

## Indian Automotive Sector: Immature to be Independent Globally.

Who to be blamed? HR, Business Leaders, Government policies or the Entrepreneurs!

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### ABSTRACT

The Automotive sector in India is witnessing a landmark developmental change wherein not only the entrepreneurs have started their own manufacturing units but also plunged the major market share as compared to established international brands. The origin of Indian Automotive Industry although started as a joint venture with foreign MNCs but because of their dedication and sheer passion they managed to run on their own, and are now dominating the automotive sector to a large extent. *(Tanwar, Ajay, Business Manager, Vol. 14, No. 12, June 2012, page 37-39)*

According to a report published by Assocham (Associated Chamber of Commerce and Industries of India) there are about 10000 units in unorganized sector that operates in various tier circles and usually catering to Tier one and Tier two suppliers in the lower end technology products and also serve the replacement market.

At the same time, US & European OEMs are increasing their presence in Indian market, especially in passenger car market and creating a hard competition to the Local OEMs. FDI bill which has been approved by the Parliament recently will encourage Foreign MNCs to increase their investment inflow in India and these foreign organizations will hire global (Non Indian) leaders to manage business operations in India to protect their self interests. There is a worry... To secure their business interests, would those Indian business leaders who are leading existing indigenous industries be able to compete their foreign counterparts in MNCs?

I wanted to go into details to find out the answer whether the leadership style has any correlation with business output. Therefore to study & evaluate the leadership styles and its impacts on organizational performance, I conduct surveys & interviews with some existing leaders & aspirant leaders to complete my research. Research is something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge” *(Sounders et al, 2007,p.5.)* and methodology provide the necessary framework for successfully conducting the research as it provides guidelines rather than explanations on how research should be conducted. It is an approach towards any question, which guides the researcher towards its answer *(Remenyai & Williams 1995).*

**Keywords:** Indian Automotive industry, Micro, Small and Medium Enterprises, Leadership Challenge in SMEs, Auto component manufacturing sector, Leadership Transformation,

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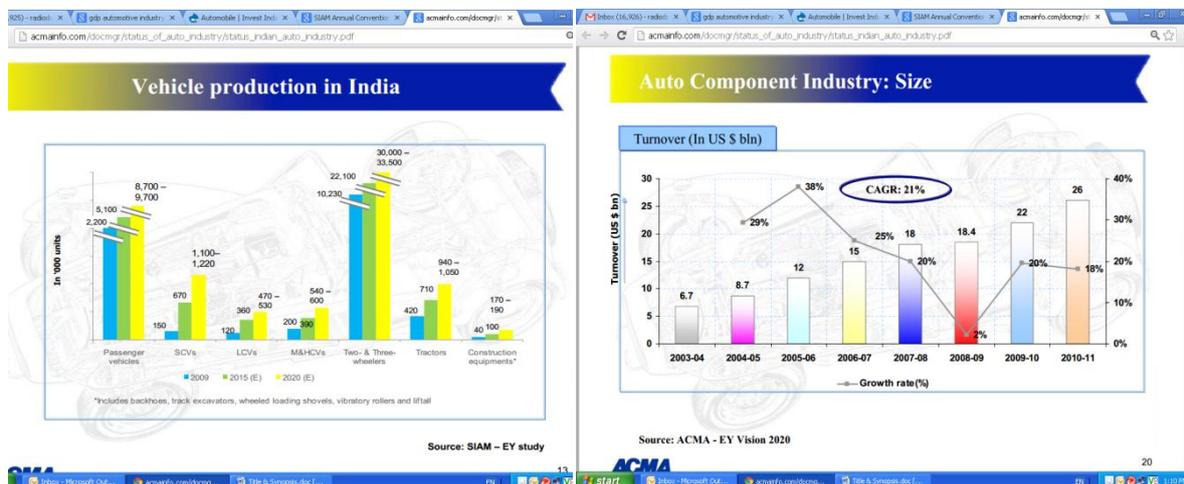
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## INTRODUCTION

Following India's growing openness and the growth in economy, the automobiles are of great demand particularly in the arena when one can get easy & low interest finance from the different institutions of the industry.

Figure 1

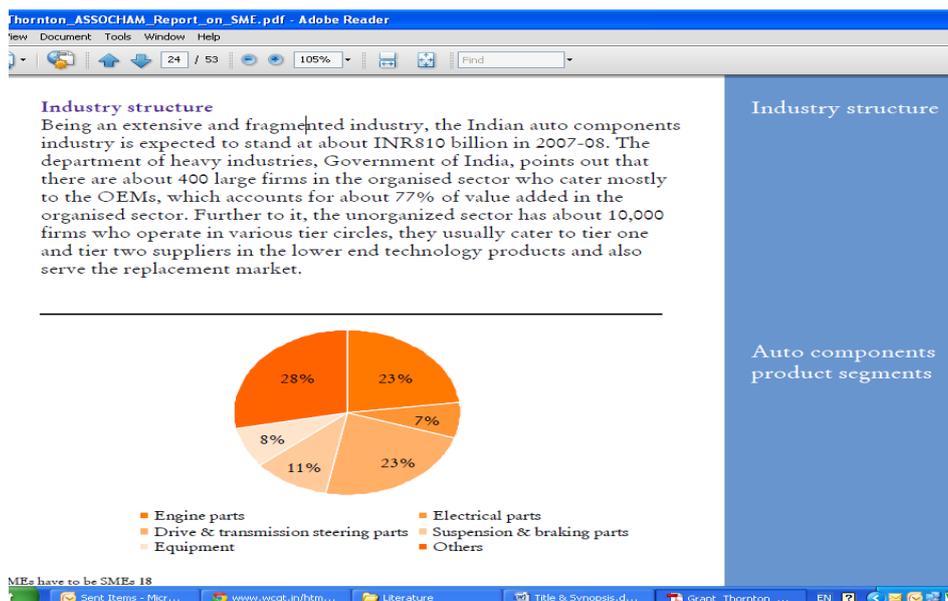
Figure 2



Source: SIAM – EY Study

According to a report published by Assocham (Associated Chamber of Commerce and Industries of India) there are about 10000 units in unorganized sector that operates in various tier circles and usually catering to Tier one and Tier two suppliers in the lower end technology products and also serve the replacement market.

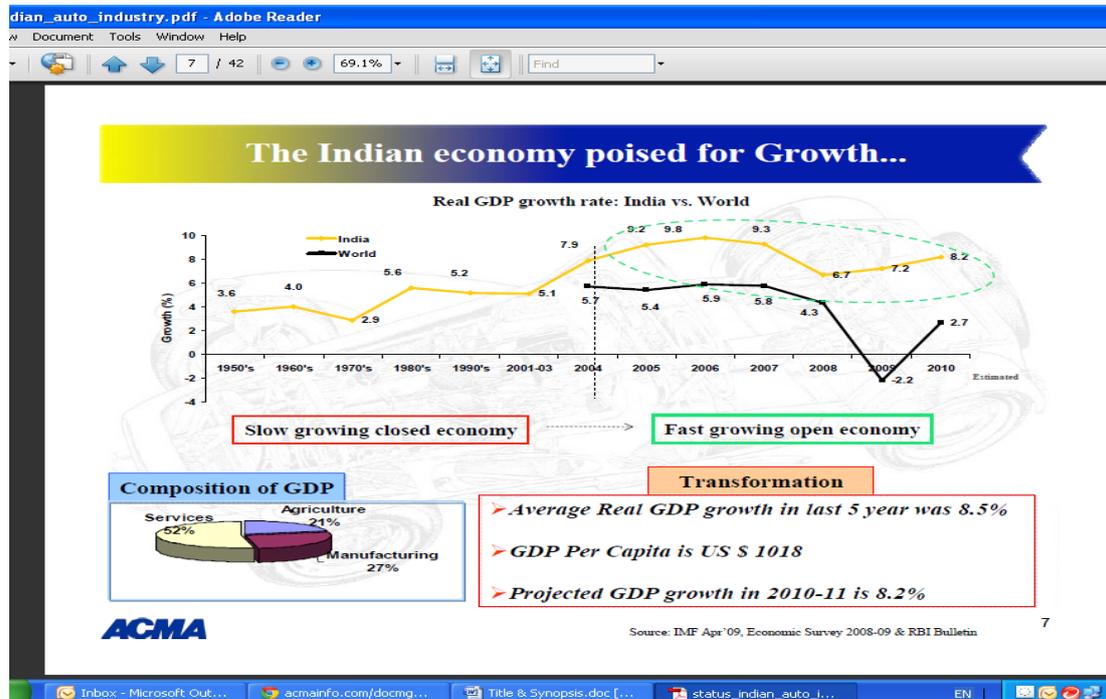
Figure - 1



Source: [www.wcgt.in](http://www.wcgt.in) (Assocham Report)

Overall Indian economy is also growing reasonably and as predicted by various learned scholars; India will be a superpower in near future. When entire world witnessed global meltdown and negative growth during 2008, India managed to sustain its economy & maintained growth rate in GDP at the rate of 7% approximately.

Figure - 4



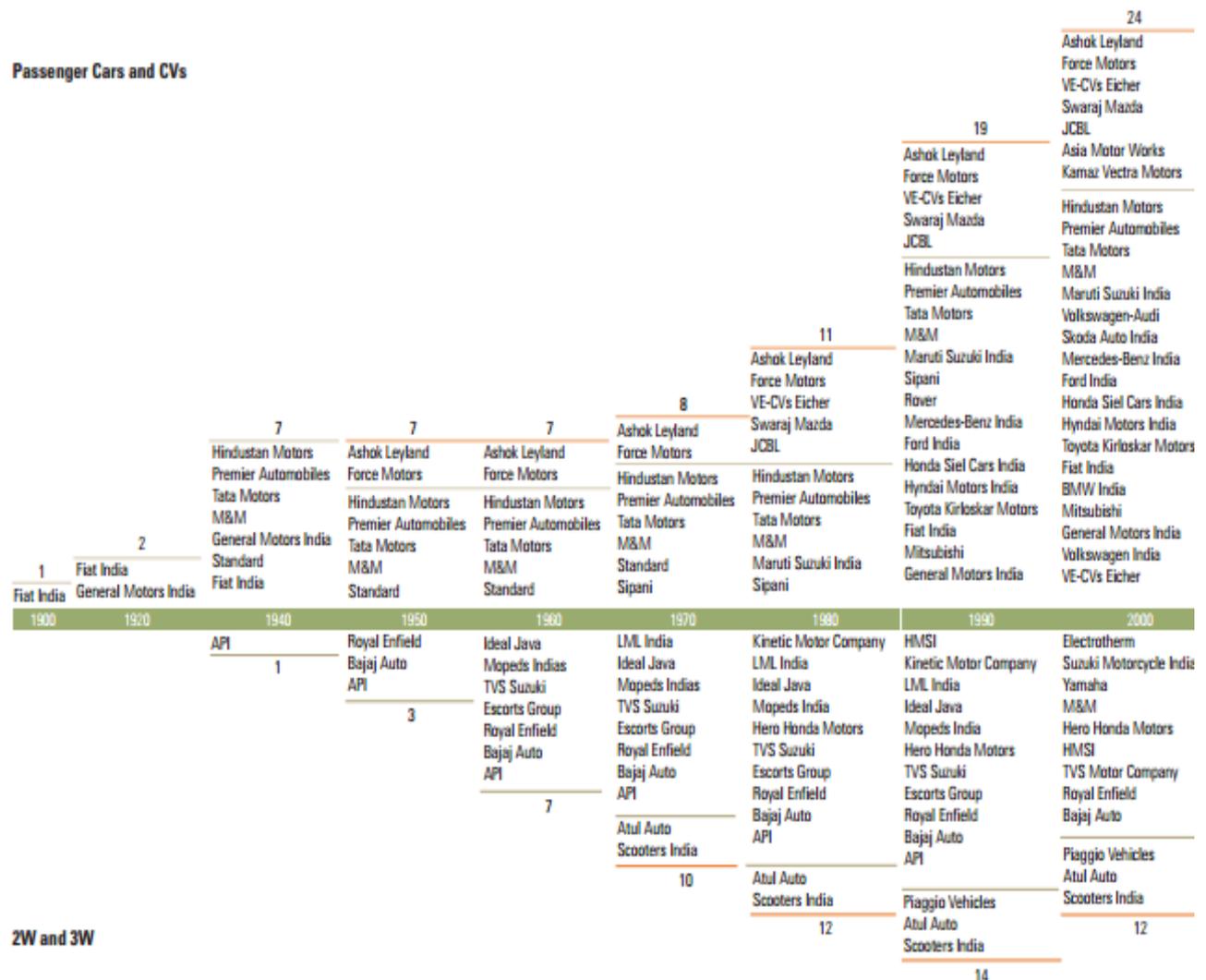
Source: SIAM – EY Study

But at the same time, US & European OEMs are increasing their presence in Indian market, especially in passenger car market and creating a hard competition to the Local OEMs. Following are the illustrative figures provided on their website by Auto Component Manufacturers Association of India.

This high demand could lead to the successful growth of the auto sector in the near future. But we have to cash it on by imparting new innovations and plans to the customers. This thing can be possible when Indian entrepreneurs increase their independencies which in turn can be achieved through leadership development at different stages of the system.

And Automotive (Automobile Parts & Component manufacturing) units instead of establishing themselves as independent global players still are looking for foreign alliance and joint ventures. 60+ years after independence still German, Japanese, American & European entrepreneurs are availing opportunities in India to start their ventures independently or with Indian Entrepreneurs in joint collaboration at large scale which is not good for country's sustainable growth in long run.

Figure – 5



Source: SIAM, Company websites, KPMG Research

Source: ACMA's website

## 2. HISTORICAL INDUSTRIAL DEVELOPMENT OF INDUSTRIES IN INDIA

If we go through the history, we can find that not only the foreign collaboration was done in automobile, automotive sector, but also in other sectors like telecom, IT and FMCG. Versatile brains addressing to the IT sector has also given prominent appearance in the global market like HCL, TCS, Satyam & Wipro, thus tuning out to be big names in their sectors.

Today Indian Telecom Players are turning out to be big entities which the foreign players are looking into and following. The likes of Bharti- Airtel, Tata-Teleservices, and Idea Cellular have become the Indigenous brands in telecom sector. Likewise the exploration in the FMCG sector has given rise to the world trusted brands like Dabur India, Cavinkare, DS Group, Patanjali Ayurveda and MDH. These companies are today turning the market value and came

out as strong competitors to the much established foreign brands like HUL, Colgate Palmolive, Nestle and Coty Inc. (Adidas). Same is the case with Desi fashion apparel brands like Ruff N Tuff, Duke, Arvind Mill, and Mufti. These brands not only are turning out as the easy names for the fashion industry, but they are also snatching big market shares from their foreign competitors like Van Heusen, Reebok, Adidas and Polo.

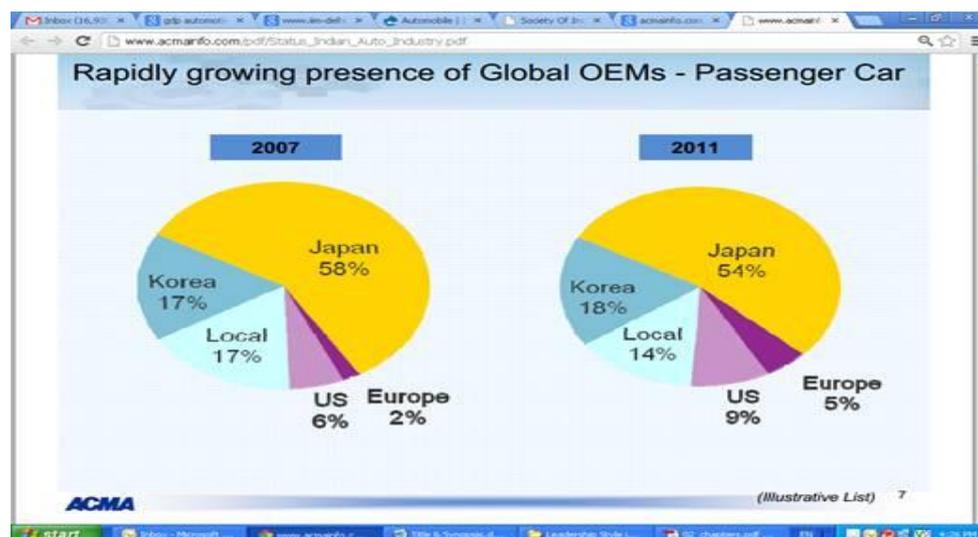
The Indian brands today we can say are totally set to compete their foreign competitors in Domestic as well as in International market arena.

### 3. NEED AND OBJECTIVES OF THE RESEARCH

#### 3.1 Need of the study

Despite so much advancement with the use of our own technology and the setting up the business standards round the world, the Indian automobile and parts manufacturing industry is still looking for foreign collaborations / joint ventures to expand their business. Instead of coming out independent brands, they still look for foreign investment and collaboration.

Figure - 6



Source: ACMA's website

There is a dire need to thoroughly understand the domains of this sector, which has enough potential to come up as the independent and trusted sector. But despite such advancement in the automotive sector we are still collaborating with the outside players to come up on manufacturing table.

On a simple analysis we can find that automobile and auto component & parts manufacturing enterprise have to re-look in to their internal system /set-up and find out the reasons as to why they are unable to grab maximum market share independently without any foreign alliance? And let me tell you frankly that we have to check out the reasons that are motivating industrialists from this sector for such alliances.

#### 3.2 Objectives of the study

There are many relevant reasons supporting my decision of selecting this topic. Few reasons are as follows: -

3.2.1. FDI bill which has been approved by the Parliament recently will encourage Foreign MNCs to increase their investment inflow in India and these foreign organizations will hire global (Non Indian) leaders to manage business operations in India to protect their self interests.

3.2.2. There is a worry... To secure their business interests, would those Indian business leaders who are leading existing indigenous industries be able to compete their foreign counterparts in MNCs?

3.2.3. Unlike Service & Technology (IT) Sector, Automotive (Manufacturing) Sector needs to invest a huge capital in plant and machineries. To cater to their investment need, they avail the finance schemes and loan facilities being offered by different financial institutions. But the question is, Will they be able to maintain their profitability so that the loan amount can be repaid? In a global competitive environment it seems to be difficult task for the SMEs if they will not look at the innovations. And the innovation is completely related to the leadership approach. If the leadership is not conducive to the innovative ideas, it would be challenging for SMEs to survive and grow the business.

3.2.4. I wanted to go into details to find out the answer whether the leadership style has any correlation with business output. Therefore to study & evaluate the leadership styles and its impacts on organizational performance, I will conduct surveys & interviews with some existing leaders & aspirant leaders.

#### **4. RESEARCH AND ANALYSIS**

As this research made extensive use of the available literature on auto industry in India and is a descriptive type of research where there is no mathematics involved, qualitative research is preferred over quantitative.

“Qualitative research means any kind of research that produces findings not arrived by the means of quantifications. It can be referring to research about person’s lives, stories, behavior but also about organizational functioning, social movement or interactional relationships (*Strauss & Corbin 1990 pp.17*).” Some of the data may be quantified as the census data but the analysis itself is a quantitative one.

Analyzing both quantitative as well as qualitative research approach and considering them with the research topic and aim of the investigation, a qualitative approach has been undertaken.

##### **4.1. Factor wise study:**

Let take a dig into the system which allows the joint venturing and the collaboration and understand the factors that led to this process.

4.1.1 FINANCIAL: The finances can’t be any constrain for Indian Entrepreneurs and they cannot be doubted for their capital investment

capacities. They are more capable than their foreign competitors to invest and are also backed by various Government & Non Government financial institutions.

- 4.1.2 **HUMAN RESOURCE:** Availability of Human resource also cannot be a valid reason behind increase in foreign alliance as human resource is easily available everywhere in India on comparative much cheaper rates than in other parts of the world. World knows that; Indian talent is in high demand everywhere. India is a large pool of skilled manpower & knowledge based is also very high.
- 4.1.3 **TECHINICAL:** Technical reason seems valid up to some extent as Indian entrepreneurs do not take R&D initiatives much seriously. That's why foreigners always get advantage of new technology invented by them. Indian Companies are slow in Innovation & Creativity initiatives. This is somewhat related to our culture as we the Indians, feel hesitate in taking risk to implement new ideas.
- 4.1.4 **MARKETING:** Marketing is an important part of any organization to actually make it big. Indians Companies have no strong and effective international marketing strategy to compete with the foreign players, that's why they look for international partners to make their products easily reachable at the Global level. The Indian companies rarely think of developing their own Marketing Managers and Business Leaders at par with their foreign counterparts, and in Lack of this they are forced to enter into the foreign alliances.
- 4.1.5 **GOVERNMENT POLICIES:** Government's policies on foreign investment in country are more investor friendly, flexible and fruitful for the foreign investors' therefore foreign investment & collaborations are increasing multifold in India.
- 4.1.6 **LEADERSHIP:** This is the valid reason as most of Indian Auto-Component manufacturers in India just look at the cheaper human capital and most of the time they compromise with skills & competencies. In our sphere and system of working we lack grooming up the leadership qualities among ourselves and forgot that there's a correlation between Leadership practices and Business results. The Indian Companies rarely think of hiring the talent from IITs or IIMs or

from other premier institutions. They rarely send their leaders (Plant Heads/GMs/Managers/Executives) for the leadership development programs offered by premiere institutes because high cost is involved in it. The Indian Companies do not allot adequate budgets and liberty to take independent decisions therefore Training & Development department is not functioning much effectively in such organizations. In some cases it has also been observed that business related mostly decisions are being taken by promoters, owners without even consulting with their second line business leaders.

#### 4.2 Comparison with other Industries:

It is interesting to note that; the recent studies on “top companies for leaders” by strategic HR and leadership advisory firm Aon Hewitt and RBL group to examine how these organizations choose and develop leaders, and determine if there is a correlation between leadership practices and business results, have come up with following results:

- 4.2.1 They all have a deep alignment of business strategy and people strategy. PepsiCo creates 10 year growth plan for individuals who are thought to have leadership potentials.
- 4.2.2 They all have a deep faith in grooming talent from within. Every single CEO of P&G started as entry level at P&G itself.
- 4.2.3 If someone is two-third ready, Wipro will take a chance on an internal candidate before looking outside.
- 4.2.4 They are giving their leaders an experience to deal with changing socio-economic global landscape e.g. at Wipro employee learn how to deal with ambiguity with their leaders. Wipro chairman Azim premji personally mentor 25-30 leaders at various levels.

But if we look at our Indigenous automotive companies and analyze the role of existing leaders (VPs, Plant Heads, CEOs) in leadership developing process to find out whether these leaders are playing a role of conductor in organizations talent and leadership transformation or just playing as a role of insulator and creating hurdles for potential leaders. When I conducted unstructured and deep interviews with existing leaders as well as with high potential employees who are considered to be future leader, the analysis on such level leads to us to know that in most of the mid-size automotive part manufacturing companies, HODs instead of grooming up their potential successors start acting as a competitor. They create hurdles for the potential leaders so that they themselves can remain always in power and

importance. This attitude of existing leaders can be dangerous for any organization. The role of existing leaders (HODs) is to add values and groom the budding and new talent so as to cater to the organization's future need. But unfortunately we see some existing leaders acting as barrier between source of leadership development and potential leaders.

#### 4.3 Analysis Outcome:

Considering above analysis, we understand the main reasons for Indian entrepreneurs to enter into joint venture with International players are:-

- 4.3.1 Lack of risk taking ability.
- 4.3.2 Lack of technical & leadership development culture.
- 4.3.3 Friendly and liberal foreign investment policies.
- 4.3.4 Lack of strategies for local brand promotion in to global market

### 5. CONCLUSION

“Looking back over the past 100 years, we cannot imagine a more opportune time for the field of leadership studies. Never before has so much attention been paid to leadership, and the fundamental question we must ask is, what do we know and what should we know about leaders and leadership?” (*Gelfand et al. 2007, Goethals 2005*).

All factors are mostly related to the leadership skills hence it can be concluded that; the Indian automotive industry is lacking global leadership and leadership grooming culture. India's growing openness, and the growth in economy, the automobiles are of great demand particularly in the arena when one can get easy and low interest finances from the different financial institutions of the country. This high demand could lead to the successful growth of the Auto sector in the near future. But we have to cash it on by imparting new innovations and plans to the customers. This thing can be possible:-

- When Indian entrepreneurs increase their independency which in turn can be achieved through Leadership development at different stages of the system.
- The Indian auto sector will have to transform its traditional ideologies by ensuring that Existing Leaders act as Transformers and not as as Barriers.
- Government should have to relook into its foreign investment policies. Government should first promote local investments rather attracting and creating opportunities for foreign investments.
- Subsidy by the government being granted to Indian exporters should be increased for brand promotional activities. Country's Chamber of commerce & Industry or foreign trade assistance associations must promote local Indian brands maximum in

all international trade fairs which are being organized by different nations at different locations so that global reach of Indian manufacturers can be maximized.

**HRD FUNCTION, EXISTING LEADERS (HODs) AND ENTREPRENEURS, ALL THESE STAKEHOLDERS ARE RESPONSIBLE FOR THE CURRENT SITUATION**

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## **GLOSSARY**

MNC: Multinational Companies.

SME: Small and medium Enterprises.