

CHAPTER 5: INDIA AS AN INSTITUTIONAL AND STRATEGIC CONTEXT

This chapter provides a brief introduction to those institutional and strategic host context conditions in India that appeared particularly relevant for the production system hybridization. This discussion is brief, as the impact of specific institutional and strategic contexts conditions will be mostly discussed in chapter 6, that is, when and where it shows its direct empirical relevance for the production systems' hybridization. Nevertheless, this chapter provides the reader with some basic background and key characteristics of India's institutional and strategic context without which we cannot develop a proper understanding of the host context conditions impacting the hybridization of automobile production systems. It should be clear, however, that the institutional patterns discussed describe tendencies at a rather general level. Such a word of caution is particularly required for a country as diverse and large as India, which has undergone tremendous societal transformations in last 25 years.

5.1 INDIA'S INSTITUTIONAL CONTEXT

HIERARCHY AND DEMARCATION IN FAMILY, EDUCATION, SOCIAL STRATIFICATION AND BEYOND

FAMILY

Traditionally the Indian family is an extended or joint family where up to four generations live under one roof. The decision making power rests mainly with the father of the family who involves the eldest son. It is also the eldest son to whom responsibility is transferred after the father's death. The typical Hindu-family is patriarchal and hierarchical (Kakar, 1997) with the family bonding fundamentally based on father-son and brother-brother relationship (Schmitt, 1984; Tayeb, 1988). While it is true that the Indian family is shifting towards a nuclear family – for example with regard to not living in a singly household any more – it is also true that traditional family ties remain functional. If, for instance, a younger brother passes away, the eldest son still becomes responsible for the whole family left behind. Regarding the upbringing of children, with all due caution, it may be stated that discipline, subordination, and deference towards the father, the elders or other authorities are among the cornerstones of socialization. Kanungo (1994) even comes to state:

Unconditional obedience by surrendering to authority is considered a virtue. Personal initiative, originality and independence in thinking and decision making in every sphere of life meet with social disapproval. As a result, independent thinking and reasoning [...] diminish. (Kanungo, 1994: 241)

In a similar vein, Tayeb (1988) underlines the high degree of economic and emotional dependence of children on their family until late in life. Decisions related to educational, professional choices and even choices of marriage partner are largely taken by parents.

The socialization goals and structures of families also interpenetrate into schools and ultimately into the work context. The authoritarian relationships in the family extend to authoritarian teacher-pupil relations in schools, with teaching methods resting on compliance and passive reproduction of knowledge (Schmitt, 1984). Kanungo (1994) and Sinha and Sinha (1994) show that patriarchal and hierarchical structures are also reproduced in the work context. Like the father in the family, the superior is consulted on all major issues. There is little scope for argument and open confrontations with superiors are disapproved of (Sinha, 1990a; Virmani, 2000). “‘Check with the boss’ is the crux of the majority of decision making which naturally shifts the locus of control into the highest position in the organization” (Sinha and Sinha, 1994: 167). The authors also state that clear superior-subordinate work roles are generally preferred over equality-based ones in the Indian work context (Sinha, 1980; Sinha and Sinha, 1994; Sinha, 1999). Sinha (1990b) also raises doubts about the ability to implement team work in the Indian context.

Lack of team orientation is one of the typical characteristics of Indians. The only kind of teams which can function effectively is the vertical ones where the status differential is readily accepted and vertical solidarity develops. The top man in such teams meets his obligations. He must provide leadership, guidance and direction, and above all nurturance to his dependents. They must be protected and taken care of. The top man should ideally listen to them and their needs. If he does so, the group is activated by social energy and remains effective. (Sinha, 1990b: 482)

Kanungo (1995) sees authoritarian and patriarchal institutional patterns as the root cause for work-dispositions marked by strong feelings of dependency, a tendency towards conformity and blind obedience. The overall implication of the socialization patterns cited is a general difficulty to implement equality based work concepts in the Indian work context. At the same time, hierarchical and patriarchic relations place a great emphasis on certain authority figures which renders it equally difficult to achieve a far-reaching taking of responsibility of individuals, especially at the lower levels of an organization. As a result it is difficult to implement concepts such as management-by-objectives (MBO) or downward delegation in general.

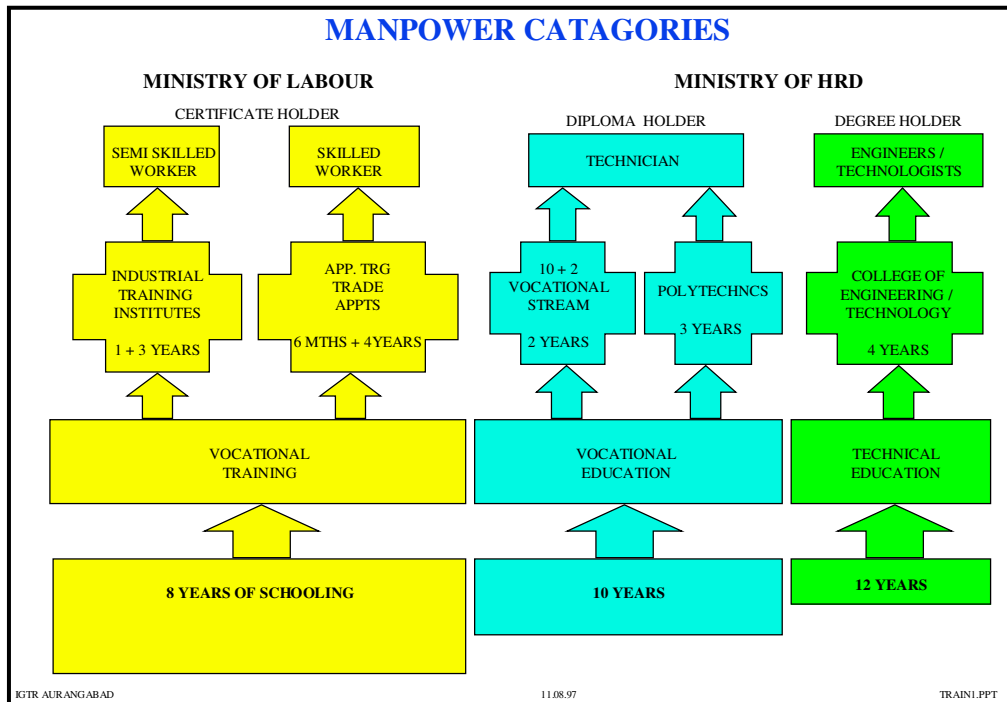
Those work relations that have been described as effective in the Indian context, such as 'nurturant task leadership' (Sinha, 1980; Sinha, 1999), are based on strong personal relations where personal affection between the superior and subordinate takes on an important role for the task achievement. To be fair, India is undergoing tremendous change. In the urban centers traditional patterns of socialization described are seeing transformation and increasing heterogeneity (Saraswathi and Pai, 1997; Becker-Ritterspach, 2000). On the other hand, the patterns still form basic tendencies and certainly hold true for the generation of employees researched in this case study.

HIGHER TECHNICAL EDUCATION

The Indian higher education system (see figure 8) is largely discontinuous and compartmentalized with different educational paths posing alternatives rather than building on one another (Heitmann, 1995). The technical education and vocational training in India broadly rest on a 'three tier system' (Palit, 1998; Thete, 1999). At the *lowest level* we find trade-courses for skilled workers and craftsmen, which are either taught at Industrial Training Institutes (ITI) or Higher Secondary Schools. At the *middle level* we find technical training programs of Polytechnics that produce technician engineers or so called diploma engineers. The *highest level* is constituted by "first degree and post-graduate courses in engineering and technology" (Thete, 1999: 25). These courses are imparted at Engineering Colleges or the highly prestigious Indian Institutes of Technology (IIT) which are producing graduate engineer degrees. It is important to understand that the structural conditions of the three tier system and the financial endowment (Schmitt, 1984; Heitmann, 1995) required for education, practically rule out much vertical mobility across the three levels. Moreover, the educational content in terms of the share of practical experience and theoretical training varies starkly with the three levels. Two interviews with representatives of a development-project for vocational training (interview Indo-German Tool Room Project, 2002; Heitmann, 1995) explained that while ITI graduates have some degree of practical training and conclude their education with an apprenticeship, diploma engineers and even more so graduate engineers have hardly any practical hands-on training as a part of their education. There is a striking resemblance between the Indian technical education – which was founded to a large extent during British colonialism (Thete, 1999) – and the British system in this respect. For India, like in the British system (Sorge, 1995b), it holds true that educational programs with strong links between academic knowledge and practical experience are associated with lower prestige. Similar to Britain, the link is stronger in polytechnics than at universities, and stronger at regular engineering colleges than at the prestigious IITs. Like their British counterparts (Sorge, 1995b), Indian graduates from the prestigious institutions have little practical experience. As a result, diploma engineers and engineering graduates feature a managerial work-identity that clearly does not have a physical involvement in the manufacturing proc-

ess within its ambit. In India, different educational paths create a strong professional distance. The overall effect of such demarcations is that different employee categories tend to distance themselves from one another, creating communication boundaries in Indian organizations.

Figure 8: Different manpower categories in India’s higher technical education



Source: GTZ Indo-German Tool Room Project, 2002

SOCIAL STRATIFICATION

The professional distance between different employee categories generated by India’s educational system is complemented or rather in a ‘reciprocal interdependence’ (Sorge, 2004) with a social distance produced by traditional caste-related principles of social-stratification. Bouglé (1997) identifies three constituting elements of the Indian caste system. These are “repulsion, hierarchy and hereditary specialization” (Bouglé, 1997: 65). Like Bouglé, Dumont sees these principles as constitutive but argues that they can be reduced to the one core principle of the opposition of the pure and the impure (Dumont, 1997). For:

This opposition underlies hierarchy, which is the superiority of the pure to the impure, underlies separation because the pure and impure must be kept separate, and underlies the division of labour because the pure and impure occupations must likewise be kept separate. (Dumont, 1997: 477)

Interestingly, the structuring principles of the caste-system are 'reproduced non-identically' (Sorge, 2004) in India's modern industrial work-context in two core respects. Firstly, the principle of *hereditary specialization* is socially functional in that there is a strong correlation between certain caste-backgrounds, educational-choices and professions (Dupont, 1992; Bronger, 1996; Panini, 1996; Sharma, 1997). Secondly, and more significantly, the principle of the *opposition of the pure and impure* remains strong. It finds expression in a marked social distance between different employee categories (c.f. D'Costa, 2003) and in a strong preference of mental over physical work (Gosalia, 1992; Ramaswamy, 1996; Panini, 1996). The 'reciprocal interdependence' between the education system and traditional stratification principles of the caste-system constitute strong socio-professional demarcations between different employee-categories as well as a low prestige for physical work in general. The low prestige for physical work finds different expressions. Ramaswamy states, for example that '[b]and labels such as 'operators', 'technician' and 'craftsman' are increasingly the mean or minimum expectation, especially in high technology industry where the more conventional 'worker' is itself an opprobrium' (Ramaswamy, 1996: 35).

Industry is replete with evidence of the search for designations, especially expressive ones which stress rank and progression from physical to mental work, and the creation of new layers of the hierarchy to accommodate new designations. (Ramaswamy, 1996: 36)

Generally, manual activities provide much lower prestige compared to clerical work no matter how simple it may be (Ramaswamy, 1996; interview Director General Indo-German Chamber of Commerce, 2003). Needless to say that cleaning activities are amongst those with the lowest prestige. Perceived as 'polluting', cleaning activities are still largely reserved for lower social strata or castes.

SOCIAL STRATIFICATION AND ORGANIZATIONAL HIERACHY

In India particularly old family enterprises and Public Sector Undertakings (PSUs) dating from the pre-liberalization era feature extensive hierarchies. Such organizations can easily comprise 20 hierarchical levels or more. The institutional background of this proliferation of hierarchical levels and corresponding designations can be explained by the general importance of hierarchy in family and social stratification but also by developments in PSUs. One source of the tremendous importance of hierarchical designations stems from condi-

tions in PSUs. In these organization pay-rises were limited by government regulation so that there was not a pronounced difference in pay between workers and managerial levels (c.f. Okada, 1998). At the same time, this lacking differentiation – in a highly demarcation conscious society – was compensated by quasi-automatic advancements in the organizations to ever higher status giving designations.

In addition to these organization-internal dynamics, India's social stratification and family patterns play a crucial role. Contemporary India can hardly be classified as a pure caste-society. Instead, ascriptive and meritocratic status-criteria exist side by side. Particularly in the urban and industrialized regions, with the emergence of new modern profession, traditional caste-related professions have partly lost their meaning. However, while meritocratic status-criteria are becoming increasingly important, it is also true that ascriptive (i.e. Jati and Varna) and meritocratic status-criteria (income, educational degree, and designation held) are not readily separable (Bronger, 1996; Sharma, 1997). After all, the social status of an individual or rather of the whole Joint-Family – whether they live in one household or not – is crucially defined by a combination of class- and caste-specific attributes. There is a coexistence of modernism and traditionalism where formal educational degree, profession and designations held in a company combine with traditional caste-backgrounds. The most shining examples of this coexistence are weekly newspaper marriage market advertisements. Under the category 'Brides Wanted for Brahmin' can we read in the Hindustan Times, for example:

Wanted: Really Beautiful Professional girl below 25 yrs for Delhi based Status Gaur Brahmin boy B.E., MBA, 30/174/ 12 Lakhs [income] p.a.. Manager in Top MNC. Reply with Horoscope & Photo to [...]. (Hindustan Times, 2002)

Clearly, professional advancement in an organization and the status of the family are closely connected. Tayeb (1988) stresses that professional success of an individual is always connected to the success of the whole family. As hierarchical designations are one of the most visible signs of success, there is a permanent family-induced pressure for advancement in the organizational status hierarchies (Ramaswamy, 1996). Although, job contents often does not even change, companies have increasingly given in to demands for ever better designations to avoid loosing their best employees. Ramaswamy (1996) nicely describes this development as follows:

Among the more significant developments in industry in recent times is the proliferation of levels and labels in the management cadre. Managers consider it burdensome to carry the same designation for any length of time, and quick promotions have become the common method of alleviating this sense of stagnation. Without an appropriate rank and label, companies would certainly find it difficult to retain their best talent. Caught between the demand for status-giving designations (as, for ex-

ample, deputy general manager, general manager, senior general manager, group general manager, executive director, associate vice president, group vice president) and the limit to the creation of functions which go with these labels, companies have chosen to give a change of designation without a change of job. As a result, a promotion may get the recipient a superior title and the perquisites which go with it [...] but neither significantly increased pay [...] nor the job content appropriate to the title. This is an especially common predicament in the public sector: one can find no fewer than a dozen general managers in some plants. The designation is nevertheless extremely important as a symbol of rank in the firm and a measure of worth in the wider society. (Ramaswamy, 1996: 38)

The overall result of this development is that many Indian organizations have seen a tremendous inflation of hierarchical designations and reporting/responsibility levels (Bhadury, 2000). In India, “[t]he typical organizational chart would show structures which are neither flat and modern, nor even traditionally pyramidal, but shaped like a barrel, with bulging midriff and (counting out the chief executive) a flat top not very much smaller than the bottom” (Ramaswamy, 1996: 39). Ramaswamy (1996) underlines that such structures are the crucial reason for job-rigidity and poor labor-utilization in the Indian work context. Table 19 summarizes associations between institutional conditions and behavioral dispositions in the Indian work context.

Table 19: Institutional foundations of work dispositions in the Indian work context

Institutional foundations	Expectations & behavioral dispositions
Compartmentalized vocational training & technical education enforced by caste-system related principles of social-stratification	Indian employees (IE) perceive high vertical professional and social distance between white and blue collar occupations close to the shopfloor
Practical and theoretical training content varies strongly with different educational programs	IE have a low appreciation for physical/manual work in general
Polytechnics trained supervisors generally form the first level of management and play a weak roles as practical trainers of worker	Supervisor levels dislike physical involvement on the shopfloor and feel distant from workers
Industrial Training Institute trained workers generally have superior practical manufacturing know how compared to supervisors or managerial levels above	Workers find it hard to accept supervisors as practical trainers & to form a close ties with them
Patriarchal/hierarchal-orientated relationships in family, school and beyond based on socialization patterns serving to create deferential and collectivist personalities	IE tend associate taking of responsibility & decision-making with specific social/organizational authority roles or figures. IE find it hard to take individual responsibility
Strong socio-religious and professional hierarchies	Push for organizational designations

INDUSTRIAL RELATIONS IN INDIA

The Industrial Relations System in India is traditionally described by three characteristics. First, a state domination of the industrial relationship, including a strong affiliation between unions and political parties – rooted in the colonial past, legislation, India’s independence struggle and its post-colonial political economy. Second, a legislative framework that creates extreme employment inflexibility, particularly with regard to recruiting, deploying, disciplining, and dismissing labor. Third, a legacy of highly confrontational and adversarial employer-union and employment relations.

THE BASIC LEGAL FRAMEWORK

Different scholars have pointed out that the prominent position of the state in India’s Industrial relations is rooted in India’s labor laws which were largely drafted before independence. As such they reflect the British colonial effort to keep labor conflict down and production up during the Second World War (e.g. Gupta and Sett, 2000; Ramaswamy 2000). According to Gupta and Sett (2000) and Ramaswamy (2000) three laws have played a pivotal role in shaping Indian industrial relations as a distinct system (Ramaswamy, 2000). These are the Trade Union Act (TUA), 1926, The Industrial Employment Standing Orders Act (IEA), 1946, and the Industrial Disputes Act (IDA), 1947.

The TUA creates the legal foundation for unions to exist. It “confers on unions the basic minimum legality which protects them from civil and criminal liability arising out of industrial disputes and enables to function as lawful associations” (Ramaswamy, 2000: 113). Under the law any seven workers can form a union. For companies this means that even outsiders, non-company members, could form a union and pose demands on behalf of company employees. For some external union leaders this has even been quite a lucrative business as one of my interviewees stressed (DCIPL 2). However, as Gupta and Sett (2000: 145) point out a “[m]ere registration of a union under the TUA does not entitle it to recognition by the employer as a legitimate representative of his workers, or to the bargaining relationship that would arise from such recognition”. Thus, one crucial reason for the prominent position of the state in Indian industrial relations is related to the condition that the TUA includes no provision that recognizes trade unions as collective bargaining agents. This condition is further strengthened by the IDA. Gupta and Sett (2000) state in this context:

Under the IDA, the government enjoys full discretionary power whether or not, when and how to intervene in an industrial dispute actual or threatened. It may or may not decide to conciliate, it may refuse to send a dispute for adjudication or it may decide not to implement the award of a Labour Court or Industrial Tribunal. While it may prohibit strikes or lock-outs, or it may refuse permission for a lay-off, retrenchment or closure, no court can take cognizance of an offence under the IDA,

by way of an illegal strike / lock-out / lay-off / retrenchment / closure, unless the government formally notifies such an action as illegal and makes a complaint to the court. (Gupta and Sett, 2000: 145)

The IDA cements further the vital role of government in Indian industrial relations and forms the basis for the strong political involvement in Indian unions. Ramaswamy (2000) even suggests that the system creates a “fertile ground for political meddling” and underlines that “[t]he history of industrial disputes is replete with instances of the abuse of political power and the subversion of conciliation to promote political interest” (Ramaswamy, 2000: 121). Ramaswamy summarizes the conciliation-related repercussion of the IDA as follows:

It is clear that the industrial relations system offers immense potential for political manipulation. Conciliation with all its accretions is especially prone to such manoeuvre. Workers and employers know that it is more important to influence the state than to pressurize each other. The quality of access to state power has a vital bearing on the outcome of their industrial relations battles. (Ramaswamy, 2000: 125)

However, the IDA has not only been problematic for unions and their recognition. For employers, the IDA and its subsequent amendments (in 1976) imply substantial employment and labor market inflexibilities. After all, lay-offs, retrenchments or closures are under the ultimate guard of political leaders as they require government permission. Moreover, the system implies that small unions whether or not they have a constituency in companies, can push through their demands as long as they have political patronage (Gupta and Sett, 2000; Ramaswamy, 2000).

The last piece of legislation that crucially impacts Indian industrial relations is the Industrial Employment (Standing Orders) Act (IEA). The IEA “requires every establishment employing a hundred or more workers to have a set of certified standing orders defining conditions of employment such as hours of work, attendance, proper conduct, punishment for misconduct, and means available for redressal against unfair treatment” (Ramaswamy, 2000: 114). The law’s basic purpose is to guarantee a minimum protection of the workforce where no union is established.

THE BASIC UNION STRUCTURE AND LEVELS OF COLLECTIVE BARGAINING

The legal framework and India’s struggle for independence implied that there has traditionally been a strong nexus between political parties/movements and unions (Mamkoottam, 2000). In 2003 there were about five central trade union federations that were more or less affiliated with a political party. These included as the main important ones:

- The All India Trade Union Congress (AITUC)
- The Bharatiya Majdoor Sangh (BMS)
- The Indian National Trade Union Congress (INTUC)
- The Centre of Indian Trade Unions (CITU)
- The Hind Majdoor Sabha (HMS)

According to Bhattacharjee (2001), India's planned economy and growing public sector after independence "provided a terrain for large scale unionization" and "quite naturally led to the formation of public sector unionism" (Bhattacharjee, 2001: 248). One of India's first union federations was the communist-led AITUC which was founded before independence. After independence other political parties and movements followed suit. The Congress Party founded, for example, the INTUC. As socialist broke away from the Congress Party and radical communists broke away from the Communist Party a new union federation was founded, the CITU. Particularly between the 1960s and 1970s, there was an increasing "proliferation of union affiliations to more radical political organizations" (Bhattacharjee, 2001: 251). Over all, the strong connectedness between political parties and the proliferation of unions implied that: 1.) political party or movement rivalry was carried all the way down into rivaling unions in companies, 2.) political movements or politicians instrumentalized labor conflict for their personal or partisan interest, but also that 3.) local labor disputes led to a wider politization by calling in politicians and political parties (Mamkoottam, 2000). However, from the 1980s onward and accelerated by India's liberalization in the 1990s, India's union landscape saw yet another a shift. Already in the 1980s, failed industrial action and disillusionment with politically affiliated unions (Sinha, 2002; Budhwar, 2003) led to a "rise and proliferation of 'independent' unions operating in the major industrial centers and competing with the traditional party affiliated unions" (Bhattacharjee, 2001: 254). On average this development de-radicalized industrial action and led to less labor conflict particularly in private sector companies. Moreover, leftist unions lost increasingly support which was rooted in their opposition to decentralized bargaining (Bhattacharjee, 2001). It is also suggested that the increased attractiveness of unaffiliated unions is related to their greater success in achieving wage increases (Bhattacharjee, 2001). All in all, these developments led to a growing diversity in labor-management/union-employer relations between industries, states, and regions (Ratnam, 2001; Bhattacharjee, 2001). Presently, as Bhattacharjee (2001) nicely points out, different bargaining levels and union structures co-exist in the Indian economy.

In the private corporate sector, plant-level bargaining takes place with enterprise based unions that may or may not be affiliated with political parties. In the public sector enterprises, centralized union federation that are affiliated with to political parties bargain with the states (as employer) at the industry- and/or national-level.

Central state government employees in the service sector (transportation, postal services, banking and insurance, police and firefighters, etc.) have their (typically) politically-affiliated unions bargaining at the national and/or regional levels. (Bhat-tacherjee, 2001: 247)

Although politically affiliated unions have lost power, they still play a role depending on region, sector, and industry. And even if a company union has no political affiliation such a possibility always looms as a potential threat for employers and has created willingness on their part to foster and cooperate with internal unions. While unaffiliated company unions have generally clamed industrial relations in private sector enterprises in general and MNE in particular, an unaffiliated company union is still no guarantee for absent union militancy.

PRE- AND POST-LIBERALIZATION EMPLOYEE RELATIONS

Employee relations in pre-liberalized India are frequently described as adversarial in a great number of ways. At its worst, different company unions would fight each other, employer-union relations would be highly confrontational, and so would be labor-management relations. Even relations between different employee categories would be antagonistic. Lack of labor commitment and indiscipline as well as a culture of militant and negative trade unions characterize traditionally the core challenges to managing the Indian workforce (Bhadury, 2000). Along similar lines, Venkataramani (1990) describes the prevalent employment relations in pre-liberalized India:

Discussions with the Indian entrepreneurs and managers promptly bring out their belief that the central problem they have to contend with is the lack of a sense of identification of employees with the interests of the company. There is little recognition of the importance to the employees themselves of the company remaining competitive, making profits, growing, and equipping itself to meet economic and technological challenges that may arise in future. Employees according to the entrepreneurs experience no meaningful personal commitment to productivity and improve quality. The general mood among employees is as in the American sample cited earlier, one of "Us versus Them" with the company virtually perceived as antagonist. As a result, communication between the company and its employees gets distorted and interaction takes on a confrontationist pattern. Such a pattern extends to interaction between supervisors and shopfloor workers, and between non-technical office staff and the rest. Employees perceive owners and top management of the company as interested only in quick profits and maximum exploitation of workers. Workers are perceived by top management as potential trouble makers and malcontents who are to be kept on proper behavior through the show of firmness and threat of disciplinary action. (Venkataramani 1990: 114)

What is more, industrial conflicts once they broke out could be long-lasting, frequently involving industrial action such as go-slows, strikes, hunger-strikes, political agitation and even physical threat and violence. The employer's side would most commonly react to such industrial action with lock-outs (Gupta and Sett, 2000). The state conciliation machinery, in turn, which has a prominent role for settling labor disputes could not be counted on, as it was arbitrary with regard to referring disputes for adjudication (Gupta and Sett, 2000). Furthermore, judicial processes would be slow and long-lasting with court cases pending over years.

However, while such kinds of employee relations have still not perished from the Indian industrial relations landscape, modern companies, especially MNE are increasingly able to establish an alternative scenario. This scenario generally implies the presence of just one unaffiliated company union and involves increasingly cordial and cooperative employee relations. Even the much bemoaned employment inflexibility is seen to be less of a problem with the Indian government's shift to new economic imperatives (essentially favoring the employers' cause) – starting in the mid 1980s and coming into full wing the New Economic Policy after 1991 (Gupta and Sett, 2000). Although even before liberalization firms found ways to circumvent employment security (Gupta and Sett, 2000), India's post-liberalization governments resorted themselves to public sector retrenchment through so-called 'golden handshakes' or Voluntary Retirement Schemes (VRS). In doing so they rendered such retrenchment practices also acceptable in private sector firms (c.f. Gupta and Sett, 2000). Bhattacharjee (2001), for example, points out that employment flexibility has increased through all kinds of new contract provisions and measures involving "bans on recruitment, job transfer to non-bargainable categories, introduction of parallel production, mergers, suspension of industrial action for a period of five years, concession bargaining (Venkataratnam, 1996)" (Bhattacharjee, 2001: 259). It may be noted that part of the inflation of hierarchical designations and levels in Indian companies is probably related to the union-avoidance strategy, i.e. turning labor into a non-bargainable category. Finally, union power and membership in India has steadily declined since the late 1970s (Gupta and Sett, 2000; Sinha, 2002; Budhwar, 2003). However, as Bhattacharjee (2001: 259) also points out: "[I]ndia loses more days annually as a result of strikes and lock-outs than any other country" (ILO, 1997/98).

INDIA'S ECONOMIC REFORMS

In 1991 the Congress-led coalition headed by Prime Minister Narashimah Rao launched a comprehensive reform program that marked a historical transition of India's highly interventionist planned economy toward a market economy. Although it was Rajiv Gandhi who started reforming the Indian economy in 1995, it wasn't until the 1991 reforms that a clear cut turning point emerged. Prior to this turning point India followed a mixed economy

model, half way between socialist planned economy and capitalism. While investment in key sectors – such as heavy, basic and capital goods industries – were reserved for the public sector, the private sector was invited to invest in specific consumer goods industry according to the five year plans. However, even in those industries where the private sector was allotted a role, no full market competition unfolded. Instead, a widespread licensing-system, strict investment control and protectionism shielded many consumer industries from domestic and international competition. Despite some successes, India's economic policy had become unsustainable by the early 1990s. Facing severe fiscal and trade imbalances, double digit inflation, India was on the verge of defaulting its external debt obligations and forced to take up an IMF loan. In reaction to this crisis, a comprehensive reform program was launched headed by Prime Minister Narashimah Rao and Finance Minister Manmohan Singh. The new approach focused on stabilizing the Indian economy: reforming the fiscal sector, public enterprises, and the investment, trade and tax regimes and giving the private sector including foreign direct investment a much greater role in the Indian economy (Becker-Ritterspach, 2000).

THE EMERGENCE OF A FOREIGN DIRECT INVESTMENT REGIME IN THE INDIAN AUTOMOBILE INDUSTRY

In the 1990s inviting FDI became a corner stone of the India's New Economic Policies (NEP). Since then India's emerging FDI regime has aimed at developing India into a global production base and ensuring net foreign exchange inflows. But let us look more specifically at developments in India's FDI regime in the automobile industry. Taking a historical perspective, these developments

can be divided into three phases (Schwerdt, 2004): the license-phase, also called by some as the 'License Raj', from the 1950s until the mid 1980s; the phase of deregulation from the mid 1980s until the early 1990s; and the phase of liberalization, from the early 1990s onward. The first, the license-phase, was characterized by stringent restrictions on investments and imports in the industry. Technology imports required government permission and investments in the sector were subject to government licenses. Even capacity enhancement of existing operations required permission (WTO, 1998). Degnbol-Martinussen (2001) details the system as follows:

The industrial approval system was introduced in India in 1951 under the IDR Act [Industries Development and Regulation Act]. The provisions of this Act made it compulsory for all manufacturing companies to obtain written permission from the government for

- a.) establishing a new industrial undertaking*
- b.) taking up the manufacture of a new article*
- c.) substantially expanding the capacity of an industrial undertaking and*

d.) changing the location of an existing manufacturing unit. (Degnbol-Martinussen 2001:84)

In the 1970s an additional legislation was put in place that substantially restricted trade and foreign direct investment in industries. In 1974 the Foreign Exchange Regulation Act (FERA) was put in place restricting foreign equity in Indian companies to a maximum of 40% (Degnbol-Martinussen, 2001).

The phase of deregulation started with Rajiv Gandhi in 1985. In this phase 32 industries were freed from the requirement of obtaining a license for new investments. Moreover, the Indian Government introduced a system of 'broad-banding' allowing licensees to produce (without a new license) an alternative range of products with their existing production facilities. (Rieger, 1989; Mohnot, 2001). Although the new system was applied to a range of industries from 1983 onward, it wasn't until 1985 that it applied to the automobile industry. The 'broad band system' essentially allowed all automobile manufactures and automotive parts manufacturers with an existing license to diversify their automotive product range (Rieger, 1989). The deregulation phase also saw a range of other developments such as a loosening of the Monopolies and Restrictive Trade Practice Act (MRTP) and reductions on import duties (Mohnot, 2001). It should be noted that SMC's involvement in government owned MUL and MUL's initial requirements for component imports were a crucial trigger for trade liberalization and benefited the whole Indian automobile industry. As the Indian Government could not just favor MUL, the same regulations applied to other players as well. Moreover, FDI was required to engage in 'phased manufacturing programs' which obliged foreign investors to achieve a 95% percent local content within an certain time-span.

The third phase of development began with the NEP in 1991. The main goal was to create a competitive industrial base in India by gradually abolishing investment-, production- and sales-restrictions. The increase in market driven productivity, product quality and demand satisfaction became high on the political agenda. This also meant that FDI was for the first time actively sought and invited by the Indian government. Table 20 summarizes India's emerging FDI regime in the automobile industry.

5.2 INDIA'S STRATEGIC CONTEXT

DEMAND MARKET CONDITIONS IN INDIA'S AUTOMOBILE INDUSTRY

Since the 1980s and boosted by the market reforms in the 1990s, the Indian automobile market has seen a sea change in qualitative and quantitative terms. The market has developed from a sellers market, involving only a few domestic players protected from internal and external competition, to a highly competitive buyers market, involving almost all players of the international automobile industry.

Table 20: India's emerging FDI regime in the automobile industry

The most important FDI generating measures involved:

- Allowing foreign equity participation of up to 51%; and subsequently up to 74% and 100%
- Simplified procedures for FDI approvals; automatic approvals for FDI up to 51% in priority industries.
- FDI in the passenger car sector above 51% required approval by the Foreign Investment Promotion Board. In 2002, a new auto policy was drafted also involving automatic approval for 100% foreign equity participation.
- Reductions of corporate tax rates for foreign companies
- Abolishment of the system of industrial licensing in 15 industries including the automobile industry; in 1993 abolishment of the system for the passenger car industry
- Abolishment of the pre-entry scrutiny for investment decisions of big companies, including companies falling under the MRTTP
- Revision of MoUs regulations. MoUs have to be signed between the Union Government (the Directorate General of Foreign Trade) and a car maker. The new auto policy drafted in 2002 foresees the abolishment of MoUs. (It is unclear, however, if the existing MoUs are still legally binding)
- MoU revisions involved different regulations for the import of SKD/CKD-kits
- Under the new MoU regulation car companies are required to set up a production unit and not merely an assembly facility. In addition, a minimum foreign equity of \$ 50mn has been brought into the operation within three years of establishment.
- Companies are required to observe a broad neutralization of foreign exchange over the entire period of the MoU, obliging them to balance imports and export
- Companies have to comply with export obligations after the third year of operation
- Modification of the Phased Manufacturing Program requiring 95% indigenization within five years. Companies are now required to achieve a 50% level of local content after three years and a 70% after five years of operation. The new auto policy drafted in 2002 also foresees an abolishment of local content requirements. (It is not clear if this policy has taken effect already).
- Reduction of import duties for SKD/CKD kits.
- Introduction of a graded customs duty structure distinguishing between CBUs (completely built-up units), SKDs, CKDs and parts and components.
- Introduction of fiscal and monetary reforms impacting the automobile market demand in India. For example, a reduction of the excise duty on automobiles, introduction of VAT etc..

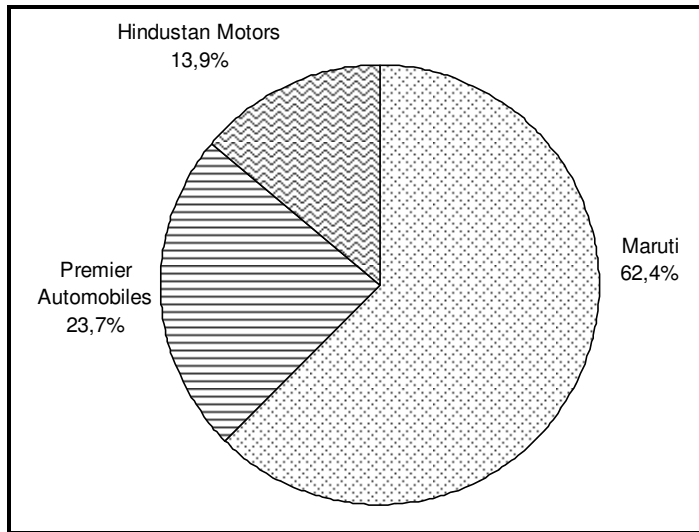
Source: compiled from Mohnot (2001); Schwerdt (2004); Ministry of Heavy Industries & Public Enterprises (2002)

Before SMC entered the Indian automobile market in the early 1980s annual production was around 40,000 vehicles per annum (Mohanty et al., 1994; Schwerdt, 2004). At that point, there were only three players – Premier Automobiles Limited (PAL), Hindustan Motors Limited (HML), and Standard Motors Products of India Limited (MPIL) – producing passenger cars for the Indian automobile market (Mohanty et al., 1994; Schwerdt, 2004). This scenery changed with SMC's market entry in the 1980s and the market entry of other international auto MNE after the market liberalization of the 1990s. Table 21 shows the major players in the Indian market following India's deregulation and liberalization.

For Indian consumers these developments implied a shift from being able to choose among two to three models that were marked by outdated technology and long waiting times, to being able to choose from an ever growing product range. At the time of research in 2003, the Indian automobile market had developed into a differentiated and segmented automobile

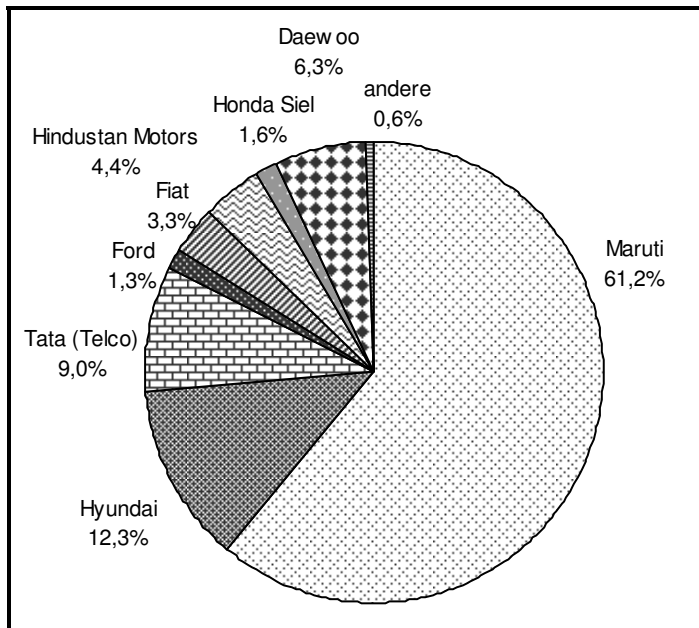
market, involving five basic market segments based on price (Segment A – cars priced lower than Rs. 300,000; Segment B – cars priced between Rs. 300,000 and Rs. 500,000; Segment C – cars priced between Rs. 500,000 and Rs. 1,000,000; Segment D – cars priced between Rs. 1,000,000 and Rs. 2,500,000; Segment E – cars priced above Rs. 2,500,000) (Red Herring Prospectus, 2003). Table 22 shows the market segment coverage by model and manufacturer. Figure 9, 10 and 11 describe the development of the market share in the passenger car sector before and after liberalisation.

Figure 9: Market share in the passenger car sector by company, India 1990-91



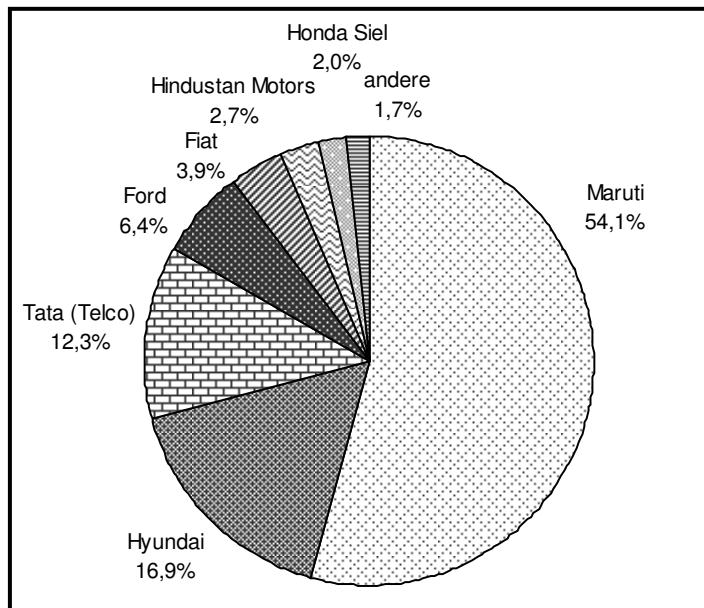
Source: Mohnot, 2001: 61

Figure 10: Market share in the passenger car sector by company, India 1999-00



Source: compiled from Centre for Industrial & Economic Research, 2002: 9

Figure 11: Market share in the passenger car sector by company, India 2002-03



Source: compiled from ACMA, 2004

Table 21: Major players in the Indian automobile market

OEM (foundation date)	Indian partner (production site)	Share of the foreign partner	Car or MUV models	Number of employees 2000-01
Bajaj Tempo Ltd. (29.11.1958)	(Pithampur, Madhya Pradesh)		MUVs: different Trax models	
Daewoo (12.10.1994)	Formerly DCM (Surajpur, Uttar Pradesh,)	74% → 91% → 100%	Matiz, Cielo, Nexia	2006
Daimler-Chrysler (22.11.1994)	Formerly Telco (Pune, Maharashtra)	51% → 76% → 86% → since 2001: 100%	C-class, E-class, S-class	332
Fiat (16.12.1997)	Premier Automobiles (PAL) (Mumbai, Maharashtra)	51% → 76% → 93% → 95%	Uno, Siena, Palio	2171
Ford (1995 / 1.2.1999)	Mahindra & Mahindra (Chengalpattu, Tamil Nadu)	50% → 85% → 90%	Ikon (formerly Escort), Mondeo	922
Mahindra & Mahindra (1945)	(Mumbai, Maharashtra)		MUVs: Armada, Bolero, Scorpio	15.653
General Motors (15.4.1994)	Hindutan Motors (Halol, Gujarat)	50% → 85%	Astra, Corsa, Swing	461
Hindustan Motors (11.2.1942)	(Uttarpara, West Bengal; Hosur & Thiruvallur, Tamil Nadu)		Ambassador, (Contessa, Lancer)	11.270 (total)
Mitsubishi	Hindustan Motors (Thiruvallur, Tamil Nadu)	10%	Lancer, Pajero	
Honda (5.12.1995)	SIEL (Gautambudh Nagar, Uttar Pradesh)	90%	City, Accord	811
Hyundai Motor India (6.5.1996)	– (Chennai, Tamil Nadu)	100%	Santro, Accent, Sonata	2461
Peugeot (1995-97)	Premier Automobiles (PAL)	50% → 33,96% → 0%	Peugeot 309	
San Motors (1996)	(Goa & Bangalore, Karnataka)		Storm	
Skoda (2000)	– (Aurangabad, Maharashtra)	100%	Octavia, Superb	ca. 130
Suzuki (24.2.1981)	Maruti (shareholder: Government of India) (Gurgaon, Haryana)	1982: 26% 1989: 40% 1992: 50% 2002: 54,2%	Maruti 800, Omni, Zen, Gypsy, Esteem, Baleno, WagonR, Altura, Alto, Versa, Suzuki Grand Vitara	5770
Telco (Tata Engineering) (1.9.1945)	(Pune, Maharashtra)		Indica, Indigo, Sumo, Spacio, Safari	24.440 (total)
Toyota (6.10.1997)	Kirloskar Group (Bangalore, Karnataka)	70% → 88,86%	Qualis, Camry, Corolla	

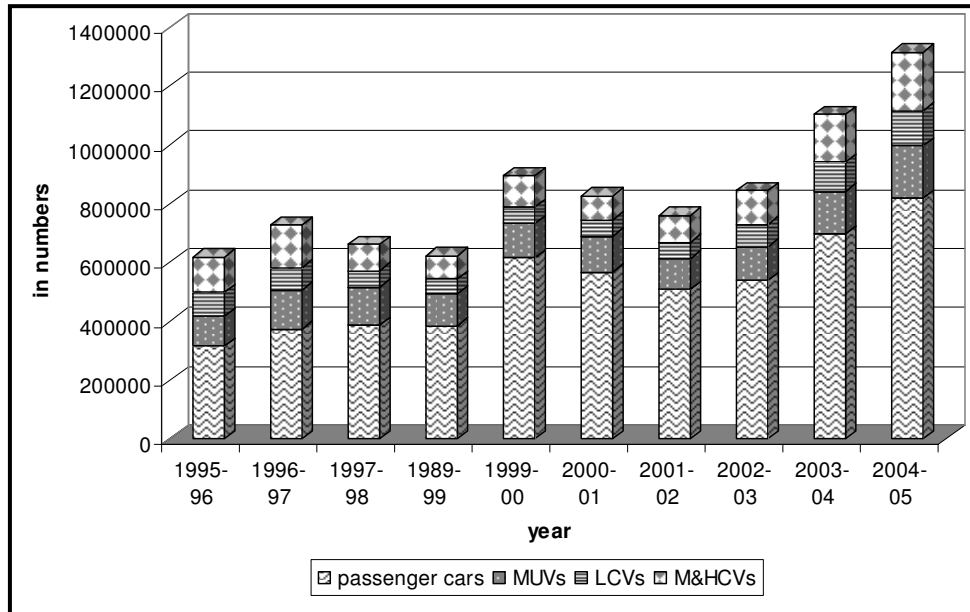
Source: Schwerdt, 2004

Table 22: Market segmentation of India's passenger car market

	Manufacturer	Name of the model	Segment as per length-based classification	Segment as per price-based classification
1.	Daewoo Motors India Ltd	Cielo Matiz	A3: Mid-size A2: Compact	C B
2.	Daimler Chrysler India Pvt. Ltd.	C Class E 250 S Class	A4: Executive A5: Premium A6: Luxury	E E E
3.	Fiat India Automobiles Pvt. Ltd.	Fiat Palio Fiat Siena Fiat Uno Palio Adventure	A2: Compact A3: Mid-size A2: Compact A3: Mid-size	B C B C
4.	Ford India Ltd.	Escort Ikon Mondeo	A3: Mid-size A3: Mid-size A5: Premium	C C D
5.	General Motors India Ltd.	Opel Astra Opel Corsa Opel Swing	A3: Mid-size A3: Mid-size A3: Mid-size	C C C
6.	Hindustan Motors	Ambassador Contessa Lancer	A3: Mid-size A4: Executive A3: Mid-size	B C C
7.	Honda SIEL Cars India Ltd.	Accord City	A5: Premium A3: Mid-size	D C
8.	Hyundai Motor Company Ltd.	Accent Santro Sonata	A3: Mid-size A2: Compact A5: Premium	C B D
9.	Maruti Udyog Ltd.	Maruti 1000 Maruti 800 Alto Baleno Esteem WagonR Zen Versa Omni	A3: Mid-size A1: Mini A2: Compact A3: Mid-size A3: Mid-size A2: Compact A2: Compact Utility vehicles Utility vehicles	C A B C C B B C A
10.	PAL-Peugeot Ltd.	118NE Peugeot 309	A3: Mid-size A3: Mid-size	B C
11.	Premier Automobiles Ltd.	Premier Padmini	A2: Compact	A
12.	Skoda Auto India Pvt. Ltd.	Octavia	A5: Premium	D
13.	Tata Engineering & Locomotive Company Ltd	Indica	A2: Compact	B

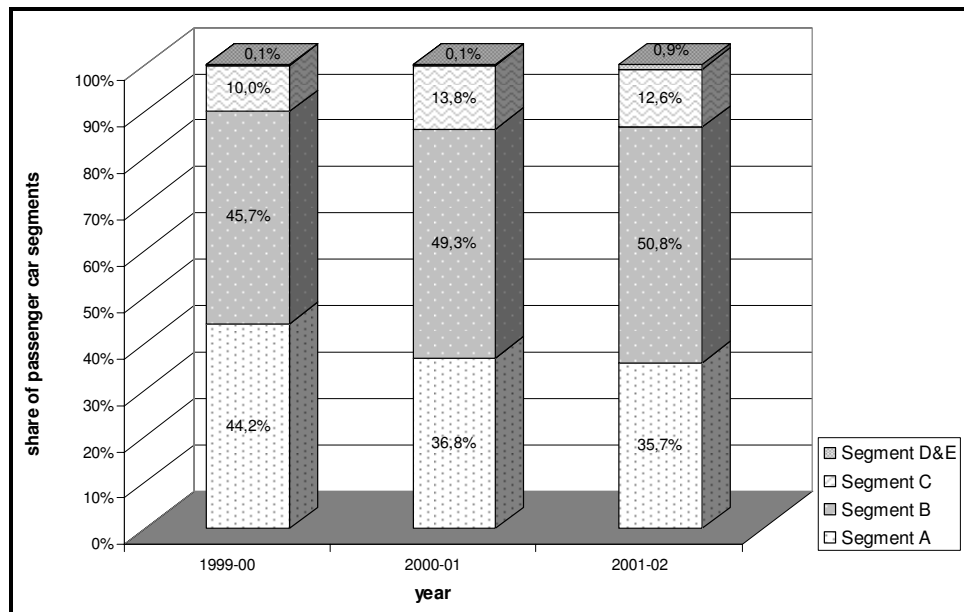
Source: Red Herring Prospectus, 2003

Figure 12: Development of the Indian passenger market, 1995-96 to 2003-04



Source: SIAM 2002:9; SIAM 2006

Figure 13: Development of the market volume by segment



Source: Red Herring Prospectus, 2003: 62-63

While India's pre-liberalization production capacities were not able to satisfy market demand, India's post-liberalization production capacities soon surpassed actual market demand. At the time of research, the Indian automobile industry was suffering from a severe production overcapacity. Although market demand has steadily grown (see figure 12), it remained below expectation for many international automobile entrants. What is more, market growth is still mainly restricted to the lower segments A and B (see figure 13). The segments A and B are essentially the only segments that offer real market volume in India.

SUPPLY MARKET CONDITIONS IN INDIA'S AUTOMOBILE INDUSTRY: SUPPLIERS AND HUMAN RESOURCES

SUPPLIERS

As the Indian automobile industry had been for decades very small, isolated, and monopolized sellers market, the less than a handful of producers in the market provided little volume for the development of a strong supplier industry. In addition to low volumes, supply uncertainties and the tax regime provided little incentive for car manufactures to outsource parts and components and reduce their high vertical integration (D'Costa, 2003). In the absence of market growth and competition, existing suppliers, had little capital and incentive to update manufacturing technology and facilities (Bhargava, 2002). Moreover, the dispersal of supplier over different states in India and the absence of Value Added Tax (VAT) discouraged concentration processes in the Indian supplier industry (ACMA and SIAM Interviews). As a result Indian automobile suppliers remained small players, featuring low production capacities, low technological know how and low quality levels (D'Costa, 2003; Bhargava, 2002). In summary, before SMC entered the Indian market, supplier relations were weak, fragmented and not tiered or meaningfully concentrated at all. What is more, contractual relations in the industry were low trust based and arms length in nature. Supply logistics were shaped by supply uncertainties, the geographical dispersion of supplier all over India and poor transportation infrastructure. Against this background, high inventories were and still are to a large extent a necessity. All in all, supply market conditions for automotive parts and components were unable to serve international market standards, especially not in terms of quality, quantity and price.

This changed, however, with SMC's entry to the Indian market (see further detail in chapter 6). It is probably fair to say that like not other international entrant, SMC has shaped the Indian supplier market in the pre-liberalization era. In the wake of market reforms other international automobile suppliers also entered the Indian market and asked their suppliers to follow (Bhaktavatsala, 1993; D'Costa, 2003; Sutton, 2004; Schwerdt, 2004). This 'follow sourcing strategy' implied that big international suppliers, such as Bosch, Delphi, Denso, Valeo, or Visteon, followed their buyers and either established wholly-owned subsidiaries

or engaged in local tie-ups and JV (Humphrey, 1999; Humphrey, 2000; Bhavani, 2002; Humphrey, 2003). For Indian suppliers the entry of the international supplier giants implied, in turn, a huge challenge. They were under great pressure to catch up with international quality and technology standards which has often only been possible by international cooperation. According to Humphrey (2003), “there has been a clear marginalization of locally owned companies because of the development of global sourcing arrangements between leading assemblers and first-tier suppliers (Humphrey, 2003: 136)”. Overall, the modest (widely overestimated) automobile market demand in India has led to an overcapacity in the Indian supplier industry. Suppliers have tried and still try to buffer these problems by serving different masters.

HUMAN RESOURCES

Finally, we shall only briefly discuss the supply market conditions for human resources. India’s education efforts have a legacy of focusing on higher education (Becker-Ritterspach, 2000). While the number of scientists and engineers is among the highest in the world, India as a whole faces still high levels of illiteracy and low learning achievement. However, these conditions have generally not harmed the human resource availability for MNEs in India. The Indian labor market offers a huge supply of highly educated human resources. For international auto manufactures this has generally implied an abundance of highly qualified managers and engineers at comparatively low cost. At the same time, there is an abundant supply of qualified – ITI trained – workers at comparatively low cost. In comparison to other emerging markets such as China and Indonesia, India’s large number of educated workers is also seen as its ‘trump card’ (Geissbauer and Siemsen, 1996). As far as average wage levels are concerned, Geissbauer and Siemsen mapped the scenario across different employee levels in 1995 as follows: in 1995 the average wage levels in India were for factory workers and apprentices between 115 to 175 Euro, for foremen and engineers between 225 and 325 Euro and for upper management (e.g. department heads) between 700 and 1800 Euro (Geissbauer and Siemsen, 1996). Compared to other emerging market conditions, India is taking in wage level terms a middle position (Geissbauer and Siemsen, 1996). However, a common complaint about India’s human resources is a general lack of practical skills. This problem is rooted in the structure of India’s higher technical education system, a socio-religiously founded prejudice towards physical/manual work, a poor funding of educational facilities and outdated curricula (Heitmann, 1995).