CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION TO THE FIELD

Human Factor is the most important resource that makes the difference amongst nations as well as the organizations. According to World Bank’s Assessment of 192 countries on an average physical capital which claims itself as the most important proactive wealth accounts only for 16 percent of the total wealth, natural capital accounts for 20 percent but the ‘human capital’ accounts for 64 percent. Human capital is the only resource with an apparent potential to develop better ideas and get appreciated over the time period.

Human capital refers to the knowledge and skills of the individuals (Becker 1964) which acquired and developed through education, training and experience. A firm’s human capital is responsible both for its day-to-day productivity and future innovations (Drucker 1993). It is defined as the knowledge and skills including training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in a firm (Barney 1997). Successful organizational growth and performance may depend on how the organization invests in their human capital (Ireland and Hitt 1999).
Researchers have suggested that human capital and human resource systems that organize and develop human capital are critical for creating value for the organization (Devanna, Fombrun and Tichy 1981; Lado and Wilson 1994; Schuler and MacMillan 1984).

Human development can be defined as the process of enlarging people’s choices in terms of knowledge, health and longevity and levels of income. From an international perspective, India is categorized as the country with low human development. The benchmarking is done based on the Human Development Index (HDI), which is a comparative measure of the well-being of people in various world nations. HDI combines the normalized measures of life expectancy, literacy, education, and GDP per capita for countries worldwide. According to Human Development Report 2007/2008, the HDI of India is 0.619 and was ranked 128th out of 177 countries.

Human development, though a macro concept has micro implications. At the micro level, human development is considered to be mainly organizational in nature, which is referred to as Human Resource Development (HRD). Human Resource is the total knowledge, skills, abilities, talent, aptitude, values, attitudes and beliefs of the people of in organization. Since the organizational resources like capital and technology became available to virtually anywhere, the search for sources of sustainable competitive advantage was increasingly pointed inward towards organizational capability (Ulrich and Lake 1990) and more specifically to the management of human resource (Dyer 1993, Cappelli and Singh 1992, Wright and Mc Mahan 1992).

The importance of human resource for business success has been aptly pointed out by Morita through the following words: ‘your business and its future are in the hands of the people you hire’ (Morita et al 1987).
According to Itami (1987), invisible assets of the human resources like skills, learning and capabilities make competitive imitation difficult and thus are able to generate competitive advantages for the firm. The knowledge and skills of the individuals that make up the organization influence firm performance (Pfeffer 1994). Geletkanycz and Hambrick (1997) noted that human resources are essential and vital to execute all corporate strategies in the organizations. Further, Pfeffer (1998) noted that unlike the physical and financial resources, human resources are unique and scarce in a global economy.

In the present scenario, the challenge for any Indian business organizations is to perform to world-class standards, gain competitive advantage, to survive, grow and prosper. The challenge can only be met by concentrating more on human development. In corporate domain, HRD as a function is referred to as a process through which employees are helped in a continuous and planned way to acquire and develop those capabilities required to perform various activities associated with their present and expected future roles.

1.1.1 Evolution of Human Resource Development – Global Perspective

The emergence of the HRD can be traced to different pivotal points in the history. The origin of HRD could be traced to the era of Earliest Technological Revolutions (5 Million-3000 B.C.). It was argued that the HRD had emerged with the work of the toolmaker in constructing human axes for the development of agriculture and animal husbandry. The ‘proclivity to imitate’ established the roots of observational learning (Gardner 1995). Accordingly, parents or other community members passed on the knowledge necessary for the survival to the children through direct instruction as a one-
on-one training (Clark 1999). The invention of script, ideograms, bronze casting, tools, and weapons led to the creation of the first civilization (5 million to 3000 B.C.) which was witnessed by the pyramids and other structures. Rules governing apprenticeship were included in the code of Hammurabi. The workforce was taught to achieve precision in work and apprenticeship became a method of education.

In the Old World Civilizations (1250-600 B.C.), the human beings developed a strong sense of enquiry into all things and developed interest in discovering the underlying truths. It is this stage that reasoning took strong roots. The religious leaders appealed directly to the audiences on the fundamental questions that most deeply affected humankind (Gardner 1995), thereby creating models for successful leadership. A method that closely resembles the case study method of today for problem solving was used (Clark 1999). During the Regional Civilizations (600-200 B.C.), Aristotle and Plato contributed to the field of knowledge and philosophy. Systematic use of reasoning as a basis for intelligent human action was developed. Confucius is one of the first representatives who valued education as a profession. A class of professional administrators, military officers, and educators was created. These classes of people offered vocational training to aspirants for employment in government service. In India, University of Nalanda was established by missionaries and the first political and administrator’s handbook for running a state titled ‘Arthasastra’ was produced.

The birth of Jesus and the establishment of the Christian Church as the most dominant institution in the Roman Empire (A.D. 200-600) proved to be one of the most significant events for humankind. The Ten Commandments provided guidance for human beings in personal growth. The Christian Church derived its strength from its organizational skills. Continuing structure of the Church reflected a well organized HRD activity
(Nadler 1984). In the New Order (A.D. 900-1321), Islam deeply influenced the daily practices of its followers. As the field of HRD faces the challenges of globalization and change, it is important to recognize the effects of its values and beliefs on people for the study of HRD practice (Musa and McLean 2002). The merchants and craft guilds helped in achieving economic success. An important part of the guild system was that they established quality standards for the product and practices (Swanson and Holton 2001).

The maritime conquests of the West over the rest of the world and the Renaissance became the foundations for leading a revolution in thinking (Western Christendom A.D.1321-1763). Educational reforms were underway in teaching, with emphasis on the importance of sound education in early childhood. The value of technical training in educating youth was recognized and marked the beginning of a new era of education. These were important contributions towards the development of technical training (Swanson and Holton 2001). During A.D. 1763-1871 the Industrial revolution and the creation of a new social class of workers was one of the most significant events. The psychological processes of learning were stressed as a scientific pedagogy. Vestibule training, a popular form of training helped factory workers transfer skills and knowledge to the workplace. The rise of Marxism and the worker movement throughout the world led to the establishment of the Trade union movement. The labor relations between employers and employees and social welfare saw its beginning. Though industrial relations were formalized at a much later stage, the role of the government in providing a legal framework for the welfare of its citizens took root during this period.

The Industrial era continued and the concepts of scientific management and the Hawthorne effect further developed the field of industrial psychology studies. World War I brought in new methods of job instruction used for soldiers (The World Wars and Aftermath A.D. 1917).
HRD as it is known today arrived, as new groups of manpower (women, older men, and immigrants) previously untrained had to learn work-related skills (Nadler 1984).

The economic and political conditions that prevailed after the Second World War of 1939-45 increased the demand for labour and personnel specialist. In 1946 those professionals working in people management established the Institute of Personnel Management (IPM). The period 1950-74 was the ‘golden age’ evidenced by the post-war labour government’s commitment to combine a free democracy with a planned economy (Coates 1975). In the 1960’s, however, employment laws were passed that encouraged growth in the personnel function.

The 1980s and 90s witnessed a period of radical change in both the context and content of people management. Personnel management is based on its legitimacy and influence on its ability to deal with the uncertainties stemming from full employment and trade union growth. Human Resource Management (HRM) concentrated more on internal sources of competitive advantage i.e. people of the organization. The debate on HRM policies and practices focused on ‘hard’ and ‘soft’ versions of HRM. The hard version emphasized the term ‘resource’ and adopted a rational approach to managing employees. It views employees as any other economic factor, as a cost that had to be controlled. The ‘soft’ HRM model emphasized the term human and advocated investment in training and development and the adoption of commitment strategies to ensure that highly skilled and loyal employees gave the organization a competitive advantage.

The formal introduction of the concept of Human Resource Development (HRD) was made by Nadler in the American Society for Training and Development Conference of 1969 (Rao 2000). According to
Nadler (1980), the term gained more acceptance during the mid-1970’s, but many started using it more as an alternative term than ‘Training and Development’. In fact, initially HRD began as a systematic classroom training activity in the 1950s to meet skill shortages. Subsequently, in the 1960’s and 70’s another idea related to HRD i.e. self development arose as a consequence of the recognition of the problem of training transfer from the training classroom on to the job. This line of development of the concept of HRD in the West led to the opening up of the paradigm of practice in the field of human resource development in the 1980s, from classroom skill training to the creation of appropriate systems and culture in the organization that would facilitate learning.

1.1.2 Evolution of HRD in India

The term Human Resource Development (HRD) has been gaining wide currency in India especially even the early 1980s. In fact, contrary to the trend elsewhere, the buzz word in people management in India is HRD and not HRM (Saini 2000). Rao and Pereira (1986) have argued that, even though HRD processes may have existed in the country earlier, a professional outlook to HRD started only in the early seventies. According to Pareek, the term was first used in India in 1972 by the State Bank of India. HRD processes did, in fact, exist in Indian industry long before the early seventies. Thus many Indian organizations, especially public sector enterprises, had begun systematic training and development activities for their employees in the 1950s and 1960s. By the late seventies and early eighties this professional outlook on HRD caught on to a few PSUs, namely BHEL, MUL, SAIL, IA, AI and IOC. In the private sector, L and T and TISCO are the first two organizations to begin HRD.
In 1975 based on their review of the different aspects of operations of the system of Performance Appraisal in an Indian engineering giant, Pareek and Rao came out with the concept of the integrated Human Resource Development (HRD) system which clearly established the linkages between the various personnel related aspects such as performance appraisal, employee counseling, potential appraisal, training etc (Rao et al 2001). The treatment of HRD in the Indian literature is very similar to that in the Western literature. However, there exists a question as to whether the HRD developed in India indigenously or was imported from the West. This is relevant because, as already seen, it has been claimed that HRD has indigenously developed in India even though it is seldom openly acknowledged.

The HRD practitioners in the country are now organized into the National HRD Network which is comparable to the OD Network in the USA. All these developments in the field have led some people to claim that HRD is now a movement in India. There are number of professional bodies that help in developing professional competencies of HRD practitioners. The more notable among these are; National HRD Network, Indian Society for Training and Development, Indian Society for Applied Behavioral Science, National Institute of Personnel Management, and Management associations including All India Management Association. In addition, most management institutes like Indian Institute of Management, NITIE, and XLRI etc. have set up specific centers and keep conducting programmes that help developing HRD professionals.

1.2 INTRODUCTION TO THE INDUSTRY

Globally, the automotive industry is recognized as a key component and important driver of national economy. The automobile industry has an enormous opportunity for creating new wealth by delivering value to the
world and domestic user. The automobile industry also has the opportunity to contribute to the equitable distribution of the wealth thus created. The industry has thus developed a new paradigm in employment. According to the Hindu Survey of Indian Industry 2008, the size of the global automotive industry is around US$ 1.8 trillion and estimated that the global automotive sales will exceed 100 million units a year by 2008.

The evolution of automotive industry can be traced along three generations. The first generation automobile was dominated by U.S. with the industrialization and availability of capital. During this period, Henry Ford was a pioneer with his production of an automobile that was reasonably priced, reliable, and efficient flagship model T (1909 to 1927) and the moving assembly line which paved way for mass production. The U.S. is credited with a lot of innovations in front and internal combustion engines, experimental designs, automatic transmission etc. By the end of World War II, the U.S. had more large scale enterprises than the rest of the world. Later on, as the wages was crawling up in the U.S. and not much innovation was made in process technology, Japan dominated the stage for second generation automobile through its focus on quality and cost. It collaborated with U.S. and become a new industrial centre in Asia. The Japanese auto majors including Toyota, Nissan, Honda and Mitsubishi produced higher quality automobiles at less cost and thus Japan became the leader of the second generation automobile opportunity. Now, the world is in the era of third generation automobile with the advent of electronics, computing and communication technologies. India is uniquely placed to exploit the opportunity and set to play a key role in the third generation automobile era. With its strengths in IT, automotive domain expertise, design and engineering capability, India can aspire to develop a third generation automobile for the world. According to Indian Automotive Industry (2008), the global auto component industry is expected to touch US$ 1.9 trillion by 2015, of which around 40 per cent (US$
700 billion) is potentially expected to be sourced from low cost countries (LCC) like India.

1.2.1 Indian Auto Industry

Automobiles were introduced to India in the late 1890's. However, the automobile industry took firm roots in the country between 1910 and 1920 with the setting up of assembly lines in Bombay, Calcutta and Madras. The manufacturing industry took off only after independence in 1947. In 1950's, the protectionist economic policies of the government were framed. The Centre in 1954 decided to develop an indigenous automobile industry and hence GM, Ford and other assemblers had to close down operations. A few smaller manufacturers such as Premier Automobiles, Tata Motors, Bajaj Auto, Ashok and Standard Motors held an oligopoly until India's initial economic opening in the 1980's. Later, the restrictive policy actually resulted in keeping the industry away from the state-of-the-art technology.

The delicensing of auto industry in 1993 was a major milestone as it helped in attracting several international players to the country; Daewoo, Hyundai, GM, Ford, Peugeot, Mitsubishi, Honda, Fiat and others. In this era, the industry has witnessed rapid growth in volumes and capacity. Currently, the automotive sector offers significant employment opportunities by employing more than half a million people directly and around 10 million people indirectly. India’s technical knowledge base and the availability of skilled labor invite the auto manufacturers around the world to set up their plants in the country.

The Government of India (GoI) has identified the automotive sector as the key focus area for improving India’s global competitiveness and achieving high economic growth. The Government formulated the Auto
Policy for India with a vision to establish a globally competitive industry in India and to double its contribution to the economy by 2010. It intends to promote Research and Development in automotive industry by strengthening the efforts of industry in this direction by providing suitable fiscal and financial incentives. The Draft Automotive Mission Plan (AMP) 2006-2016 visualizes India emerging as a destination of choice in the world for design and manufacture of automobiles and auto components with an output reaching a level of US$ 145 billion accounting for more than 10% of the GDP and providing additional employment to 25 million people by 2016.

India has made a mark in the global automobile industry. The salient aspects discussed below prove that India is featuring as a leading automobile player's roadmap. It is the largest three wheeler market, second largest two-wheeler market, fourth largest commercial vehicle market, eleventh largest passenger car market in the world, fifth-largest bus and truck market in the world (by volume). It is envisaged to be the seventh largest automobile market by 2016 and world's third largest by 2030 (behind only China and the US). Automobile manufacturing units are located all over India. However, they are concentrated in regional clusters such as Chennai and Bangalore in the south, Pune in the west, the National Capital Region (NCR, which includes New Delhi and its suburban districts) in the north, Jamshedpur and Kolkata in the east and Pithampur in the central region.

1.2.2 Indian Auto Component Industry

The prospects of the Auto industry also have a bearing on the auto-component industry. India is emerging as one of the most attractive automotive markets in the world, and is poised to become a key sourcing base for auto components. The industry’s capabilities in design, engineering and manufacturing have been recognized all over the world, and most of the
automotive majors are looking to increasingly source auto components from India. Currently, India is emerging as an outsourcing hub for global majors and as a major sector in our economy directly employing 0.25 million people. India enjoys a distinct cost advantage with respect to auto-ancillary manufacturing capabilities while a developed nation’s labour cost component is 30-35 per cent of sales whereas, Indian labour costs only around 8-9 per cent of sales.

The Indian auto component industry has reached a size of US$ 15 billion in 2006–07. The ACMA-McKinsey Vision 2015 document forecasts the potential for the Indian auto component industry to be US$ 40-45 billion by 2015. Global automobile manufactures see India as a manufacturing hub for auto components and are rapidly ramping up the value of components they source from India due to the cost competitiveness in terms of labor and raw material, its established manufacturing base and fine quality of components manufactured in India.

The Indian automotive component industry comprises of 6400 players and is highly fragment. About 6 per cent are organized and the remaining 94 per cent are small-scale, unorganized players. However in terms of value added, the organized players account for nearly 77 per cent of the output in the sector. Geographically, Indian automotive component manufacturers have organized in four clusters: Bangalore/ Hosur/ Chennai in South India, Delhi/ Ghaziabad/ Gurgoan/ Lucknow in North, Mumbai/ Nasik/ Pune in Western and Uttarpura/ Jamshedpur in Eastern India.
1.2.3  Auto Industry of Tamilnadu

Tamilnadu has attracted the auto industry for various reasons, both economic and historic. The CII-TN released a report in 2005 titled ‘A vision for the Tamil Nadu auto industry’ (Business Line, 2005). It envisages that the state of Tamilnadu would emerge as the top three destinations of choice in Asia for manufacturing automobiles and components by 2015. The share of Tamilnadu in the Indian automotive industry is estimated to be 25 per cent. The State accounts for more than 10 per cent of auto ancillaries produced in the country. The industrial estates in and around Chennai, Coimbatore and Hosur abound in auto ancillaries.

Chennai is commonly referred as the Detroit of India and was well supported by state level and union government policies. For instance, Global Automotive Research Centre was set up in Chennai with the state-of-the-art infrastructure for automotive testing and homologation. This facility enables Tamil Nadu to be a global frontrunner in automobile research and development. Out of the eight registered auto manufacturers in Tamilnadu, seven has their plants in Chennai. The prosperity and developments of the auto industry were also reflected in the auto-ancillaries in Chennai. Similarly, Coimbatore with the development of the engineering and auto-component sector stands as the Tamil Nadu’s second largest industrial city. The auto component companies had entered into technical collaborations with global firms and thus Coimbatore itself has emerged as a hub for auto component manufacturers.
1.2.4 Industry Associations

The Indian automotive industry is represented and well served by two major industry associations – Society of Indian Automobile Manufacturers (SIAM) that represents the OEMs and Automotive Components Manufacturers Association (ACMA) that represents the auto components industry. Both associations are actively engaged with industry, government and other stakeholders to promote the interests of the industry and improve competitiveness.

1.2.4.1 Society of Indian Automobile Manufacturers (SIAM)

SIAM is an apex industry body representing 38 leading vehicle and vehicular engine manufacturers in India. This acts as an important channel of communication for the Automobile Industry with the Government, National and International organizations. The Society works closely with all the concerned stakeholders and actively participates in formulation of rules, regulations and policies related to the Automobile Industry.

SIAM provides a window to the Indian Automobile industry and aims to enhance exchanges and communication, expand economics, trade and technical cooperation between the Automotive Industry and its international counterparts. With its regular and continuous interaction with international bodies and organizations, it aims to facilitate upgradation of technical capabilities of the Indian Industry to match the best practices worldwide. SIAM has been striving to keep pace with the socio-economic and technological changes shaping the Automobile Industry and endeavor to be a catalyst in the development of a stronger Automobile Industry in India.
1.2.4.2 **Automotive Component Manufacturers Association of India (ACMA)**

ACMA is the nodal agency for the Indian Auto Component Industry. Its active involvement in trade promotion, technology up-gradation, quality enhancement and collection and dissemination of information has made it a vital catalyst of the industry's development. Its other activities include participation in international trade fairs, sending trade delegations overseas and bringing out publications on various subjects related to the automotive industry. ACMA represents over 479 companies, whose production forms a majority of the total auto component output in the organized sector.