CHAPTER - III
HISTORY OF AUTO COMPONENT MANUFACTURING INDUSTRY AND THEORETICAL ASPECTS OF ORGANIZATIONAL CLIMATE AND EMPLOYEE COMMITMENT

This Chapter represents history of the auto component manufacturing industry in nation, state and district perspective and brief theories about organizational climate and climatic variables and theories about employee commitment.

HISTORY OF AUTO COMPONENT MANUFACTURING INDUSTRY

Early 1940’s Indian auto component industry commenced out small, supplying components to Hindustan Motors and Premier Automobiles after 1950s, production expanded by the companies of Telco, Bajaj, Mahindra and Mahindra. Till, 1980s Indian auto component manufacturing industry interpreted by an oligopoly structure, small-scale operations, high cost of production, technological obsolescence and numerous government regulations. At this period, there was a tendency for vehicle manufacturers to produce parts and components in-house and component manufacturers started mainly to gratify the replacement demand.

In 1980, Maruti gave birth to a variety of new age auto component manufacturers who manufactured components that combined the best of technology with quality. With the success of Maruti, the way of Indian auto component industry took an upswing with the ascending of export figured as a result of the low cost of labour and material. The giant players in automobile
industry encouraged and facilitated growth of the auto component industry around their units.

Indian auto component manufacturing industry is keeping itself fully tuned with the technological advance being made all over the world and it has enhanced them to develop their export base. Some of the auto component manufacturers in India have already emerged as major global players by tying up with several well-known Original Equipment Manufacturers (OEMs) overseas as component suppliers and several companies have entered into a technological collaboration and equity partnership with the worldwide, by following their work ethics and management practices.

By global standards, there is a fairly well developed component and accessory industry, with some suppliers already meeting global technical and quality standards, particularly at Tier 1 level but many others lack such competence. Pressure is on suppliers to raise the quality of their products to remain competitive. Total investment in the component industry reached USD 0.5 billion in FY 16 in comparison to USD 0.4 billion in FY15. Exports are expected to increase as a result of overcapacity in the domestic car industry and the government policy to bring in a more liberal regime on the foreign exchange front. The flood of new entrants into the car industry as a result of liberalization has led to a complete transformation of that sector.

AUTO COMPONENT INDUSTRY - NATION WIDE

India's automotive component industry manufacturing the entire range of parts required by the domestic automobile industry for various vehicles, including cars, jeeps, tractors, Light Commercial vehicles (LCV’s) and Heavy commercial vehicles (HCV’s), four, three and two wheelers. Auto component manufacturers dominated large production of unorganized sectors than the
organized sectors. Although lesser in number, the organized sector account 85% of total industry turnover (FY15). It is expected to grow at 10.5% to touch USD13billion by 2019-20, as compared to USD 8.4 billion in 2016-17.

The Indian Auto-Component Industry faced several headwinds in 2015-16. Demand, in domestic as well as, global was affected by several conflicting developments. Apart from macro-economic slowdown, global demand was also impacted by the unexpected slowdown in the Heavy Commercial Vehicles (HCVs) sector in the US and the uncertainties brought about for a few large multinational Original Equipment Manufacturers (OEMs) due to the revelation of wrong and fraudulent reporting of emission data. On the domestic front too, demand conditions were below expectations. Rural demand was dampened due to developments like the banning of diesel vehicles in the National Capital Region (NCR) created uncertainties and gave a negative signal to the industry. While, upcoming regulations on safety, emissions and electrification are expected to trigger off a fresh round of investments in the sector on research and development to meet these requirements, today a lack of clarity on the roadmap of such regulatory reforms has created some uncertainty and players have held back investments in these areas.

Under such challenging circumstances, the Indian auto component industry managed to hold its ground. The auto component industry grew by 8.8% and recorded a turnover of Rs.255,636 crore (USD 39 billion) in 2015-16; the industry is expected to read USD 115billion by FY 20-21. With this growth, the industry registered a Compound Annual Growth Rate (CAGR) of 6% over a period of six years. Even after facing such headwinds, the auto component industry managed to record a positive growth of 3.5% in exports during 2015-16. This is at a time when overall exports of India declined by 9.5%.
The Indian automobile market is estimated to become the 3rd largest in the world by 2018 and will account for more than 5% of the global vehicle sales; India is expected to become the 4th largest automobile producer globally by 2022- after China, US and Japan. Indian auto component sector stood at USD 39 billion in FY15-16; the industry is expected to read USD 115 billion by FY20-21. The growth of global Original Equipment Machine (OEM) sources from India & increasing indigenisation of global Original Equipment Machine (OEM) turning the country into the preferable design and manufacturing base.

**AUTO COMPONENT MARKET SPLIT INTO SEGMENT WISE**

The following figure represents the auto component markets in segment wise.

![Figure: 3.1](image-url)
MICHAEL PORTER MODEL

The five forces model of Porter is a business unit strategic key factor that is used to make a scrutiny of the value of an industry structure. In Scrutinizing, the market forces at work in the Asian auto sector, “Porter’s Five Forces Model” is used. Porter’s five forces model is used to analyse the competitive environment for Indian auto component industry. Following diagram shows the model.

**Figure : 3.2**
STRATEGIES ADOPTED - AUTO COMPONENT MANUFACTURERS

NEW STRATEGIES

Auto component suppliers are focused on entering new vehicle segments and manufacturing new products with higher margin.

Both Indian and global manufacturers are investing in new capacities & newer programmes, in order to get long advantage.

As markets in North, west & south are getting saturated, components makers are now focusing on untapped market like the North east region of the country.

DIVERSIFICATION

Many Indian firms specialize in only one product market or segment & are looking forward to diversify horizontally in other segments like 2-wheelers, passenger cars or commercial vehicles.

They are stepping up their product development capabilities in order to have the best chance of capturing growth opportunity.
India’s projected production is around 8.7 million passenger vehicles per year by 2020 (with most of them being compact cars).

Many MNC’s like Ford, Hyundai, Toyota and GM are launching new vehicle models due to their earlier success in the Indian market.

Looking at the opportunity many global suppliers for example Bosch Chassis Systems, Tenneco & Faurecia have established R&D facilities in India to adapt global designs & develop new products.

Increasing investments in R&D also assists companies in setting up laboratories & new facilities to conduct activities like analysis, simulation & engineering animations. For instance Magneti Marelli entered into a joint venture with Maruti Suzuki, to establish a new plant for production of robotized gearboxes of automobiles.
STEPS TAKEN FOR THE GROWTH OF AUTO COMPONENTS MARKET IN INDIA

DEMAND SIDE

- Robust growth in domestic automotive industry
- Increasing investment in road infrastructure.
- Growth in the working population and middle class income to drive in the market.

SUPPLY SIDE

- Competitive advantages facilitating emergence of outsourcing hub.
- Technological shift; focus on R&D.

POLICY SUPPORT

- Establishing special auto parks & virtual SEZs for auto components.
- Lower excise duty on specific parts of hybrid vehicles.
- Policies such as Automotive Mission Plan 2016-26, Faster Adoption & manufacturing of Electric Hybrid Vehicles (FAME, April, 2015), NMEM 2020, likely to infuse growth in the auto component sector of the country.
India’s exports of auto components increased at a CAGR of 11.31 per cent, during FY09-FY16, with the value of auto component exports increasing from USD5.1 billion in FY09 to USD10.8 billion in FY16.
SHARES IN EXPORTS – GEOGRAPHY

Figure : 3.4

SHARES IN EXPORT VOLUMES BY GEOGRAPHY

Source: Annual Report (2016) of Auto component Manufacturers Association

Europe accounted for a volume share of 36 per cent during FY16 in Indian auto component exports, followed by Asia & North America with 25 per cent each in the same year.

MEASURES TAKEN FOR PROMOTING - GROWTH OF AUTO COMPONENT INDUSTRY

In Auto policy 2002 Automatic approval of 100% foreign equity investment in an auto component manufacturing facilities. Manufacturing and imports of auto components are exempt from licensing and approvals.
NATRIP is a set at a total cost of USD 388.5 million to enable the industry to adopt and implement global performance standards. Mainly focus on providing low-cost manufacturing and product development solution.

Created a USD 200 million fund to modernise the auto components industry by providing an interest subsidy for loan and investment in new plant and equipment for the department of Heavy industries and Public enterprise. Provided export benefits to intermediate suppliers of auto components against the Duty Free Replenishment Certificate (DFRC).

The Union Budget 2017-18 has tried to boost skill development by announcing to increase the establishment of skill centres by ten folds. They reduced in tax on Liquefied Natural Gas (LNG) from 5% to 2.5% was announced under the union badge.

Automotive Mission Plan 2026 a 4-fold growth in the automobile sector in India, which includes the manufacturers of automobiles. Auto components & tractor industries over the next 10 years expected to generate an additional employment of 65million

Faster Adoption and Manufacturing of Electric Hybrid Vehicles (FAME) is planning to implement 2020 which would cover all vehicle segments, all forms of hybrid and pure electric vehicles.
AUTO COMPONENT MANUFACTURERS – CHENNAI

In Early 1950’s and 1960’s Ashok Leyland and TVS group of Companies had tremendous demand for starting ancillary components manufacturing units in this region for catering to the component requirement of the engine parts, electrical parts, suspension & breaking parts, Drive transmission and steering part units. In fact, the auto component cluster at Chennai is an induced one, and has been linked to the established, of the larger industries like Ashok Leyland, TVS Group, Rane Group and Amalgamation group of companies. Initially, it started with the establishment of some units, and then gradually expanded in line with the level of sophistication and product range of larger units. Now a days, Chennai is a prominent place or the hub of the automobile industry and also known as the Detroit of India.

THEORETICAL FRAMEWORK OF ORGANIZATIONAL CLIMATE AND EMPLOYEE COMMITMENT

The theoretical framework for the current research study focused on two existing paradigms namely organizational climate and employee commitment.

THEORIES OF ORGANIZATIONAL CLIMATE

Organizational climate theory Schneider (1975) and Dennsion (1996) associated with employees attempt to use information to change and adapt to an organizational environment in order to create common and holistic organizational social context.
Lewin, Lippit & White (1939) the perception of climate was enacted into the vocabulary of social psychology (Schnedier, et al., 2000) and atmosphere that developed in the democratic clubs was characterized by a broader range of positive experiences was true in either of the other conditions (Lewin, Lippit & White 1939) and found “a set of attributes which can be perceived about a particular organization and subsystems, and that may be induced from the way that organization and its subsystems remain an ideal with their members and environment” (Hellriegel & Slocum 1974). It refers to “a contextual situation at a point and time and its connect to the thoughts, feelings and behaviours to organizational members” (Bock, Zmud, Kim & Lee 2005).

Litwin & Stringer (1968) labeled climate, reverted to Lewin theory of motivation: the concept of “atmosphere” or “climate” is crucial functional link between a person and the environment. They theorized in his sense about two ways such as individual behaviou and organizational behaviour. Individual behaviour was not influenced by an analysis of the climate concept. Organizational behaviour theories defined the systems to expound the interrelationship of variables to explain behaviour. Climate described the essences of this structure, their ideologies and processes to organizational members. (Lewin 1968) was convinced that climates were “Scientifically describable facts” and “emprirical realities” (Tagiuri 1968)

Hellreigal (1974) maintain that interpersonal relations may play a key role in influencing climate perceptions and can be perceived as an eminent environmental variable for determining behavioural change. In support of this view, the way they worked, to whom they talked, whom they liked, how they felt, how potentially they worked, how they involved into the organization and what they want to performed (Pace 1983). In other words, organizational
climate is an important contextual component for shaping employee behaviour, which includes change related behaviour (Burke & Litwin 1992). Climate literature differentiates between subjective psychological climate, which represents individual employee perceptions, and the more objective climate that may exist and it is socially structured phenomenon that induced the manner in which employees respond to define and interpret elements of their situation (Tierney 1999).

THEORIES OF EMPLOYEE COMMITMENT

The concept of employee commitment to the organization has been evolved for the past 6 decades. In the starting phase, exchange theory propelled by Etzioni (1961) based on, utilitarian, normative and coercive conditions, designed a basis for the domain. In recent years, the studies of employee commitment have received much attention from organizational and behavioural researchers (Morrow 1983; Richers 1985). In this point of view psychological and multidimensional perspectives concluded that commitment was an affective state, influenced by exchange related perception and other antecedent factors (Putterill & Rohrer 1995). Ensuring development was directed towards socio-psychology (Staw 1976), and more comprehensive theories (Porter et.al., 1974). It would appear to have potentially consequences for overall organizational performance (Mottaz 1988).

Employee commitment is based on an affective bond to the work organization, committed employees identify with and feel loyal towards the agency; the exchange their values of the organization and have a personal attachment of importance about the organization (Romzek 1989, Mowday, Porter & Steers 1982). Employee commitment has become a dominant
variable of interest to theorist and researchers in the area of micro organizational behaviour (Reichers 1986).

The concept that employee commitment combined three different types of commitment: one that reflects a need and one that reflects a feeling of obligation towards the employer (Meyer and Allen 1991). They asserted that the three types of commitment are not jointly exclusive but each individual have varying levels of affective, continuance and normative commitment at the same time. This assumption later validated in their tools of CFA in a study using nursing students as a sample (Meyer et al., 1993). The three component model of employee commitment allows for the discussion of a variety of points related to affective, continuance and normative commitment.

Affective component is the first component of commitment, emerged to be researched more than continuance or normative commitment, which might simply be because it is aspiration by the employer. “Employee attachment to, identification with and involvement in the organization” refers to affective commitment (Meyer & Allen 1991). Affective commitment is referred to as cohesion commitment (Kanter 1968). It is considered the desire of employee or attitudinal commitment as derived by Meyer and Allen (1991) and Wiener (1982).

Continuance component is the second component of commitment, indicated to the costs that employees assist with leaving an organization. (Meyer & Allen 1991). Employees working experience leads to investments and they would have too much to lose by quitting (Kanter 1968). The cost of employee for leaving the organization or what would be lost if the activity discontinued (Becker 1960).
Normative commitment is the third component of commitment, developed by feelings of obligation that developed with an individual into organization and redefining the employee belief system for self – identity, to point out the employee moral (Kanter 1968). Wiener (1982) viewed normative commitment as a motivational process that was clearly differentiated from instrumental-utilitarian approaches to the explanation of the work behaviour. Normative commitment is theorized as compensation or rewards in advance of provoked cost in utilizing for employment, thus developing a sense of obligation on the part of the employee. Meyer & Allen (1991).

**THEORIES OF ORGANIZATIONAL CLIMATE VARIABLES**

**AUTONOMY**

Autonomy measures the extent to which those workers observed themselves to be self-sufficient and make their independent decisions. They were primarily committed to their organizations because of the nature and autonomy of their work (Chieffo 1991). Organization respects employee’s feelings and encourages them to take the responsibility. There is a development and mutual respect between employee and employer relationship with the autonomy. Organizations give the freedom to the employee to take risk and try a new idea to solve the problem. Lawler, and Weick (1970) identified autonomy is one of the organizational climate dimensions.

**GOAL CLARITY**

Early studies indicated that the goal of the individual and the goal of the organization have become integrated in the phase of commitment of an individual (March & Simon 1958). Lavn(1981) found there is a relationship
between goal and commitment of the organization. Higher goal developed more strategies and performed more (Mesch et al., 1994) and achieved organizational goals (Mowday 1998). In the organizational climatic variables goals are the crucial one’s enhancing their performance and lead to the better working conditions in the organization.

**INNOVATION**

Amabile (1988) viewed in his study employee innovation is an immense one in the study domain and it is an eminent factor of efficient and survival of organizational functioning. It enhanced them to work an employee on motivational aspects proven by scientists (Amabile 1996). Individual employee completed their simple innovations in their level based on the achievement of more complex level innovation needed the team work with specialized knowledge of employees (Kanter 1998) and confound three types of innovation idea generation, idea promotion and idea realization.

**SUPERVISORY SUPPORT**

Supervision was mentioned as a source of key to employees more frequently than security, job content, company and management, working conditions or opportunity for advancement (Herzberga et al., 1957). Employee changed their productive behaviour with the positive relationship with supervisors (Vroom 1964).

**WORKING ENVIRONMENT**

Verbeke (1998) working environment is the perception of employee psychological description of an organization (James et al., 2008) is a useful
device for understanding the way to organise employee perception and individual structure (Naylor, Pritchard & Ilgen 1980). (Brown & Leigh 1996) developed and interpret the working environment is about employee well-being through their psychological aspects. Working environment articulates meaning, motivation and emotional significance of an employee (James, James & Ashe 1990) and extraneous to personal characteristic such as age, gender, tenure and educational level of employee (Garland, Mc Carty & Zhao 2009). Good working environment reduces the employee absenteeism (House 1981).

REWARD

Reward is the eminent factors of employee inter functional alliance in an organization (Coombs and Gomez-Mejia 1991). Most of the researches confound task rewards are related to employee performance and satisfaction (Blauner 1964, Herzberg 1966). Reward ensures employee behaviours, activities and procedures to organizational success (Cardinal 1990). Salary, Promotion, adhesiveness of work groups, security, fringe benefits and working conditions are probable sources of rewards to the workers (Fournet, Distefano and Pryer 1966, Gruneberg 1979). Whereas organization regular appraisal and reward encourages the employee intrinsic motivation (Amabile 1996) and innovative behaviour (Jong and Hartog 2007).

PERFORMANCE FEEDBACK

Performance feedback is an endless process of an employee whereas the through which an employee performance identified (Lanbury 1989). Newsstorm (1993) argued performance feedback is the best technique for every employee to plan his performance. It enhanced by the performance
management. 360 degree performance appraisal system is more effective compared to other feedback systems (Milliman et al., 1994) and this is bias system where everyone interact with each other. 360 degree performance appraisal system enhanced teamwork and smooth relationship with managers and co-workers (Antonioni & Park 2001).

WELFARE

**Industrial Resolution adopted on Tripartite Conference in December 1947.** According to Factories Act 1948, Employees State Insurance Act, 1948 and Minimum Wages Act, 1948 and they year 1965 the bonus was declared to the employees. Employees satisfied with their welfare measures such as insurance, pension, canteen facilities etc., they satisfied with their needs. Employees promote smooth with industrial relations and production (Ashok 2012).

INVolvement

The toughness of employee identification (Mowday Porter & Steers 1982) with his involvement in particular organization is indicated by his desire to engage in the organization, with his willingness, behalf and belief in their organizational goals and values (Mayer & Schoorman 1992). Employee involvement enhances individual performance (Brown & Leigh 1996) management productivity (Mathieu, Hoffman & Farr 1993).
LEADERSHIP

Burns (1970) developed the basic thoughts of transactional and transformational leadership and found specific kinds of leaders namely task-oriented and relations oriented (Farris 1988). Supportive and considerate leadership is exemplified to employee job satisfaction (Litt & Turk 1985). Leaders have involvement and participation in decision making for their subordinates concern (Yukl 1998). There is relationship between leadership variables and commitment in the organization (Tarter, Hoy & Bliss 1989). Aspiration of leadership disseminated employee performance, motivation and satisfaction (Bass 1998).

INTERPERSONAL RELATIONSHIP

Interpersonal Relationship is the eminent source of employee satisfaction (Friesen, Holdaway & Rice 1983). Structural, Cognitive and relational dimensions are included in several theoretical dimensions (Nahapiet and Ghosal 1988). Relational dimensional includes factors that characterize the nature of interpersonal relationship with in the organization.
CONCLUSION

It is concluded that the factors of the organizational climate and commitment theories, history of the auto component manufacturing industry are discussed. Based on these discussions the factors of 11 organizational climate variables namely: Autonomy, Goal Clarity, Innovation, Supervisory support, Working Environment, Reward, Performance Feedback, Welfare, Involvement, Leadership and Interpersonal Relationship used to measure the employee perception towards the auto component manufacturing industry. The three component of employee commitment was explored namely: Affective commitment, Continuance Commitment and Normative Commitment is used to measure the employee commitment in the auto component manufacturing industry.