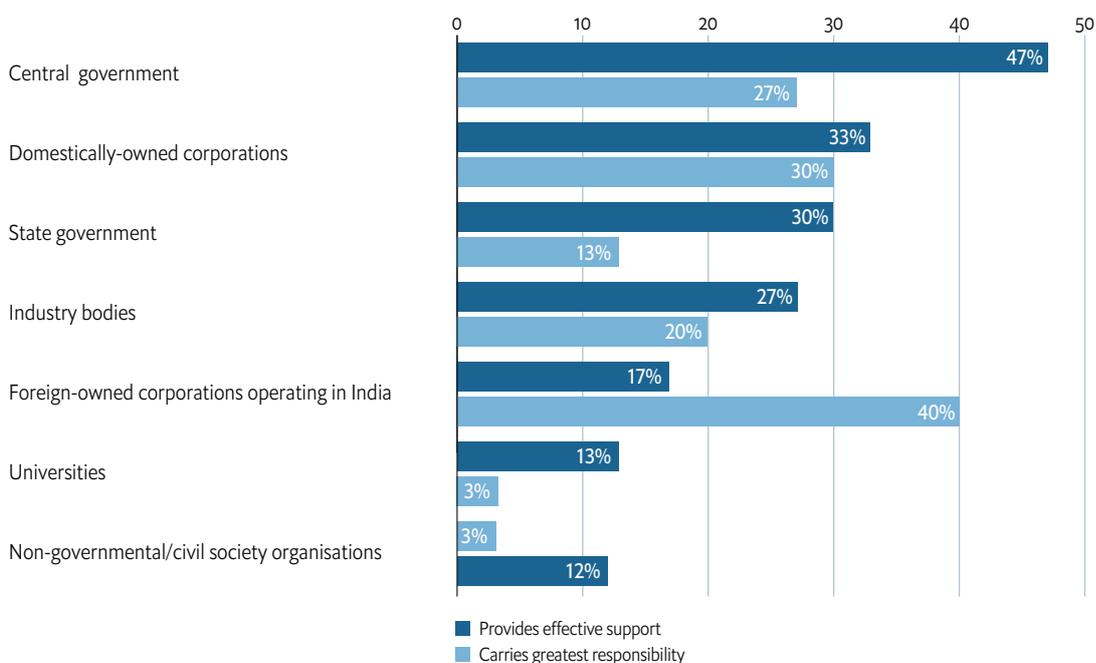
Source: Economist Impact

⁶ See <https://techcrunch.com/2021/07/16/india-poised-for-record-vc-year-as-unicorns-head-for-decisive-ipos/>.

⁷ See <https://yourstory.com/2021/01/disruption-fuelled-growth-indian-tech-startups/amp>.

Figure 6: Responsibility and effectiveness in developing the digital ecosystem

Which of the following carry the greatest responsibility for supporting technology start-ups in India? How effective is support for technology start-ups in India provided by the following?



Source: Economist Impact

ups (cited by 43%) is the sharing of knowledge. Another is to support technology accelerators (cited by 37%) and provide executive mentors to start-up founders (33%).

Business leaders mostly believe that the central government bears primary responsibility for supporting tech start-ups in the country (the view of 47% of respondents). One-third deem it the responsibility mainly of domestic companies. Smaller numbers list state government (30%), industry bodies (27%) and foreign companies (17%) as carrying the primary burden. Of these, foreign companies are perceived as by far the most effective source of start-up support. Far fewer executives believe central or state governments are effective in this realm or for that matter domestic corporations such as their own.

Supporting entrepreneurship for the greater good

Indian business leaders have an added incentive to support the growth of the domestic digital ecosystem beyond the direct benefits that will accrue to their own firms. It will also assist their efforts to be good corporate citizens.

For most business leaders, this will be more than brand building. There is a genuine desire in boardrooms and executive suites to help address the deep inequalities in Indian society. Most of our survey respondents believe the country's burgeoning start-up ecosystem can contribute to reducing these, and is worthy of their firms' support. For example, nearly two-thirds (64%) of respondents agree that supporting start-ups is the best

way their companies can assist the country's under-represented groups. And 71% say that businesses must prioritise support for female entrepreneurs and female-led start-ups, in order to reduce the yawning gender gap in many aspects of work and income generation.

A later instalment of the IBB will take a closer look at how domestic businesses are addressing the pressing challenges facing Indian society. Improving people's and organisations' access to information and to technology are important levers of reducing inequality, and the next edition of the IBB will explore the role that Indian businesses are looking to play in bringing this about.

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