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MARUTI-SUZUKI'S TRAJECTORY: FROM A PUBLIC SECTOR ENTERPRISE TO A JAPANESE OWNED SUBSIDIARY

Florian BECKER-RITTERSPACH

*(Department of International Business and Management University of Groningen
The Netherlands)*

INTRODUCTION*

Maruti-Suzuki is the biggest automobile firm in India and has remained – despite loosing ground to the growing competition – the market leader in the country. Understanding the Maruti-Suzuki's trajectory is interesting not only because it is the biggest player in one of the most important emerging markets, but also because the case exemplarily shows how contextual change and the firm-trajectory co-evolve over time. While Maruti-Suzuki trajectory is strongly shaped by the de-regulation and liberalization of the Indian socio-economic context this influence is not unidirectional. Maruti-Suzuki on its part has become a driver of liberalization and reform as a range of Government policies were tailored to the company's needs in the initial years. More importantly, like no other automobile company, Maruti-Suzuki has changed and shaped the development of Indian automobile industry. The paper identifies four phases in Maruti-Suzuki's trajectory. These phases are based on shifts in the Governance-compromise, which are related to both, firm-specific governance conditions and shifts in the Indian economic context.

The first phase to be identified starts with the foundation of Maruti by Sanjay Gandhi in 1976. The phase comes to a close with the company's failure and its conversion by an Act of the Indian parliament into a Public Limited Company in the 1981. The second phase commences with Suzuki's involvement in Maruti in 1982 and last until 1992 when Maruti-Suzuki ceases to be a Government of Indian company. In this phase Maruti-Suzuki can grow and acquire market dominance. Patronized by the Indian Government and supported by Suzuki, Maruti-Suzuki is shielded from international competition and able to outperform domestic competition. The third phase commences in 1992 and ends in 2001. This phase is marked by emerging international competition following comprehensive reforms and liberalization, conflict between the JV partners and the company's first labor unrest. In this phase the company's governance compromise is for the

first time seriously challenged. At the end of this period Suzuki, after a long battle for control, finally acquires the majority in the JV. The forth and final phase lasts from the takeover by Suzuki in 2002 until the present day. In the face of loosing ground to competition and changing ownership Maruti-Suzuki adopts a stronger market orientation. Under these changes internal and external conditions the company's management establishes a new governance compromise. The compromise is enabled by a power shift in favor of the company's management and is marked by change in employee levels, composition and compensation. While the first two phases are discussed to get a general understanding of Maruti-Suzuki's development, this paper main emphasis will be on two phases from 1992 until 2007.

The paper is structured as follows: Based on Boyer and Freyssenet's (2003) definition of productive models, the focus will be on changes in the profit strategy, production organization and employment relations from the company's inception until 2007. This discussion will be in close conjunction with key contextual changes in the internal (equity shift and rising foreign parent influence) and the external environment (liberalization and changed market conditions) of the company. For each period the conditions of the productive model and the socio-economic context are being discussed.

MARUTI'S TRAJECTORY IN FOUR PHASES

MARUTI'S POLITICIZED ORIGIN: FOUNDATION, FAILURE AND RESCUE 1970 - 1981

On the 16th of November 1970 Sanjay Gandhi, Indira Gandhi's youngest son, founds a private limited company named 'Maruti technical services private limited' (MTSPL). The stated mission of the enterprise is the development of a 'people's car' – an affordable, cost-effective, low maintenance and fuel efficient car – for India's middle class that is indigenously designed and produced. Following Sanjay Gandhi's initiative, Prime Minister Indira Gandhi's cabinet proposes the production of a 'people's car' and passes a unanimous resolution for its development and production. Although Sanjay has neither any prior experience in automobile production nor a clear design proposal or tie-ups with another corporation, he is awarded the contract and the exclusive production license (Venkataramani, 1990). To produce the car a second company called 'Maruti limited' is incorporated in 1971 under the Indian Companies Act. In the same year, MTSPL – with Sanjay and Sonia Gandhi as Managing Directors – enters into an agreement with Maruti Limited to supply the company with technical know-how for the "design, manufacture and assembly in India of a wholly indigenous motor car" (Prakash, 1999: p.1). Under patronage of Indira Gandhi's Government the company receives land, tax breaks and funds. 330 acres of land are provided by the Haryana government at Gurgaon near New Delhi and nationalized banks provide substantial amounts in loans (Shirali, 1984; Business Standard, 2002; Shenoy, 2003) for the new company.

However, despite all government backing and support, Maruti – named after the Hindu God of the winds – doesn't take off. The young company proves incapable of producing a single marketable car. A part of the problem lies in the inexperience in automobile production of the Nehru-Gandhi family members who compose the company's top management. Maruti limited's problems culminate in the company's liquidation in 1977. At that point in time, the company's achievements comprise of little more than some ten to twelve hand made prototypes of different design, which are "fabricated and purchased in parts" (Prakash, 1999: p.1). In the same year, Indira Gandhi's government loses power and the new Janata Party-led government launches an investigation into the 'Maruti scandal'. In the following year, the commission investigating the scandal submits its report. The commission finds a host of irregularities among them violations of India's Foreign Exchange Regulation Act. Yet, Sanjay Gandhi is spared from any consequences by his mother's return to power in 1980 and his timely death in a plane crash in the same year. Trying to rehabilitate her family name, Indira Gandhi tackles the unresolved Maruti problem. Eventually

the 'Maruti Scandal' comes to a close when in October 1980 the Government of India takes over Maruti limited and incorporates it in February 1981 by an Act of parliament (Maruti Limited Acquisition and Transfer of Undertaking Act) as a Public Limited Company. Rechristened Maruti Udyog Ltd., the company is incorporated under the provisions of the Indian Companies Act, 1956.

At the helm of the newly incorporated company stands Krishnamurthy, a senior civil servant with extensive public sector experience (D'Costa, 2005). His task is to rescue and manage the ailing company. Amongst his first challenges is finding a suitable Joint Venture partner for the company (Shenoy, 2002). However, the new objectives for Maruti not only involve saving the company. The objectives go beyond. Maruti is envisioned to becoming a flagship of industrial change and modernization for the Indian automobile industry at large. Three basic objectives are set for the nationalized company:

The first objective was to modernize Indian automobile industry which was stagnating for more than three decades. Secondly, to undertake the production of fuel efficient vehicles which would fulfill the national drive for conservation of energy. And thirdly, the objective envisaged the increase of production base through large output of motor vehicles. (Mohanty et al., 1994: p.32)

Similarly, a project report commissioned by the government in 1982 reveals that among the major goals associated with Maruti were: the modernization of the Indian automobile industry; the production of fuel efficient vehicles; a large output of motor vehicles; the import of foreign technology, and equity participation by the collaborator; the production of a 'people's car' suited to Indian driving and climatic conditions; creating potential for earning foreign exchange by export of Maruti products; and generating employment through establishment of ancillary industries (Venkataramani, 1990).

While there is initially some discussion what kind of vehicles should be produced, a light commercial vehicles, a medium-sized family car or small cars, Maruti's board of directors decides in 1981 that the vehicle to be manufactured will be a 'small car' and that the engine size should be kept below one liter.

At this time it also became clear that the Union government had not visualised that the short average life of a passenger car (three years in the West) would lead to high costs of tooling for new cars which only the foreign automobile manufacturers could have amortised at their higher production volumes. Consequently in August 1981" the Maruti Udyog management decided to consider the merits of the small car option because the medium-sized family car which the government had earlier decided on, could not have been priced at less than Rs.1 .(X),000. Recalls Krishnamurthy: "...if this car had been introduced by Maruti, we may have had to sell it for around Rs.1.25.000, just to break even. I was not at all sure whether we would be able to sell a large number of passenger cars at that price, considering present economic conditions in India. And once you fail to attain high production volumes, the question of introducing modern methods of manufacturing automobiles goes out of the window." It was argued that if Maruti Udyog was to avoid the fate of HM and PAL — stagnant demand leading to low production volumes and an inadequacy of funds for re-tooling and engine improvement — it must create a much bigger market than that enjoyed by its predecessor car manufacturing companies. Comments R.C. Bhargava (49) Maruti Udyog's director (marketing and sales): "We decided to upgrade our technology continuously. We are determined to avoid the fate of existing car manufacturers who started off in the fifties by being modern but remained where they were." And the need to create a large market meant that "we had to produce a small car which could be both afforded by many more people, as well as be cheaper to run," he adds. (Shirali, 1984: p.4)

Supported by a market research, it is decided that the production of larger cars would neither be in line with the requirements of the Indian market, the objectives of modernizing the automobile industry, nor with the goal of producing a 'people's car'. Against this background, the decision is taken to start with a low-cost small vehicle (Venkataramani, 1990).

Socio-economic context

Maruti's foundation and failure are an expression of India's socio-economic context and development in the first decades after independence. Digging into such socio-economic embeddedness helps to understand the politicized nature of Maruti's foundation, the goal of producing a wholly indigenous car, the necessity of acquiring a license for production as well as the goal to produce a small people's car. India's socio-economic development in the first decades after independence is coined by three crucial factors: An economic agenda based on Fabian thought; the dominance of pre-independence elites in government and business; as well as social mobility effects.

Many key political leaders coming into power after independence, including Jawaharlal Nehru India's first Prime Minister, are influenced by Fabian socialism (Krueger and Chinoy, 2002). Two concepts of the evolutionary socialism – protectionism and state-led economic development – are particularly adopted in India's post-colonial economic agenda. The first concept, relating to India's role in the international economy, emphasizes the protection of the national economy from international competition. Self-reliance and import-substitution are pursued and cemented by an array of government acts (see table 1). The policies essentially result in the lock-out of international competition as they involve severe restrictions for foreign direct investment (FDI). The second concept, relating to the domestic economic development, builds on state-led economic coordination and public-investment-led growth. The concept of state-led growth or the "state-led national capitalist project" as D'Costa (2005: p.70) labels it, rests on the coordination and control of the economic development through Five Year Plans, a massive expansion of the public sector, reserving core sectors to the state, and restricting competition in those remaining key sectors left to private firms through a comprehensive industrial licensing system. Those sectors remaining open to private firm initiative are controlled through industry licenses, curbing competition and entrepreneurship. The licenses-allocation involves an element of nepotism, as license holders belong frequently to India's old business elites, closely connected to the government. Operating in a protected and essentially monopolist or oligopolist environment, with demand most of time exceeding supply, license-holders enjoy steady revenues without much incentive for and technological innovation.

Table 1: Major acts and Five Year Plans regulating the economy, 1947 – 1981

1948	First Industrial Policy Resolution	Reservation of certain industries for the public sector The Reserve Bank of India is nationalized and becomes India's central bank
1951	India's first five year plan is drafted	Primarily a public expenditure plan
	Industries Development and Regulations Act	Basis for state-intervention, the licensing-system and public sector expansion
1956	Second five year plan	Emphasis on government-led industrialization
	Industrial Policy Resolution	Reservation of industrial sectors for the state
1957	Balance of Payment problems resulting from second five year plan	Imposition of stringent import and foreign exchange controls
1961	Third five year plan	Continued focus on government-led industrialization
1969	Fourth five year plan	New plan puts a stronger focus on the agricultural sector
	Bank Nationalization Bill	Parliament nationalized all domestically owned commercial banks
1970	Monopolies and Restrictive Trade Practices Act (MRTP)	Regulates activities of business houses
1972	Insurance Nationalization Bill	All insurance companies are nationalized
1973	Foreign Exchange Regulation Act (FERA)	Regulates foreign investment in India, poses strong restrictions on FDI
1974	Fifth five year plan	Focus on self reliance with respect to agricultural production and defence.
1980	Balance of Payment crisis	India negotiates an IMF loan

Source: compiled from Krueger and Chinoy, (2002) and D'Costa (2005)

While India's masses remain poor, there is remarkable social-mobility effect resulting from India's post-independence economic development. On the one hand, there is an emerging layer of workers in formal sectors and the government that assume a privileged position based on good pay, strong labor protection and unionism. On the other hand, there is an emerging middle class, which D'Costa (2005) sees as a crucial process of 'embourgeoisement' driving India towards market liberalization. It is among other factors, the expanding public sector that contributes to the emergence of a sizable middle class that poses increasing consumer demands. At the same time, the economic policy, most notably the Five Year Plans, with their focus on heavy industries, capital goods and later agriculture, prove largely unable to satisfy the consumer demand of the growing middle class.

Looking at the developments in the automobile industry we can identify a mirror image of these political and socio-economic developments. Following from the introduction of the 'Phased Manufacturing Program' mandating companies do reduce imports and increase local content, GM and Ford leave the country in the early 1950s. The remaining players are domestic companies and comprise: Hindustan Motors Ltd., Premier Automobiles Ltd., Standard Motor Products of India Ltd., Mahindra and Mahindra Ltd., Ashok Leyland Ltd., Tata Engineering and Locomotive Co. Ltd. While there are six national automobile companies it is primarily Hindustan Motors Ltd. and Premier Automobiles Ltd. that produce passenger cars. They essentially form a 'duopoly' in the passenger car production (D'Costa, 2005). Capacity expansions and new market entries are restricted by the licensing-system. Those models available to customers, mainly the Hindustan Motors' Ambassador and Premier Automobiles' Padmini, are expensive, heavy, and energy-inefficient. In addition, they have poor mileage and are technologically outdated. In line with India's Five Year Plan's focus on the development of heavy industry and capital goods, the Indian automobile industry focuses more on the production of commercial vehicles. In fact, until 1975 passenger cars are considered luxury items subject to government price controls (D'Costa, 2005). Between 1970 and 1980, the annual production of passenger cars fluctuates around 30,000 to 40,000 vehicles per annum (Mohanty et al., 1994). The average middle class family can only dream of owning a car in the 1970s. Passenger cars are only available for government officials and the very rich (Nayak, 2005). Within this socio-economic context, a planned economy focused capital goods is literally unable to deliver the goods for an emerging middle class voicing new consumer demands. Against this background, we can see Sanjay Gandhi's drive for introducing a 'people's car' that, on the one hand, still reflects the old paradigm of a planned national economy based on self-reliance and shielded from internal and external competition but heralds, on the other hand, a paradigm shift in the sense that the new car is catering to the new middle class.

Maruti's foundation, failure and rescue reflects the old economic regime, its lacking sustainability, given the social mobility it has triggered, as well as the signs of its transformation. Maruti's failure is strongly related to endemic nepotism, absent market competition in the private sector and the lock-out of international competition. Maruti's rescue through nationalization, in turn, also reflects the old paradigm. At the same time, however, the invitation of a foreign company for collaboration marks a break with the old policy of self-reliance. Maruti's takeover by the government and its further development coincides with a turning point in India's economic policy. In fact, it may be even argued that the Indian Governments interest in rendering Maruti a success becomes a driver of economic reform itself.

1982 – 1991: SUZUKI ENTERS THE PICTURE: MARUTI'S CHILDHOOD IN A PROTECTED ENVIRONMENT

The partner choice and ownership development

Soon after Maruti is nationalized the search for a suitable foreign collaborator begins. With its initial focus on the production of a medium-sized family car and light commercial vehicles the government approaches a host of companies in Europe and Japan including Renault, Peugeot, Fiat, VW, MAN, British Leyland, Nissan, Mitsubishi, Daihatsu, Honda and Toyo-Kogyo (Shirali, 1984). In the first approach of foreign collaborators all Japanese companies decline to enter into collaboration. The only company that makes a complete offer at this point is Renault. The biggest obstacle for all potential collaborators is a buy back clause set by the Indian Government, stipulating a buy back of 50% of the production output by the foreign partner. Shirali (1984) states that:

Even Renault was only willing to buy back a pick-up version of the car and that also at a price which was lower than even the price of the ckd kits it would supply to Maruti. Since this meant in effect that every second car exported would have gone out free, the deal fell through. (Shirali, 1984: p.41)

Following the difficulties in finding a foreign collaborator and the growing doubts if high production volumes could be realized with a medium-sized family car, the decision is taken to drop the buy back clause and to opt for the production of a small car. However, even under these new circumstances, the Maruti project faces much skepticism from potential foreign collaborators. While potential partners are willing to sell their technology, they are not very keen on an equity participation in a nationalized company that has no prior experience in automobile production. After all, the company is the “nationalized reincarnation of a bankrupt company” (Shirali, 1984: p.42). With the small car decision taken, the European contenders fall behind their Japanese counterparts in the bidding process. Not only are their offers financially less attractive, but their know-how in small car technology is also perceived as inferior. In addition, the Japanese are seen to be industry leaders with regard to automobile production and human resource related practices.

Apart from the obvious Japanese superiority in small car technology, a related reason for the Maruti Udyog team concentrating on Japanese offers was that they had derivatives such as vans, a pick-up truck and a four-wheel drive jeep — all using the same engine and transmission as the car. This offered Maruti Udyog the prospect of catering to a larger market and made possible mass production and economies of scale since the cars and derivatives could be made with the same engine. But the factor which decisively swung the balance in favour of the Japanese was the promise that an Indo-Japanese collaboration offered of a chance to introduce the work culture and management practices — which had made this cluster of islands with few raw material resources, into the world's No. 1 industrial nation — into Indian industry. This consideration seems to have weighed heavily with Krishnamurthy. "We thought that the transfer of this work culture to the Indian automobile industry through this collaboration would yield great benefits to the country and industry as a whole," he says in a typical understatement. (Shirali, 1984: p.5)

Ultimately, the Indian Government selects Suzuki as a partner because the company convinces with its small car product portfolio, its pricing, and its flexible approach in the negotiations. Suzuki also promises to provide the much sought after Japanese manufacturing practices and culture. More importantly, Suzuki's equity participation offer is higher than that of all the other contenders (Venkataramani, 1990).

Justifying the choice of Suzuki as the collaborator company Krishnamurthy says that — even though somewhat low-profile — the Suzuki Motor Company is Japan's largest manufacturer and exporter of small cars — with a 40% share of the 550cc car market in Japan and a 52% share in the export of such cars from Japan. "And compared to the others, their manufacturing costs are the lowest. They offered the best commercial terms — readily agreeing to subscribe a part of the equity capital and they were also

prepared to provide us with facilities for the training of the Indian managers, engineers and technicians in all aspects of automobile manufacture," he explains. (Shirali, 1984)

For Suzuki, despite the risks involved (i.e. minority shareholding cum massive technology transfer, dealing with a state owned company), a market entry into India provides the company with an opportunity to advance its lagging internationalization. With the “rising production cost in Japan, surplus foreign exchange, and domestic market saturation” (D’Costa, 2005: 85) Suzuki, like other Japanese companies, is looking for new overseas production facilities. Above all, Suzuki’s entry allows getting a foothold in a market: which remains closed to other international auto companies; which lacks any serious domestic competition; and which promises a huge unsatisfied demand in those lower market segments, Suzuki specializes in (Venkataramani, 1990).

Eventually, on the 2nd of October 1982 a Joint Venture (JV) and a 10 year licensing agreement (for the transfer of technology) are signed between Maruti and Suzuki. The JV agreement obliges Suzuki to take a 26% percent stake in the company leaving 74% to the Indian Government. In return, Suzuki has a say in all management and policy matters and the right to appoint directors to Maruti’s board in proportion to its equity stake (Shirali, 1984). Moreover, the JV agreement includes a provision that allows SMC to raise its equity to 40%. In 1989 SMC exercises this right and raises its stake to 40%.

Profit strategy

Suzuki Motor Company’s (SMC) focuses mainly on light, sub-compact and small car market segments (Kasahara, 1994). SMC has been mainly focusing on “low-cost mini cars for the less wealthy but more populated areas of the world, such as India, China and Eastern Europe” (Reference for Business, 2003).

Four billion people live where cars are not used much yet. That is the market we are after (Osamu Suzuki, cited in Eisenstodt, 1993: 49)

Suzuki had a vision – instead of battling the industry giants, he focused on capturing buyers in the world's developing markets, such as India, China, and Hungary. (Reference for Business, 2003)

As a logical concomitant of this strategy, SMC has not only relied on ‘volume’ but simultaneously on a ‘continuous reduction of cost’ (c.f. Freyssenet, 1998). Eisenstodt quotes Osamu Suzuki, the company’s long-time chairman as saying: “We make small cars, so we worry about cutting costs by even one yen” (1993: p. 49). Along similar lines, Maruti-Suzuki’s profit strategy in the first decade of Suzuki’s involvement can be best described as a combination of a volume and a continuous cost saving strategy. This profit strategy is pointedly expressed in a newsletter by Maruti-Suzuki’s Chairman and Managing Director in 1984:

Cutting down costs is very critical to the operations of an Automobile Industry – particularly Maruti. All along our philosophy has been to sell in large volumes vehicles at the highest quality standards. We can enlarge the market only if our prices are right; prices can be right if costs are controlled. We do not want to sacrifice profits for keeping prices low. We need surpluses to expand, improve our business and give adequate return on investment to our shareholders. The basic idea is to generate profits through controlling cost rather than manipulating the selling price. (Managing Director Krisnamurthy, in Chatterjee, 1990: p. 99)

As buying power is modest and market demand is not very differentiated, the most important selling point is the vehicle price. In the first years, the crucial goal is to raise volume while at the same time constantly controlling cost mainly through fast localization. And in fact, this profit strategy proves a success. Within a short period of time Hindustan Motors and Premier Automobiles lose ground. Maruti-Suzuki becomes profitable and the undisputed market leader in India’s passenger car market. By 1990/1991 Maruti-Suzuki has about 62 % market share, leaving 13.9% to Hindustan Motors and 23.7% to Premier Automobiles (Mohnot, 2001). In 1986, three year

after the factory inauguration, Maruti-Suzuki produces its 100,000st car. By the end of 1980s, Maruti-Suzuki achieves its projected annual production output of 100,000 car p.a.. Most importantly, in a drive to keep costs down and meet indigenization requirements, Maruti-Suzuki and Suzuki engage in painstaking efforts to develop the local supplier base culminating in a 65% cumulative indigenization of the components for all vehicles produced in 1991 (Maruti-Suzuki website, 2007). At this point in time, Maruti-Suzuki’s production is only focused on the Indian market. While Maruti-Suzuki exports in 1987 its first batch of 480 cars to Hungary, there is practically no export orientation until the 1990s.

Product policy

Maruti-Suzuki’s product policy, in turn, reflects the company’s profit strategy. Marui’s initially offers a limited range of small/compact cars with a small range of engine variants. The models mainly target the entry level/lowest market segments¹, serving basic transportation needs and offering good quality at a low price (see table 2). While Suzuki’s product technology of small and compact cars is state-of-the-art, product innovation is not the main driver of this profit strategy. Comments by columnists’ as well as various interviewees’ even suggest that Maruti-Suzuki’s product policy in India rests – at least in the first decades – on the introduction of models and product-technologies which are not the latest in the company. Service, marketing and customer orientation are not high on the agenda in this first decade. Maruti-Suzuki’s main orientation is ‘sell whatever we produce’ (Som, 2004).

Table 2: Maruti-Suzuki’s model introductions between 1982 and 1992

Year	Models introduced
1983	Maruti 800, a 796cc hatchback is introduced
1984	Omni, a 796cc MUV
1985	Maruti Gypsy, a 970cc, four wheel drive off-road vehicle
1986	New Maruti 800, a 796cc hatchback car
1990	Maruti 1000, a 970cc three box sedan

Source: Maruti-Suzuki website

Production organization

By establishing Maruti-Suzuki’s production organization with the help of Suzuki, Maruti-Suzuki’s senior managers quite deliberately engage in an ‘experiment’ that seeks to break with prevalent conditions in private and public sector enterprises at the time. The goal is to implement, with the help of Suzuki, Japanese work concepts and work culture that are about the opposite of what exists in Indian industry, namely, a mutually enforcing complex of hostile labor-management relations, extreme hierarchical-demarcations, labor-inefficiency, low labor involvement, frequent labor-unrest and low identification with the company (Venkataramani, 1990). Given that the Indian side has no prior experience in automobile production, given that the Indian side deliberately seeks to initiate a sea-change in the national automobile industry and break with paralyzing conditions in many sectors of Indian industry and given Japan’s real or perceived world leadership in automobile production, Maruti-Suzuki’s managers are very keen on introducing Japanese/Suzuki’s production organization. Thus, it is not only or primarily the Japanese side that pushes for the transfer, but it is the Indian top management that is seeking the replication of SMC’s Japanese management system

¹ Based on vehicle length and price India’s automobile market is commonly segmented as follows: A1- mini segment (up to 3400 mm; < 5000€), A2 compact segment (3401-4000mm; 5000-8000€), A3 mid-size segment (4001-4500mm; 8000-13000), A4 executive segment (4501-4700mm; 13000-22000), A5 Premium Segment (4701-5000mm; 22000 plus), and A6 luxury segment (more than 5000mm) (ACMA, 2006).

(Chatterjee, 1990; Venkataramani, 1990). They are apparently following the Japanese example with such rigor that they are frequently labeled ‘converts’, ‘ardent evangelist’, ‘disciples’ or with similar allusions to religion. Suzuki, in turn, is willing and obliged by the licensing agreement to transfer technology, to provide comprehensive training efforts and to get Maruti-Suzuki’s production up and running (c.f. Mohanty et al., 1994).

The set-up of the Maruti-Suzuki’s production organization follows from the beginning a defined template, Suzuki’s main plant in Kosai, Japan. The available literature (e.g. Mohanty et al., 1994) and interviewees underline that SMC’s Kosai plant is the main point of reference. Interviewees speak of ‘replica’ or ‘duplicate’ etc. to mark the copycat character of the Indian plant. According to Mohanty et al. (1994), the comprehensive transfer intent is already fixed in the initial technology transfer agreement between the JV partners. The transfer intent essentially targets or touches all major dimensions of the production organization (c.f. Venkataramani 1990) ranging from structural attributes to core aspects of the process organization.

The organizational structure of MUL is devised on exactly the similar pattern of its Japanese partner i.e. Suzuki Motor Company. The staffing of people, factory layout, installation of plant and machinery, etc. are inherited in toto from Suzuki Motor Company, Japan. The basic reasoning of such a structure is to realise the industrial success based on Japanese Business Management Systems in India. (Mohanty et al., 1994: p.133)

However, while the transfer targets all dimension of Maruti-Suzuki’s production system the main thrust of the transfer effort is on human resources, aiming at replicating behavioral patterns and attitudes of the Japanese or the Suzuki work culture for that matter (Mohanty et al., 1994; Kasahara, 1994). Thus, the transfer intent and effort strongly aims at the establishment of Japanese/SMC practices in Maruti’s workforce.

Location, layout and technology

Maruti-Suzuki’s production facilities are located in Gurgaon (State of Haryana), in the outskirts of New Delhi. The set up of the production facilities take place from scratch as Sanjay Gandhi’s company does not leave much usable infrastructure to build on.

[T]he infrastructure of the defunct Maruti Ltd. consisted mainly of 297 acres of land acquired through questionable means, some unusable equipment and buildings in a state of utter disrepair. A team of experts which surveyed the factory reported to the industry ministry that the lathes and presses in the factory were useless and the equipment only had scrap value. The team also said that all that the company offered was some buildings and that any project to be set up there would have to start from scratch. A consultant from a public sector consultancy firm is reported to have told the Union government that if it was keen to export cars, a new factory at a coastal location would have been a wiser decision. (Shirali, 1984: p.41)

The set up of the production facilities happens in multiple stages. The first cars are manufactured from SKD/CKD kits (D’Costa, 2005). However, the Phased Manufacturing Program (asking for a 95% local content in 5 years) as well as costs related to high import tariffs, transportation and an unfavorable exchange rates, translate into an ambitious indigenization schedule. Under the time pressure first trial runs of the assembly line commence in 1983 and in the same year the factory is inaugurated. The set-up of Maruti-Suzuki’s production facility progresses in three major stages (Joseph, 1990). The first stage commences in December 1984, when the assembly shop with a production capacity for 20,000 cars is completed. At this point in time, Maruti-Suzuki receives SKD-kits from Suzuki. The assembly involves “fitting into the imported car low-technology and value components like tires, batteries, electric wiring, wheel rims, seats and glass” (Joseph, 1990). The second stage starts in June 1984 and involves the commissioning of the weld and paint shop. The goal to expand the capacity from 20,000 to 40,000 vehicles is achieved by the end of 1984. At this stage, the import shifts from SKD- to CKD-manufacturing. In 1984/1985

indigenization is estimated to be at 23% with the weld and paint shop in operation and an increasing local content – including locally sourced parts like tuber parts, bolts and nuts, springs and plain washers (Joseph, 1990). The third stage starts in 1985. This phase targets the production of a 100,000 vehicles involving the set up of the press shop, machine shop and the expansion of existing shops (Chatterjee, 1990). In 1985 the press shop is commissioned and engine and transmission assembly commences. In 1986 there is a phased completion of the machine shop. In 1985-1986, key components like clutches, brakes, filters, shock absorbers, air cleaners, engine valves, alternators, and lamps are indigenized. In 1987-88 the production facilities for the manufacture of muffler for cars, differential assembly line for the Omni and Gypsy as well as press panels for the Maruti 800 and Omni are created. Furthermore, bumper, instrument panel, grills and steering gear production are being commissioned.

At the end of the 80s Maruti-Suzuki's production facilities comprise a press shop, weld shop, paint shop, a machine shop, engine assembly and testing, vehicle assembly and a testing line centre. In 1988/89 Maruti-Suzuki's production meets its project report target of manufacturing 100,000 cars p.a. (Venkataramani, 1990, Mohanty et al., 1994). While Maruti-Suzuki's level of vertical integration and production layout follows Suzuki's home design, transferring the comprehensive automation of Kosai is no defined goal. Labor cost differentials, initial volumes and the Indian Governments' interest to generate employment render this a non-viable option – much to the disappointment of some Indian managers who see in it a lacking commitment to transfer technology on the part of Suzuki (Becker-Ritterspach, 2006).

Work organization

The cornerstone of Suzuki's technology transfer involves the transfer of a Japanese work organization and work culture. The intention is to achieve a quantum leap in industrial productivity compared to what is common in India's automobile industry at the time. As far as the work concepts are concerned the transfer comprises a full range of direct and indirect manufacturing practices. Concerning, direct manufacturing, Suzuki's team work (downstream customer relations in the line), job rotation and job enrichment concepts, hands-on supervisor-shopfloor relations, integrated quality assurance and operator autonomy for line-stoppages are the key focus areas of transfer. In addition, many concepts are targeting indirect activities and practices that are geared toward continuous improvement (Kaizen, Quality Circles and Suggestion Schemes) in products and manufacturing processes. Many of these individual and small group activities focus on permanent cost reduction, productivity increases as well as accident and waste reductions. To realize the successful implementation of these concepts it is seen as vital that the Indian workforce develops similar skills and above all similar work dispositions. This implies that the transfer effort is not restricted to formal work concepts but crucially involves the transfer of a corresponding human resources profile. While, the first area involves knowledge and skills transfer directly relevant for the manufacturing operation, the second area aims at transferring basic work dispositions such as work commitment and discipline (stressing the taking of responsibility, punctuality and attendance), cleanliness and quality awareness, cooperation and communication (D'Costa, 2003: 76).

Many observers note that the concepts aimed for are about the opposite of what is common practice in the Indian industry and particularly in Public Sector Undertakings at the time (Venkataramani, 1990). In fact, work concepts and the human resource practices introduced by SMC are very deliberately pitted against what is otherwise common in Indian industry. Against this background it is not surprising that the introduction of the Japanese work concepts and of the corresponding human resource profile is not without difficulty in the first years. Apart from deficiencies in technical know-how and skills, the transfer of the teamwork concept, the central role of the supervisor, the taking of responsibility and the practice of job-rotation are not readily implemented. Many of the implementation difficulties are related to socio-professional demarcations produced by India's compartmentalized social stratification and education system. For example, supervisors and production managers in general, do not identify themselves with the

manufacturing operations on the shopfloor. Japanese expatriates complain that there is reluctance on the part of production management and engineers to be close to or get involved on the shopfloor (Venkataramani, 1990). Also related to socio-professional demarcations, the implementation of job-rotation is difficult. Kasahara (1994) reports a stark contrast between the ease to rotate personnel in Japanese companies and in Maruti-Suzuki. He attributes the difficulties to 'a strong prejudice based on the type of occupation' in the Indian society (Kasahara, 1994). There are indications that the implementation of indirect high involvement work concepts are not passionately embraced either (c.f. Khare, 1999). The communication and cooperation across socio-professional divides is a big issue at Maruti-Suzuki and so are a number of egalitarian concepts that are meant to bridge those gaps. Most of the concepts that promote openly visible egalitarianism, such as a shared canteen, company uniforms, shared toilets and open offices, meet stiff resistance from many managerial employees in the beginning (c.f. Som, 2004, my interview). These findings find further confirmation in comments made by Maruti-Suzuki's former Managing Director Bhargava:

Behind MUL's success is another significant aspect of Japanese work culture -- parity among the employees. In Indian conditions, we initially did face problems introducing the Japanese management ethos in MUL. There was, especially among managers, a certain amount of reluctance and hesitation about wearing a uniform and eating in the same canteen, sitting in the open offices, and all that. It required the top management to spend time with these managers and convince them that this was the only way to do things. It worked after some time. And as we went along, our managers realized that the concept not only produced results but also that it was not a bad thing to wear a uniform and eat in a common canteen with the workers. Similarly, when we introduced the open office concept, initially there were some partitions. But gradually, those partitions were also removed and the office became a totally open hall. People got used to it and realised that it did not adversely affect them. (Bhargava and Behl, 1997)

Similarly, while all employees are asked to eat in the same canteen, there is, at least in the beginning, not "as much fraternization in Maruti-Suzuki's dining room among executives, supervisors, and workers as in Japan" (Venkataramani, 1990: p.225). Indications are that middle to lower management shows the strongest signs of resistance. Kasahara (1994) underlines that white-collar workers, engineers and junior management levels have the biggest difficulties in accepting equality-based practices and also stresses their lacking willingness to share knowledge. The initial management resistance towards egalitarian practices is probably also compounded by the fact that management, compared to workers, is not as well paid by Indian industry standards. This leads, in turn, to turnover problems among these employees (Okada, 1998: p.30).

Yet, despite all difficulties many Japanese practices take increasingly root in the company. Top management commitment, massive personnel transfers to Japan, training and socialization efforts, the cultivation of a culture of equality as well as a qualified (although not practically skilled) and young inexperienced workforce motivated by the introduction of a wide range of performance-based monetary and normative incentives (extra bonuses for implemented suggestions in 1984, productivity based incentive schemes introduced in 1988, Maruti Udyog Limited Mutual Benefit Trust scheme in 1990) play their part in making the practice transfer a success. Tangible indicators of such progress are implemented suggestions and Maruti-Suzuki's continuous productivity improvements in the 1980s. For example, between 1984/85 and 1986/87 productivity increases from 13.7 cars per employee per year to 28.26. These figures contrast dramatically with the 2-3 cars per employee per year that are the Indian automobile industry standard at the time when Maruti-Suzuki commences production (Venkataramani, 1990).

Finally, while a holistic transfer approach is adopted with regard to the work organization and human resource profile, some practices diverge very deliberately from Suzuki. This divergence is related to Maruti-Suzuki's ownership situation as a public sector company. A case in point is the company's hierarchical setup. Despite the comprehensive transplant approach which is proclaimed to include Kosai's full organizational set-up (Mohanty et al., 1994), there is no indication that SMC

is also asked to transfer its hierarchical differentiation and salary structure. Instead, the hierarchical differentiation of Maruti-Suzuki shows strong signs of using a typical PSU structure. As a Government of India enterprise, public sector rules and regulations apply to Maruti-Suzuki. This is, particularly the case with regard to policies of recruitment, staffing, remuneration, placement and promotion and retention which have structuring implications for Maruti-Suzuki organizational hierarchy. This also comes out in the following interview paragraph, which is conducted by Chatterjee (1990) with Maruti-Suzuki's Chairman and Managing Director Bhargava:

Yes, we have made some 'adaptations' of Japanese practices. We could not blindly copy everything. I do not know whether you should call it dilution or not there have been modifications in some of the management practices we follow. For example, in our manpower planning and in our manpower policies we have to take note of the fact that we work in a system where the kind of freedom which is available to the Japanese in rewarding employees, and granting pay scales, these things are not available (to us); so we have to follow a different thing in the system of assessment of people, the promotion policies and in all of these we have to follow something which is different from the Japanese. In our system, on the financial side we have to take note of the fact that we are a Government company and there are certain rules and regulations prescribed by the Government to be followed, whereas in Japan there is much less of that kind of thing. (Chatterjee, 1990: p. 134)

There is evidence to suggest that Maruti-Suzuki's ownership situation translates into a typical local structure in terms of hierarchical differentiation. In the early 2000s, Maruti-Suzuki features still a steep structure of 19 hierarchical designations – contrasting with a publicly purported flat structure of just three levels. Chatterjee (1990) who has the opportunity to investigate intensively Maruti-Suzuki organizational structure identifies the following levels:

Employees are divided into levels beginning at one going up to 19. Initial recruitment has been generally made from amongst candidates with an ITI qualification for levels 3-7. Level 8 employees are normally diploma holders and the group 8-10 work as supervisors. Level 11 recruits are drawn from engineering graduates on the technical side. Levels 11-13 are in the grade of Section Managers. Above this layer is the level 13-17 group having department managers. Finally there are Divisional Managers who vary between levels 15-19. (Chatterjee, 1990: p. 47)

An interview conducted with Maruti-Suzuki's HR department unveils that these 19 levels include the following designations: a hierarchy of Operator designations, Supervisor, Executive, Manager, Senior Manager, Deputy General Manager, General Manager, Deputy Departmental Manager, Departmental Manager, Divisional Manager, Joint Managing Director, Managing Director, Chairmen.

Labor relations

As Maruti-Suzuki's production techniques require highly involved and committed employees and workers, there is also a strong requirement to introduce industrial relations that can secure such work dispositions based on industrial peace. And indeed, throughout the 1980s well into the 1990s Maruti-Suzuki succeed in securing industrial peace (Okada, 1998). This peace is related to the specific governance compromise achieved in the company.

The first and probably most important enabling component of this governance compromise is Maruti-Suzuki's growth and market success in the 1980s and early 1990s. The success creates the material basis for industrial peace. However, there are additional factors. One of the most important components is the preferential pay of Maruti-Suzuki's workers and their job-security. In fact, till date Maruti-Suzuki's workers belong to the best paid in the country. The third component of the governance compromise is Maruti-Suzuki's company union that radically departs from the typical industrial relations patterns in other Public Sector Undertakings. Following the Japanese example, Maruti-Suzuki establishes a company union. Both the government and the company union express their commitment not to affiliate. In contrast to prevalent industry conditions, there is only one

union and this union is not affiliated with any political party or external activist. Workers for their part are also in the early years not very susceptible for external unions or external activists who are seeking the formation of another union.

A heartening feature is that the non-political single union system has survived and prevailed despite forays by groups of outsiders belonging to INTUC, Hind Mazdoor Sangh and the Lok Dal. Many inducements were offered to workers and a number of gate meetings held in 1987 and 1988. Yet Maruti workers have recognized that their real and long-term interests can only be served by their own colleagues representing them in their own union. This steadfastness has contributed largely to peaceful and harmonious industrial relations in Maruti Udyog. (Chatterjee, 1990: p. 52)

Most workers are young and highly qualified without any prior experience with respect to typical Public Sector labor relations. Many of them are transferred to Japan and receive extensive overseas training and socialization. On top of that, being government employees and experiencing company growth their jobs are secure and their pay is excellent (Chatterjee, 1990). Wages in the automobile industry in India are at the time already higher than in other industrial sectors. Maruti-Suzuki, however, is even by automotive industry standards the best paying company. In fact, Maruti-Suzuki's production workers – not accounting for contract labor – earn in the mid 1990s about three times of what their colleagues earn in other Indian automobile companies. This contrasts with managers and engineers in Maruti-Suzuki who are not the best paid in the Indian automobile industry (Okada, 1998). Finally, Maruti-Suzuki's egalitarian treatment of workers, their good perspective for advancement in the company (based on seniority based promotions and a strong internal labor market) and the company's consultative and cooperative approach to settling labor disputes may also play their part in sustaining industrial piece for a long time (D'Costa, 2003).

Supplier relations

One of the most important challenges in the first decade is for Maruti-Suzuki the development of a local supplier base that is capable to provide parts and components in the right quantity and quality. The necessity to build a local supplier infrastructure is driven by three crucial factors. First, Suzuki's policy of low vertical integration and outsourcing; second, by the Indian Government's quest for fast indigenization; and third, by a profit strategy and product policy focusing on low cost vehicles for price sensitive entry level customers.

A study conducted by UNIDO (2003) reveals that it is from the outset a very deliberate effort to observe SMC's outsourcing policy. Aiming at an in house value addition of about 26% Maruti-Suzuki seeks to outsource all but the most critical components. (UNIDO, 2003). Based on this policy a substantial proportion of the value addition, has to come from outside Maruti-Suzuki. Theoretically, SMC could simply import parts and components from its Japanese suppliers. However, such an import is rendered impossible by Maruti-Suzuki's profit strategy and institutional constraints in the host context.

As part of the JV agreement and the Indian Government's foreign direct investment regime of the time, Maruti-Suzuki has to observe high local content requirements. It is agreed that out of the 70 % of the non-company value addition, at least 60 % have to be locally procured (Mohanty et al., 1994). In addition, high import tariffs set by the Indian Government make the vehicle too expensive for price-sensitive entry-level market customers. Above all, even without local content requirements and high import tariffs, the combination of a high Yen, high transportation costs and a profit strategy based on constant cost reduction, rule out the large-scale import of parts and component in the long-run. In short, SMC's demands, the Indian Government demands and Maruti-Suzuki's profit strategy suggest a central role to be played by suppliers located in India.

However, this supplier infrastructure hardly exists in the early 1980, and where it exists, it is unfit to match Maruti-Suzuki's product volume and quality requirements. The Indian automobile supplier Industry, in the early 1980s is small and structurally fragmented. It is dominated by small

and technologically weak players (Khare, 1997; Bhargava, 2002). Tierization and JIT supply logistics are unheard of and contractual relations are arms-length and low trust in nature (D'Costa, 2003). The Indian automobile industry has been for decades shaped by a very small, isolated and monopolized sellers market. The handfuls of automobile companies who have industrial licences face little competition, have small outputs and are highly vertically integrated (D'Costa, 2003). Low volumes, high vertical integration and a protection from any competition are poor conditions for a supplier industry to flourish. For the few existing suppliers there is little capital and incentive to upgrade manufacturing technology and facilities. Moreover, the dispersal of supplier over different states in India and the absence of VAT discourage concentration processes in the Indian supplier industry. In summary, the suppliers available are small players, with low production capacities, low technological know-how and low quality-levels. Against this background, Indian suppliers are initially unable to cope with Maruti-Suzuki's demands. Not only do they lack the capabilities to supply Maruti-Suzuki with parts and components in the right quality and quantity but they also lack the trust and resources to invest in upgrading and expanding their operations.

Under these conditions, Maruti-Suzuki embarks on a comprehensive 'supplier development program' (UNIDO, 2003). This 'supplier development program' strongly draws on Suzuki's home practices. However, given adverse conditions in the local/host context not all aspects of SMC's supplier relations are transferred in the first years. For example, Tierization of suppliers and JIT-supply logistics are initially not part of the transfer effort. Instead, the focus is to build up suppliers that are capable of delivering parts and components in the right quantity and quality. Initial efforts mainly focus on developing close and trustful relations with suppliers by and providing a wide range of support. Specifically, The supplier development rest at its core in the first years on the following three pillars:

First, Maruti-Suzuki tries to develop local suppliers by engaging in range of trust-building measures and by actively assisting them (Khare, 1997; Bhargava, 2002, UNIDO, 2003). Active supplier support ranges from financial to technical assistance. Maruti-Suzuki and SMC personnel are even assigned to suppliers for prolonged periods of time. However, getting local suppliers to invest and cooperate is no easy task in the beginning (Bargava, 2002). Suppliers are suspicious whether their investments for a lofty Indian Government enterprise will pay off. One of the first challenges is, therefore, to build trust with suppliers and convince that the state owned enterprise is determined to realize the volumes targeted. Supplier related problems of mistrust are ultimately overcome by measures such as doing away with the annual tender system and replacing it by long term contracts, assurance for volumes, guaranteed prices and fixed dates of payment (Bhargava, 2002). The UNIDO report (2003) comes to a similar conclusion:

There are no calls for tenders made for procurement of components, contrary to the established Indian practice. The partnership includes not only transfer of know how but also guarantees for loans, equipments leasing financing and provision or financing of tools. Payments for supplies are done weekly, contrary to the normal 2-3 months practice in India. (UNIDO, 1999, p.9)

However, simply supporting existing local suppliers is does not suffice. In a second step, Maruti-Suzuki gets involved in establishing suppliers, founds supplier JVs with local suppliers and ask Japanese suppliers to do the same. Maruti-Suzuki not only helps in bringing together foreign and Indian suppliers to form JVs but also enters into 11 (later 13) JVs with suppliers. Many of these suppliers are located on the company compound in Gurgaon.

In fact, a dozen MUL suppliers set up a joint venture with SMC's suppliers, through a matchmaking initiative by Maruti-Suzuki. Several firms that are MUL's key suppliers with a joint venture with SMC's suppliers are located within the same complex as MUL's main plant in Gurgaon. MUL also participates in equity holding of some of these key suppliers. (Okada 1998)

Although Maruti-Suzuki only holds a minority equity positions in these companies, it is strongly involved in quality and productivity assurance in these companies.

In summary, in the first decade Maruti-Suzuki's major focus is to set up a supplier base that is able to provide the quantity and quality required. Mainly through supporting existing local suppliers, matchmaking initiatives and its own involvement in suppliers this goal is achieved. Through its initiatives Maruti-Suzuki substantially shapes the Indian suppliers industry. Most importantly, it develops supplier relations that are in contractual or relational terms very similar to Suzuki's home suppliers' context and very different from what is prevalent in the Indian context.

In India, large companies do not, in general, try and build long-term relationships with suppliers. They do not provide the kind of support that MUL provided. Relations with vendors are no different than those between any buyer and seller. The importance of improving the vendor's quality, productivity and cost levels, as a means of improving one's own competitiveness, is not generally recognized. MUL's policies were developed on the basis of Japanese experience, where car companies have financial stakes in many vendors and vendors are treated as being part of their family. Of course, vendors also realize that they have to constantly work to make their principal competitive and profitable. (UNIDO, 2003)

In contrast, the establishment of cooperative supplier relations the reduction of inventory levels through JIT supply and a tiered supplier structures are no major goal in this first phase of supplier establishment.

Socio-economic context

By the late 70s the Indian state-led economy shows signs of exhaustion finding expression in repeated balance of payment difficulties and a slow-growing economy (D'Costa, 2005). In response to the economic difficulties Rajiv Gandhi's Congress-led government introduces in the 1980s a number of deregulation measures. Krueger and Chinoy (2002) state in this context:

By the late 1970s and early 80s, it was obvious to many that the pervasive regulation and controls over private economic activity by the government had had effects opposite to those intended and had inhibited economic efficiency and economic growth. Indeed, when Rajiv Gandhi became prime minister, he declared that his primary objective was to "rationalize" controls. The intent was clearly to reduce the number of overlapping and sometimes even inconsistent regulations. (Krueger and Chinoy, 2002: p.15)

The first modest reforms aim at carefully stimulating domestic competition and carefully opening up the economy to foreign investors (D'Costa, 2005). Specific measures are the 'Delicensing', the 'Broadbanding' and the lowering of import tariffs.

The Delicensing makes it possible for large domestic business houses and foreign companies under the FERA to engage in sectors that are hitherto reserved for the public sector. All in all, 32 Industry sectors are freed from the licensing of new investments. Additionally, this change is extended to firms falling under MRTP, if they invest in underdeveloped areas. In 1983, the system of Broadbanding is introduced. The system allows companies to produce a range of products that are related to their originally licensed production program. Moreover, very selectively and from case-to-case (D'Costa, 2005) the Indian Government allows the set up of a number of collaborations between domestic and foreign companies. However, while deregulation sets in, major features of the state-led, self-reliant economic system stay in tact until the early 1990s. Companies in India can still only operate under license which restricts the entry of international players. Those international player granted access in the form of collaborations with local players, face ongoing equity constraints (no than 40%). Moreover, they are required to observe the Phased Manufacturing Program to assure technology transfer and reduce balance of payment deficits. These changes are also reflected in the Indian automobile industry.

The in 1983 broadbanding is introduced to the commercial vehicle sector and extended to passenger cars in 1985. In this period many Japanese companies (mainly in commercial vehicle sector) enter the Indian economy and engage in collaborations with Indian manufacturers (Mohnot, 2001). While there are new possibilities for collaborations there is still no free access to the Indian market for international automobile companies. For Maruti-Suzuki, this situation creates a

particularly protective and conducive environment. On the one hand, the company can, with the help of international cooperation and its small car strategy, out-compete its domestic rivals. On the other hand, the company is shielded from international competition through the remaining licensing system and can reap a huge untapped market. D'Costa (2005) remarks along similar lines:

Paradoxically, after a burst of opening up, the production of passenger cars throughout the 1980s and early 1990s remains tightly regulated and controlled through industrial licensing. No other new car manufacturers were permitted until after the reforms of 1991, even though numerous applications for foreign technical collaborations had been made and several joint ventures permitted in the Indian LCV market. The reasons were both economic and political – to protect MUL and save foreign exchange. (D'Costa, 2005: p.84)

Throughout the 1980s Maruti-Suzuki is in a very privileged position. Not only does the company benefit from the limited reforms, but it also profits from preferential treatment by the Indian Government. A range of policy measures are specifically drafted to support the company. For example, in 1983 the Indian Government “issued a special notification extending substantial reduction in customs and excise duties to automobiles that had a capacity of no more than 1000cc” (Venkataramani, 1990: p.62). While this notification strongly benefits Maruti-Suzuki which is about to produce an 800cc vehicle, the other two main competitors are put at a disadvantage by this measure. Clearly, Maruti-Suzuki becomes a ‘national champion’ whose development Indira Gandhi vowed in 1983 at the factory inauguration would be her personal interest. Although Maruti-Suzuki benefits from economic reforms and preferential treatment by the government, its relation to the government diverges from earlier modes of Government-Public Sector Undertaking nexus in that the government abstains from influencing operative decisions in the company (cf. Shiraly, 1984; D'Costa, 2005).

While Maruti-Suzuki benefits from the emerging middle class demand, which results from the state-led economic growth regime, an aggregate effect of the new consumer aspirations is a growing contribution to the country's fiscal deficit. D'Costa (2005) argues, for example, the “deteriorating external conditions of the 80s were a direct result of relaxation of import regulations, which in turn was related to embourgeoisement” (2005: 80). Throughout the 1980s, resulting from the sixth and the seventh Five Year Plans' growth goals, India's fiscal policies becomes more expansionary. This development culminates in 1991 in a severe macroeconomic and balance of payment crises. Krueger and Chinoy (2002) argue that the main problem is that growth driven by excess aggregate demand, resulting from fiscal deficits, becomes unsustainable. In addition, “not only were the current account deficit and inflation rising but the Iraqi invasion of Kuwait and subsequent events had resulted in a sharp increase of the price of oil, and a drop in workers' remittances as the workers in the Gulf were repatriated” (2002: 16).

However, although these events trigger the crises, there are more fundamental structural problems of the Indian economy. Most of important of which: India's dependence on external sources for oil; its export focus on low value products; its overregulation of the private sector; and its the resource-drain caused by the inefficient public sector (Srinivasan, 2000; Krueger and Chinoy, 2002; D'Costa, 2005). Following Rajiv Gandhi's assassination in 1991, the Congress Party wins in the general elections in 1991. The new government responds to the crisis with stabilizing measures and an economic reform program, partly reflecting the International Monetary Funds expectation for liberalization. The liberalization program, starting in 1991, marks a sea-change in India's post independence economic regime, its competitive environment and its relation to the global economy. For Maruti-Suzuki, which is a well established company by the time, this development heralds a new competitive environment.

1992 – 2001: MARKET EXPANSION, COMPETITION AND THE BATTLE FOR CONTROL (GROWING UP IN THE 90s)

Ownership development

Maruti-Suzuki's expansion in the 1990s is accompanied by a sequence of JV conflicts that are frequently termed the Suzuki-Government 'battle for control' in the Indian media. As a government company, the process of equity change is inextricably linked to changing governments, ministers and economic policies.

From the outset, the change of equity between the Government of India and Suzuki is a hotly debated issue. Among other things, this has to do with the fact that Maruti-Suzuki's success becomes a symbol of national pride. There are strong feelings that the 'family jewel' should not be given away carelessly (Automotive News International, 2001). Similarly, there are from the beginning a number of contentious issues between the JV partners. The most important of which, is the perceived slow speed of technology transfer and indigenization on the Indian Government's side and the perceived overstaffing on Suzuki's side. The Indian side feels that Suzuki is withholding technology because the company is unwilling to set up a gearbox manufacturing facility in India (Shelly, 2002). In turn, a complaint frequently raised, from Suzuki's side are Maruti-Suzuki's high staffing levels. While it is in the interest of the Indian Government to keep employment levels high, the Japanese partner feels the company is overstaffed, coming into the way of the plant's efficiency (Glover, 2002). However, while these are long-standing simmering disagreements, it is not until the 1990s, with the shift in equity, that the relations between the JV partners severely deteriorate.

In late 1993, the first sign of conflict surfaced, when Suzuki proposed a Rs 22 billion expansion and modernization plan. The government seemed reluctant to take a decision as it felt that Suzuki had inflated the project cost. The government came up with a scheme to fund the project through a combination of debt and internal accruals. The transfer of gearbox technology was another bone of contention between two partners. The government felt that Suzuki was deliberately withholding this technology so that it could export it to Maruti and boost its own earnings at the cost of Maruti. However in mid-1996, the government approved the expansion and modernization plan and Suzuki agreed to transfer its technology. (Mohapatra, 2003: p.67)

In 1992, the 10-year agreement between the partners ends. About the same time, India embarks on its liberalization programme which completely changes the FDI scenario, inviting potential competitors of Maruti-Suzuki into the country. In this scenario, the government signs the new agreement with Suzuki, allowing the company to raise its equity share to 50%. The new agreement explicitly states that no partner can sell its stake without prior written instruction (or consent) of the other side. With the equity shift Suzuki becomes an equal partner and Maruti-Suzuki ceases being a Government company, as defined by India's Companies Act of 1956. Maruti-Suzuki is no longer a Public Sector Company and therefore no longer subject to parliamentary control and scrutiny (Business India Intelligence, 1997).

Following the shift in equity Suzuki proposes an ambitious 'expansion and modernization plan' for Maruti-Suzuki. The goal is to increase production by 100,000 cars and to invest about 22 billion rupees. Allegedly, there is an informal agreement between India's Heavy Industry secretary, its Finance secretary and Suzuki that the required funds for the expansion will be raised through a public issue (Radhika, 2002). However, this informal deal is stalled when a new Union Minister for Industries comes into office in 1995.

Karunakaran refused to accept MUL's proposal for a public issue, as it would result in further shifting the company's control into SMC's hands. Karunakaran insisted that the expansion plans be financed by the companies retained profits and internal accruals. The new Heavy Industries secretary, T.R. Prasad, endorsed Karunakaran's view, since the suggestions made by the previous secretary (Ashok Chandra) to SMC regarding the public issue was not on file. According to analysts, the GoI thought that the public

issue was SMC's idea. This increased the GoI's apprehension that SMC intended to take over total control of MUL. (Radhika, 2002, p.6)

In this new scenario, the Indian Government feels that Suzuki is inflating the project's cost in its favor. In response to Suzuki's 'expansion and modernization plan' an expert committee is appointed by the Indian Government to look into the economic viability of the project. The conflict is further intensified by the Indian Government's unilateral appointment of a new Chairman and its demands for a resignation of Maruti-Suzuki's Managing Director Bhargava. Suzuki on its part becomes frustrated by increasing government intervention and above all the Indian Government's delay of the expansion plans.

A CBI probe is seriously being considered by the government into the import deals by the Rs 8,000-crore Maruti Udyog Ltd. (MUL), highly placed government sources said here on Wednesday. As the wrangle between the Suzuki Motor Corporation (SMC) and the government, the two equal partners in the car joint venture, is showing no signs of abatement, the sources said the government was going to probe the imports of capital goods worth hundreds of crores of rupees by MUL from SMC. Sources, however, were neither willing to go into specific details of the import deals and the "alleged wrong doings", nor could SMC vice-president, Mr Y Saito, camping here since Saturday, be contacted for comments despite repeated efforts. The MUL board, at a stormy session last year, had decided to introduce the system of international tendering for procurement of capital goods against the prevalent practice of ordering it with SMC, sources said adding that global bids were invited for the two deals relating to press shop and paint shop for a budgeted estimate of Rs 1,900 crore. The difference between the global bids and the offer of SMC was believed to be coming at around Rs 350 crore for two contracts in one year alone, they added. [...]. The decision to go in for global tendering was taken by Maruti board when Suzuki nominee R C Bhargava, was the managing director and is believed to have saved MUL about 20 per cent of costs in the press shop and 25 per cent in paint shop. [...]. The tender for paint shop was floated on October 17 last year [1996] while that for the press shop a week before. The sources said the global tendering decision was taken at the initiative of government director as it was felt that MUL was being "bamboozled." A decision on the two contracts is expected shortly as the MUL board has finally approved the Rs 2,300 crore expansion plan, which will enhance the production capacity by over a lakh cars. The expansion project had become a bone of contention with Suzuki claiming that the government was coming in the way of the expansion plans as it was delaying decisions. (The Times of India, 1997)

In 1996, the conflict is preliminarily settled by a compromise. In this compromise the Indian Government approves a reduced (14 billion rupee) 'expansion and modernization plan'. Suzuki, in turn, agrees to finance the expansion through the company's internal accruals and by debt, given Maruti-Suzuki's market success in the early to mid 1990s (Radhika, 2002). Following the settlement of the conflict, Suzuki suggests in early 1997 an equity increase from 50% to 74%. However, the Indian Government rejects the proposal and the conflict between the JV partners reignites when the Indian Government nominates Bhaskarudu as the new Managing Director in August 1997. Bhaskarudu follows Bhargava who completes his tenure. Once again, the Government of India pushes through its candidate, despite the fact that Suzuki objects to the appointment. While the Japanese side sees in the unilateral appointment a violation of the 1982 agreement, the Indian side argues that the appointment is in line with the renewed JV agreement of 1992, which allows for an alternating appointment policy between the partners (Business Standard, 2002). As both sides don't give in, the conflict escalates. Suzuki takes the issue against the Indian Government first to the Delhi High Court (where it is turned down) and, thereafter, to the International Court of Arbitration. The Indian Minister of Industries threatens, in turn, that the Indian Government will look for a new Joint Venture partner altogether (Business Standard, 2002). Finally, the whole dispute comes to an end when the BJP comes into power in June 1998 reviving the reforms and privatization policy. In an out of court settlement, a compromise is struck. The agreement involves that Bhaskarudu will step down in 1999, two years ahead of schedule, and that Khattar will replace him as Managing Director in 2000 (Business Standard, 2002). The two sides

also agree that all appointments of top executives in future will involve a consultation and concurrence of both sides (Mukherjee and Treece, 1998).

With the resolution of the conflict Suzuki's quest for a majority stake in the company does not abate. Yet, in the wake of the newly elected BJP's privatization policy – a move which seeks to divest Public Sector Undertakings – there is an increasing willingness on the part of the Indian Government to lower its stake in the company.

Maruti, a 50-50 joint venture between the Indian government and Suzuki, is going private. The decision is part of Prime Minister Atal Bihari Vajpayee's privatization policy. But the proposed change has not been easy. In a country in which politics cover the entire ideological range, leftist opposition has been harsh. 'Don't sell family jewels in favour of a short-sighted policy' has been the slogan of the communist parties. The right wing Bharatiya Janata Party-led coalition is undeterred. It has marked 27 major state-owned businesses for privatization. Maruti is one of them. (Malhotra, 2001: p. 35)

In 1999, the BJP Government follows the recommendation of the Disinvestment Commission and announces the decision to divest its stake in the company. In 2001, the Government suggested a two stage plan for Maruti-Suzuki's privatization. The two stages involve a reduction of the government's stake through a rights issue, to be followed by a public issue.

Profit strategy

The 1990s mark a shift of emphasis in the Maruti-Suzuki's profit strategy. While Maruti-Suzuki's profit strategy in the 1980s mainly emphasizes growing volume in combination with constant cost control and reduction, the 1990s see a slight shift toward volume expansion and diversity (Freyessenet, 1998). Triggered by the emerging competition from foreign competitors, Maruti-Suzuki engages in product diversification in the 90s. However, feeling the bite of competition, shrinking market share and falling profits, Maruti-Suzuki starts re-emphasizing cost control at the end of the 1990s. Som (2004) also describes the shift in the 1990s as a shift from 'sell what we produce' towards 'marketing and customer focus'. Essentially, Maruti-Suzuki starts to become a more service and customer oriented company, engaging in a wide range of related business activities. Som (2004) notes that this shift is also expressed in the changing mission statements of the company:

1984: "Fuel efficient vehicles with the latest technology"

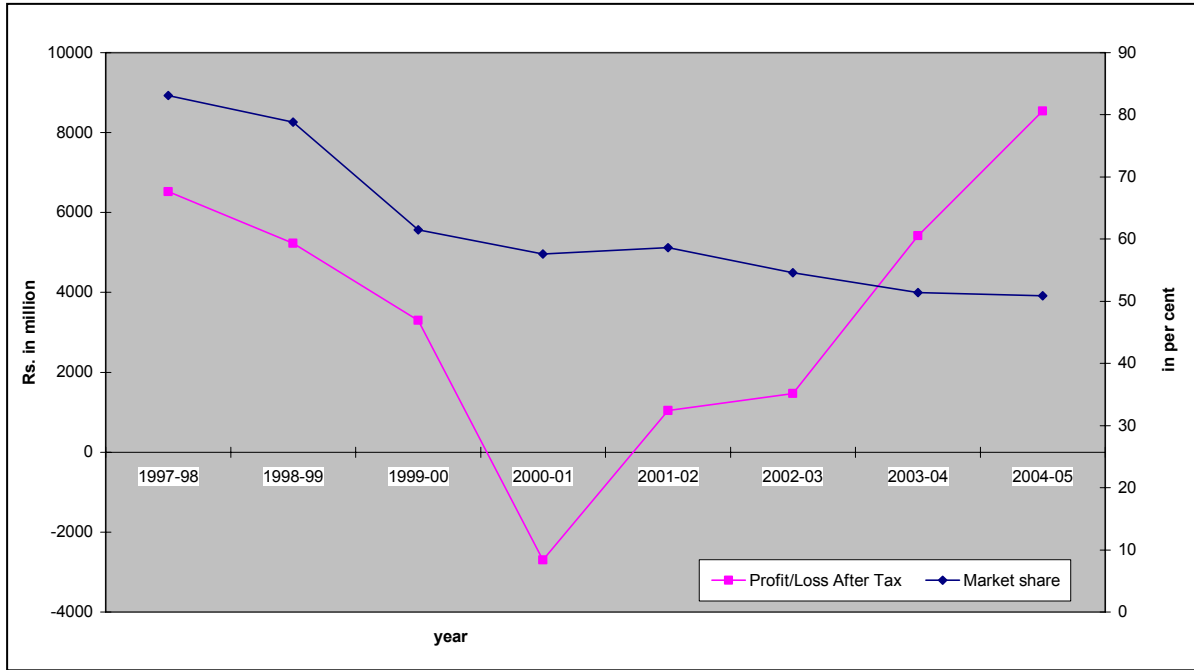
1987: "Leader in domestic market and be among global players in the overseas market"

1997: "Creating customer delight and shareholder wealth"

(Som, 2004: p.4)

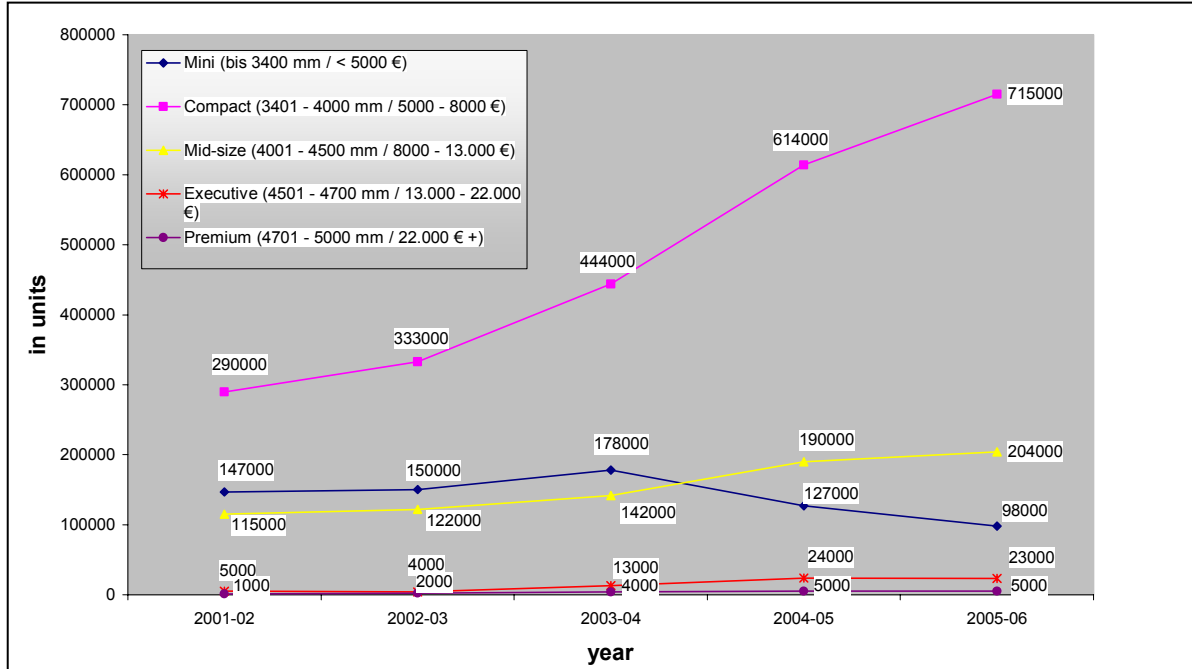
In the 1990s Maruti-Suzuki's market share and profitability see a turbulent development (see figure 1). Until 1997, Maruti-Suzuki strongly benefits from its first mover advantage and capacity expansion. In fiscal 1997/98 Maruti-Suzuki's market share peaks with 83.1% and so do its profits. However, the situation changes dramatically in the next years.

Figure 1: Maruti-Suzuki's profit after taxes and market share, 1997/98 – 2004/05



Source: compiled from Maruti Annual Reports 2000/01 – 2004/2005 and Red Herring

Figure 2: Development of market segments



Source: ACMA, 2006

It is a bunch of problems that make Maruti-Suzuki's market share and profits slide dramatically between 1999 and 2001. Among these are: a delayed model introductions related to the JV conflict; investments in new models with low initial localization levels; the market entry of major competitors – especially of Hyundai in the 1996 – and India at the end of the 1990s; the growing importance of the B segment Indian market (see figure 2); as well as other factors such as sales tax hikes, labor unrest, a growing interest burden, and investments in new engine specifications following a Supreme Court in order to make cars cleaner (Mohapatra, 2003).

In 2001, Maruti-Suzuki posts its first loss in the company history. In 2000/2001 the company's market share is down to 57.6% (some state even less) from its all time high in 1997/1998 (figure 2). One immediate reaction to the emerging crisis is a series of price cuts by Maruti-Suzuki starting in 1998 (Nair, 2006). These price cuts translate into increased cost reduction and productivity pressures on the entire value chain. The changing competitive scenario at the end of the 1990s and Suzuki's prospective takeover in early 2000s signal an increased emphasis price competition and cost leadership strategy for Maruti-Suzuki and with that a stronger focus on continuous cost reduction.

Product policy

Maruti-Suzuki's product policy and service offensive in the 1990s reflects these changes in the profit strategy. Feeling the bite of emerging competition, Maruti-Suzuki diversifies its product range from a pure entry level focus in the mini-segment (the Maruti 800 and Omni) to the fast growing compact segment (Zen, Alto, Wagon R) and the emerging mid-size segment (Maruti 1000/Esteem, Baleno, Versa). The company also introduces an increasing variety of base models (see table 3). As part of this development, the gap between Suzuki's models and Maruti-Suzuki's model portfolio is narrowing. Maruti-Suzuki's increased export orientation in the 1990s also contributes to the introduction of Suzuki's latest product technology. However, even at the end of the 1990s exports remain modest in relation to total sales. Maruti-Suzuki's 2003 Initial Public Offering prospectus stresses this condition:

We are dependent on the Indian passenger car market as exports contributed only 3.9%, 3.1%, 2.6% and 6.9%, of our total sales in fiscal 2000, 2001, 2002, and the nine months ended December 31, 2002, respectively. (Red Herring Prospectus, 2003)

Feeling the impact of competition at the end of the 1990s Maruti-Suzuki announces new model introductions every 6 to 12 months (Mohapatra, 2003). However, Maruti-Suzuki not only engages in a model offensive. In the face of competition, Maruti-Suzuki seeks to get closer and widen its customer base by introducing a wide range of services in the second half of the 1990s (table 4). By the end of 1990s, Maruti-Suzuki has the largest dealer and service network in the Indian automobile market. By the early 2000s, Maruti-Suzuki enters into four automobile related businesses – including lease and fleet management, buying and selling of second hand cars as well as auto finance and insurance – to offer what it calls '360 degree customer service' (Mohapatra, 2003). These efforts pay off and Maruti-Suzuki is awarded 2000 the first rank in the JD Power's India customer satisfaction index (Maruti-Suzuki website, 2007).

Table 3: Maruti-Suzuki's model introductions between 1992 and 2001

Year	Models introduced
1993	Zen, 993cc, hatchback car – later exported in Europe and elsewhere as Alto
1994	Esteem 1.3 LX, 1298cc, 3 box car
1995	Esteem 1.3 VX, 1298cc, 3 box car; Maruti 1000 production is stopped
1996	Market launch of five new models: Gypsy (E) (970cc, 4WD 8 seater), Omni (E) (796cc, MUV, 8 seater), Gypsy King (1298cc, 4WD, off road vehicle), Zen Automatic (993cc, hatchback car), Esteem 1.3L (1298 cc, 3 box Car) AX
1997	Esteem (1299cc, 3 box car) LX, VX and AX models released; New Maruti 800 (796cc, hatchback Car) Standard and Deluxe released, the first change in design since 1986
1998	Zen D (1527 cc diesel, hatchback car) model released; Zen VX & Zen VX Automatic model released; New (Omni & Omni E) (796cc, MUV) model released.
1999	Six new releases: Maruti 800 EX (796cc, hatchback car); Zen LX (993cc, hatchback car); Zen VXi (993cc, hatchback car with power steering); Omni XL (796cc, MUV, high roof); Baleno (1600cc, 3 Box Car) released. Advertised as 'Maruti Suzuki Baleno'; Wagon R launched in market.
2000	New Alto model released; Altura, a luxury estate car released into the market.
2001	Zen LXi; Maruti Versa, India's first luxury multi-purpose vehicle launched; Alto Spin LXi, with electronic power steering; Alto Vxi

Source: Maruti-Suzuki website, 2007

Table 4: Maruti-Suzuki customer services introduced

Year	Service introduced
1996	Launch of 24-hour emergency on-road vehicle service, the first of its kind in the country
1998	Launch of website as part of Customer Relationship Management Initiatives
1999	Launched Maruti Service Masters (MSM) as model workshop – franchised service stations – so-called one-stop shops – to meet all vehicle-related product and service needs
2000	First car company in India to launch a call center for internal and customer services; IDTR (Institute of Driving Training and Research) launched jointly with the Delhi government to promote safe driving habits
2001	Customer information centers launched in Hyderabad, Bangalore and Chennai; Launched new businesses for the resale of used cars (Maruti True Value), for car financing (Maruti Finance) and for corporate lease & fleet management (N2N) Maruti True Value launched in Bangalore and Delhi

Source: Maruti-Suzuki website, 2007

Production Organization

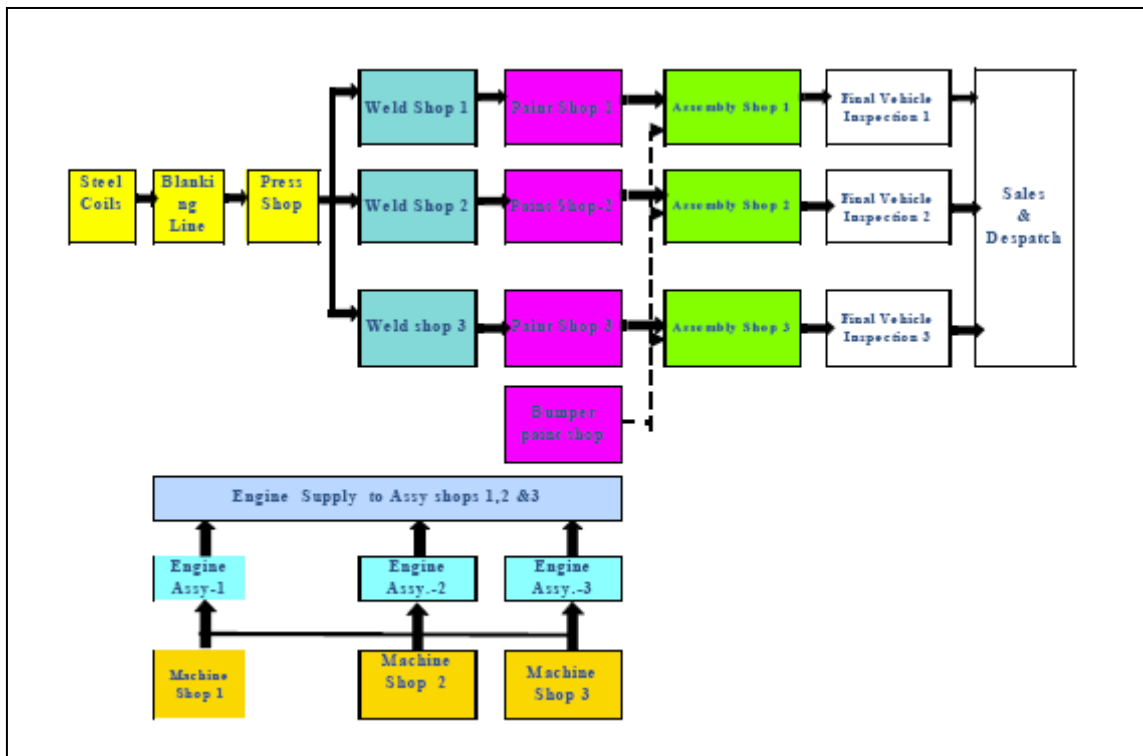
In the first half of the 1990s, Maruti-Suzuki main production organization focus lies in expanding its production capacity. At the end of the 1990s and in the early 2000s the focus shifts towards productivity enhancement and cost reduction. These changes come into full swing with Suzuki's takeover in 2002.

Location, layout and technology

The 1990s are marked by the ongoing capacity expansion of the company. In 1995 Maruti-Suzuki reaches installed capacity of 200000 units with the opening of its second plant. In 1999 Maruti-Suzuki's third plants becomes operational enhancing the installed capacity to 350000 vehicles per annum. In 1997 Maruti-Suzuki produces its 1 millionth, and in 2000 its 3 millionth vehicle since the commencement of production. At in the beginning of 2000s, there are three operational plants on Maruti-Suzuki's compound. While plant number one manufactures the models

Maruti 800-cc, OMNI, Gypsy, Versa and Esteem, plant number two manufactures the models Zen, Alto, Baleno. Plant number three manufactures the models Baleno, Alto and Maruti 800 (Muthukumar, 2004). In early 2000 Maruti-Suzuki manufactures with six platforms (table 5). The Maruti-Suzuki plants carry out all major automobile production steps ranging from blanking and forming of the body, to welding these forms into the car body in the weld shops, painting, assembly, vehicle inspection, road test, final inspection and vehicle dispatch (box 1). Maruti-Suzuki manufacturing process is organized as follows:

Figure 3: Maruti-Suzuki’s production organization in early 2000



Source: Red Herring Prospectus, 2003

Table 5: Maruti-Suzuki’s six vehicle platforms in early 2000

Platform	Models
1	Maruti 800 and Alto LX
2	Alto VX and Wagon R
3	Esteem and Baleno
4	Versa, Gypsy and Zen
5	Maruti Omni
6	Grand Vitara

Source: Muthukumar, 2004

Box 1: Maruti-Suzuki's manufacturing activities in early 2000

The production of a car at our facility occurs in the following stages:

Press Shop: Our press shop has five transfer presses and two blanking lines. In the press shop, steel coils are cut to the required size and panels are prepared by pressing them between various die sets such as doors, roofs and bonnet. An anti-rust coat is applied at this stage. We also have in-house capability and the necessary technical knowledge for the design and manufacture of medium-size press dies.

Weld Shop: We have three welding shops with 122 six-axis robots and 25 in-house manufactured two-to-four axis robots. In this shop, various press metal components manufactured in the previous stage are spot-welded together to form the body shell. Various parts such as the floor panel, side panel, doors and bonnet are sub-assembled in this shop.

Subsequently, the assembled parts undergo final welding. The welded body is sent to the paint shop through a conveyor.

Paint Shop: We have three paint shops, within one of which the final outer body is fully painted by robots. In the paint shop, the body undergoes various pre-treatment and electro deposition painting processes to provide a high corrosion resistance to the body. The car body is given an intermediate or primer coat before applying the stoving topcoat paint. The intermediate and the final coat are applied by using automatic electrostatic spray-painting machines (micro bells) and robots, followed by a baking process.

Assembly Shop: We have highly flexible assembly lines, which can simultaneously handle a large number of variants as well as adapt to sequence changes. The painted bodies proceed for final assembly in three stages. The first stage is the trim line wherein various components such as roof head lining, windshield glass and interior trim components are fitted. Thereafter, the car is transferred to an overhead conveyor, the chassis line, wherein components such as the engine, gearbox and front and rear axles are assembled on the underbody. The vehicle is then lowered to the final line on its own wheels and here components and parts such as seats, the steering wheel and the battery are fitted. The completely assembled vehicle finally rolls out of the assembly lines to the final inspection stages.

Machine and engine shops: We assemble and test engines in our engine shops and carry out precision machining of engine components in our machine shops.

Source: Red Herring Prospectus, 2003

While Maruti-Suzuki increases its automation levels in the late 1990s, it still comes in early 2000 nowhere near the level of automation of its counterpart in Japan. In 2001 the Maruti-Suzuki's Director Finance comments on the issue productivity and automation:

Maruti also displays high per capita productivity. Its 4,000 people shopfloor employees have an annual per capita output of over 100 cars. This compares very favourably with that of Suzuki, whose employees have an annual per capita output of 140 cars. Suzuki achieves this output with almost complete automation. They have upto three thousand robots on their shopfloor, whereas Maruti has ninety. Suzuki's welding and machine shop is also completely automated. Discounting for automation, the productivity of Maruti's employees compares very favourably to that obtaining in Japan. (Director Finance, 2001)

From the interviews it appeared that the lower levels of automation in the Indian site are mainly linked to lower labor costs and lower volumes. Moreover, where Maruti-Suzuki uses automation it seeks to make use of low-cost in-house produced automation (Muthukumar, 2004). This is also in line with Mohapatra's findings who states:

Maruti attempted to reduce the initial investment cost for new models through in-house development and localized sourcing of dies, welding jigs, and other equipment, and by introducing flexible welding lines that could be used for multiple models. It also planned to source dies for new models and upgrades versions of existing models from countries such as Taiwan, which are less expensive than in Japan. (Mohapatra, 2004: p. 70)

Apart from capacity expansion, Maruti-Suzuki focuses in the 1990s increasingly on quality and the reduction of work in progress inventories. In the 1990s Maruti-Suzuki adopts a range of production and quality standards including ISO 9002 certification (1995), ISO 14001 certification for environmental management (1999) and ISO 9001 (2000) certification for quality standards and procedures (Maruti-Suzuki website, 2007).

Work organization

In the first half of the 1990s Maruti-Suzuki introduces a number of new management practices, including Total Quality Management and 5S (Okada, 1998). However, while some new practices are transferred, a strong focus also lies on the institutionalizing of practices that are introduced in the 1980s. While Maruti-Suzuki succeeds in adopting and integrating a wide range of Japanese practices in the work organization – not least because of its elaborate incentive system such as 2 Rupees for each suggestion in 1993– a number of practices still depart from Suzuki’s shopfloor practices owing to the strong socio-professional demarcations in Maruti-Suzuki (Kasahara, 1994). Chatterjee (1990) remarks at the end of the 1980s “Maruti’s training objectives are certainly closely related to the Japanese approach although there is little or no job rotation and emphasis on multidisciplinary skills is virtually absent” (Chatterjee, 1990: p. 50). Based on these difficulties and the identification of other training gaps of large segments of the work force – that have received little more than the initial training – Maruti-Suzuki launches a new in-house training initiative in the early 1990s. Depending on the employee level, initial in-house training subjects include: quality and discipline, quality and leadership, quality and cost reduction, TQC and the role of the manager, plus special programs (Chatterjee, 1990). In the mid 1990s Okada describes Maruti-Suzuki’s training program as follows:

Maruti has well-organized internal training programs. In addition to orientation training for all new workers, training is provided for the existing workforce, based on their annual training plan for the individual, identified by each worker, supervisor, and department managers. Such training covers management skills, quality awareness, technical skills, health and safety, and corporate philosophy and targets. Production workers are also trained in their respective special areas, such as mechanics, electrical engineering, and machining. They are sometimes sent to other firms related to their specialties, such as an electrical manufacturer. Unlike other firms, even unskilled workers (called "attendants" at Maruti) are trained. Also, managerial staff undergo separate training in managerial skills. (Okada, 1998: xlvii)

This training program is flanked by the ongoing exchange and transfer of personnel to Japan throughout the 1990s and beyond. Okada states, for example, “[a]s of 1996, a total of 1200 employees have been sent to Japan and over 700 Japanese engineers came from Suzuki to provide guidance” (Okada, 1998: p. xlvi). Importantly, the transfer not only involves the transfer of managers and engineers but also of production workers since the 1990s who stay in Japan for a six-month period (Chatterjee, 1990). In the 1990s, annually as many as 120 workers undergo training at Suzuki (Okada, 1998).

The training program in Japan not only builds workers' skills but also enhances their motivation: workers receive their Maruti salaries during the training period as well as allowances from Suzuki. They live in a factory dorm with Japanese co-workers during their training and some stay with local families; they also have weekends free to explore a foreign life. For Suzuki, it is cheaper to pay allowances to these Maruti workers than to employ Japanese temporary workers. At the same time, it makes it easier for Maruti to upgrade technologies. This is a win-win arrangement for Maruti, Suzuki, and Maruti's workers. After the

training in Japan, workers are required to make at least two suggestions based on their experience in Japan. As mentioned earlier, such suggestions also enhance workers' motivation through a cash reward for good suggestions, and at the same time lead to substantial cost savings, which in turn improve productivity. In addition, each year, five to seven workers in some specialized areas, such as painting and die making, undergo nine-month training at a technical institute in Japan. (Okada, 1998: p. xlvi)

As a result of training efforts and other measures, Maruti-Suzuki is able to almost quadruple its value added per employee from Rs. 0.57 million in 1990/91 to Rs. 1.9 million in 1995/96 (Okada, 1998). In the late 1990s, with the increasing competition and Suzuki's takeover in the early 2000s herald a new transfer push of work practices from Suzuki. As will be discussed in the next section, Maruti-Suzuki engages at the turn of the millennium in an ambitious productivity enhancement program labeled 'Challenge 50' seeking to benchmark the Indian site's performance more closely with its counterpart Kosai in Japan.

Labor relations

In the late 1990s Maruti-Suzuki's governance compromise is seriously challenged and changed. First signs of deteriorating industrial relations surface in 1998 with the Indian Government's privatization policy and its willingness to accept Suzuki's take-over bid. This take-over perspective coincides with deteriorating company performance and a management-union disagreement over a revised incentive-scheme, as well as over the implementation of a new pension- and promotion-policy. As both sides are not willing to give in, Maruti-Suzuki sees its first strike in the company history. This period of labor unrest marks a rupture with the company's old governance compromise based on strong company growth, steady pay rises and secure employment conditions of a Public Sector Undertaking under the protective umbrella of the Indian Government.

First signs of serious labor discontent emerge in the late 1990s. In 1998 the new BJP-led Government of India expresses a new openness for Suzuki's take-over bid. The main reason for Maruti-Suzuki's union MUEU to oppose the Government's plan for divestment is their fear about losing the government protection for Maruti-Suzuki's employees including the related human resource policies (The Hindu Bureau, Business Line, 2000). In the face of this take-over scenario, Maruti-Suzuki's company union threatens with strike. It also threatens to call off the long-standing non-affiliation agreement. The company union's reaction to this development is vividly captured in the following abstracts from leading Indian newspapers.

Suppressed anger was writ large on every face at Maruti's labour union office in Gurgaon the morning after the patch-up between government and Suzuki. "The government's surrender has humiliated us deeply," remarked a bleary eyed Matthew Abraham, general secretary of the Maruti Udyog Employees Union. The union is upset as it perceives the agreement as a precursor to Suzuki taking ownership control of the company. "We will fight to the end to resist a sell-out by the government, we can even strike work," Abraham said. The union has been taken by surprise by the peace accord and is in the process of formulating a strategy to counter Suzuki's moves for greater control of the company. The Maruti union has been unique as it has resisted the temptation to align with a political party so far. "We had an agreement with the government that we will not affiliate with any political party but now we have no choice," Abraham said. Ever since inception Maruti has had only one union, with affiliation the gates will open for various political parties to carve out a piece of the union cake. "The industrial relations here too will deteriorate like it has in PSUs," he said. The workmen in Maruti are mostly people who live in that area. According to Abraham, in the last general elections all workmen voted for the BJP. Having been loyal supporters of the ruling party, the union is feeling betrayed by the government. The union is shell-shocked by the secrecy with which the govt has concluded the agreement. (Indian Express, 1998)

In September 2000 the first strike in the company's history occurs. The strike brakes out in response to proposed changes in the incentive scheme by the company management in the face of Maruti-Suzuki's performance problems. Apart from the incentive schemes other issues are raised by the union. They include a revision of conveyance allowance, the formulation of a company based

pension scheme, promotion of workers to the supervisory level in non production areas and setting up of grievance redressal mechanism in the company. However, the main bone of contention is the incentive scheme:

Regarding the demand for revision of incentive scheme, Abraham said, "Under the memorandum of understanding between MUL and government of India in 1986, the government had agreed to share 65 per cent of the additional gain of productivity with the employees. Following several board resolutions, a scheme was later floated under which the base productivity level was set at 43 vehicles per direct employee. As against this, we had last year achieved production levels of 92 vehicles per employee. But if we cannot get the incentives of this extra production, we will have to go back to the levels of 43 vehicles per employee." Meanwhile, the union has been in talks with the management over the issue since March 1999, when the previous incentive scheme expired. In addition, the previous wage settlement also expired in March 2000. "But we want the incentive scheme to be settled first before the other issues are taken up." Abraham further alleged that the pension scheme and promotion policy are not being implemented. Further, the scheme of rewarding jobs to employees' children is also not being implemented. "We want these issues also to be settled." The management has refused to pass on the benefits citing increased competition and lower margins. "But we have helped the company save Rs 580 million directly by increasing productivity. As per the MoU, we should be getting 65 per cent of this saving, but the management is not prepared to distribute it." The management, he alleged, is using pressure tactics and has suspended MUEU president Dinesh Kumar and executive member J K Sharma on charges of misbehavior. (Rediff.com, 2000)

In reaction to what the union perceives as breach of agreement, the worker's union of Maruti-Suzuki threatens to go "on an infinite strike and stall production if demands for revision of incentive and new pension schemes were not met" (Rediff.com, 2000 2000). The union leaders also threaten to employ all those measures that are a typical expression of Indian labor relations ranging from tool downs and go slows, to political affiliation and hunger-strikes. Responding to the union's threat Maruti-Suzuki's management suspends production for two days. The union, in turn, protests and calls the move 'illegal'. The initial labor dispute widens when Maruti-Suzuki's 900-odd contract workers initiate a sudden strike. While Maruti-Suzuki's company union dissociates itself from this group's demands (demanding better working atmosphere and wage benefits) the conflict over the incentive scheme remains unresolved. In October 2000 Maruti-Suzuki's union announces a strike. Maruti-Suzuki's management, in turn, tries to keep up production by drawing on supervisors, apprentices and strike breakers. In January 2001 the strike comes to an end with Maruti-Suzuki's management having essentially pushed through its position in the settlement with the union. Maruti-Suzuki's management not only unilaterally pushes through the new incentive scheme, it also asks its workmen to sign 'a good conduct undertaking' and dismisses some workers and trainees due to their strike related activities. The signing good conduct undertaking is made a precondition for workers to re-enter the plant. Among other things the workers have to sign that they would not go on strike in future.

Our Company faced major labour unrest in September 2000 with regard to the proposed changes to the incentive scheme of the Company. Upon the changes to the incentive scheme in October 2000, the workmen of the Company undertook a tool down strike which later evolved into a strike. Our management advised the workmen to sign a good conduct undertaking reiterating their adherence to the standing orders of the Company and to join duties before the occurrence of such strike. A large number of workmen chose not to sign the good conduct undertaking. The union and the management reached a settlement dated January 8, 2001. The incentive scheme was accepted by the Union on the same terms as initially proposed by the Company. The union challenged the introduction of the requirement to sign the good conduct undertaking and sought a permanent injunction against the signing of the good conduct undertaking in the court of Civil Judge Senior Division, Gurgaon. The Civil Court has refused to grant the injunction in favor of the union. The union filed an appeal against the order of the Civil Court before the District Judge, which was dismissed. The union then filed a writ petition before the High Court,

Punjab and Haryana at Chandigarh, seeking an interim stay of the requirement of the signing of the good conduct undertaking. This application for stay has also been dismissed. The writ petition is pending before the High Court. (Red Herring Prospectus, 2003)

All in all, the settlement can be regarded as a victory for Maruti-Suzuki's management. However, the strike at Maruti-Suzuki has many features of a typical Indian industrial labor conflict. What begins as a showcase of industrial peace, based on harmonious Japanese labor relations, reverts to typical Indian industrial conflict at the end of the 1990s. Another sign of this shift is the formation of a second union during the labor conflict. In 2000/2001 a new and thereby second union is formed, the Maruti Udyog Kamgar Union (MUKU). This formation challenges the company's long standing one union policy.

Supplier relations

With Maruti-Suzuki's volume expansion in the 1990s strong efforts continue to establish reliable supplier relations that can keep pace with Maruti-Suzuki's growth. However, there is a shift in the focus. The shift mainly comprises of an increasing emphasis on quality improvement and on bringing down the high inventory levels.

Quality problems remain a major issue and a field of initiative throughout the 1990s for Maruti-Suzuki (see box 2). In this decade Maruti-Suzuki starts pushing its suppliers to acquire ISO certifications. To support small and medium enterprises Maruti-Suzuki initiates a 'cluster approach' in 1995. The approach groups vendors together, trains them in quality management and assists them in obtaining the ISO 9000 certification (Red Herring Prospectus, 2003). The following observations by Okada (1998) also bear evidence of the 90s quality initiatives:

The Materials 1 Division of Maruti consists of six vendor development departments, each in charge of a group of suppliers producing different products. Each department works closely with suppliers on problems they report to Maruti, monitors product quality, and upgrades suppliers' capabilities. Maruti also organizes conventions for all suppliers several times a year. Maruti ranks suppliers according to a vendor rating which it uses to evaluate their performance. It also provides suppliers with inspection tools such as gauges and calibrators. Through such close interactions with Maruti, local suppliers have raised their quality standards. This has also affected the organization of production at the suppliers, which has in turn increased training opportunities in the supplier firms, especially in the 1990s. (Okada, 1998: p. 48)

Box 2: Evidence of Maruti-Suzuki's quality problems and focus in the 1990s

MUL's executive director (marketing), Jagdish Khattar told The Financial Express that Maruti sourced 75 per cent of its component requirement from vendors. "The quality of Maruti car is not upto the international standards," admits Khattar. Maruti's component defect rate is as high as 30,000 parts per million (PPM) as compared to 200 (PPM) for the developed countries. The company does only random checks (one out of 30 components supplied). The company has developed a failure monitor mechanism for each of the 2000 types of components which go in the manufacture of each car. However, Khattar stressed that a car manufacturing company could not be held responsible for substandard components supplied by vendors. "The defect rate of Indian component suppliers is 100 times more than the world standards. Unless the quality of components supplied by the vendor increases, the quality of cars produced in India would be substandard," Khattar pointed out. MUL is, nevertheless, tightening its belts on quality front, especially after the recent embarrassment suffered due to recall of about 50,000 cars. MUL has decided to make internal and external audits of vendors and suppliers more stringent and regular in future. This would ensure that vendors adhere to quality norms. Company executives said interaction with vendors and suppliers was also being stepped up to know their needs and the sources of their raw materials. This would also help in up gradation of vendor technology and their production facilities. A better way of detecting faults in components is by putting stickers

along with the batch number so that the faulty components can be easily detected. Maruti has a vendor consultancy cell which look into problems of vendors and advises them on modernisation and upgradation. Maruti Udyog Limited is also trying to get ISO-9000 certification for vendors. This will help in setting up a procedure for manufacturing standardised products. However, company executives admit that ISO-9000 certification does not ensure quality since it is only a set of systems and procedures for manufacturing.

Source: (Parul and Manish, 1997)

A second major challenge Maruti-Suzuki is facing in the 1990s, is bringing down its high inventory levels. Between 1992 and 1997 Maruti-Suzuki is able to reduce its inventory levels substantially. Gulyani (2001) reports that the “total value of inventories as a percentage of sales revenue improved from a high of 20% in 1992 to 10% in 1997” (Gulyani, 2001: p.1164). Or put differently, “the total inventory level at Maruti fell from about 57days of stock in 1992 to 30 days of stock in 1997” (Gulyani, 2001: p.1165). While many of the improvements made are in areas directly under Maruti-Suzuki’s control, such as work-in-progress and finished goods inventories, high inventories related to the external supply chain continue to be a problem (Gulyani, 2001). Thus, while Maruti-Suzuki has come a long way in reducing its inventory levels, they remain very high by international standards and trigger further initiatives in the second half of the 1990s.

Among other measures, Maruti-Suzuki seeks to reduce its inventory levels by locating more suppliers near its plant. Although the majority of Maruti-Suzuki’s suppliers are already located in a radius of 80 km, some are as far away as 2500km.

In 1996-97, about 70% of Maruti’s domestically sourced components and materials came from its local area, that is, from within a radius of about 80 km or less. And as many as half of its top 100 domestic suppliers, which account for 50% of Maruti’s total domestic purchases by value, are now located in the area. Maruti is not yet satisfied and is aggressively pushing for further localization of its supply chain by negotiating with more distant suppliers to relocate to the immediate vicinity and by trying to ensure that any expansion of new investments by current local suppliers remain local. (Gulyani, 2001: p.1167).

To reduce supply bottle necks, transport related uncertainties, high in-transit inventories (related to long distance transport) and ultimately its total inventory levels, Maruti-Suzuki creates incentives for far away suppliers to move near its plant. These incentives comprise: setting up a supplier park with excellent on-site infrastructure; offering subsidised, well located and industrially developed land; sales tax concessions; and reliable power supply generated by Maruti-Suzuki itself (Gulyani, 2001). Maruti-Suzuki also asks those far away suppliers not willing to relocate, to build or make use of warehouses near its plant. In these cases, Maruti-Suzuki is willing to bear the expenses incurred for maintaining the warehouse (Venkatachari, 2000). While Maruti-Suzuki’s supply logistics are still not comparable to those of Suzuki in Japan, the company is moving towards increasing Just-in-time supplies in the second half of 1990s.

Maruti played a particularly significant role in pushing local component suppliers to improve quality, price, and delivery, and in forcing some of them to adopt just-in-time (JIT) principles (Eurotech International 1993: 23). However, this does not mean that Maruti and its suppliers have fully adopted the JIT production system. Japanese managers think that the Indian automobile industry, including Maruti, is still far from operating under the JIT principle. (Okada 1998: 42)

Finally, in the late 1990s Maruti-Suzuki also starts streamlining its supplier base. In 1997 Maruti-Suzuki makes first efforts to reduce the number of suppliers and encourages tierzation among them. Between 1998 and 2000 Maruti-Suzuki reduces its suppliers from around 400 to 370. In a first setp Maruti-Suzuki aims at reducing those suppliers that are supplying the same part or component.

Maruti Udyog Ltd has decided to reduce the number of vendors which supply components to the company as a part of its strategy to implement strict quality control measures. The company has about 400 vendors supplying over 2000 types of components at present. Company sources said that a series of measures were being taken up to improve the quality of components supplied by the vendors. The number of vendors is being reduced from the present four to five per component to a maximum of three vendors. (Parul and Manish, 1997)

Socio-economic context

Following the balance of payment crisis in the early 1990s, the Indian Government launches stabilizing measures and embarks on a new economic policy. First stabilizing measures include the reduction of the fiscal deficit and the devaluation of the Indian rupee. While the stabilization measures aim at short term alleviation of the economic crisis, the reform program addresses structural problems in the Indian economy with a more long term approach. Already the Eighth Five Year Plan of 1992 reflects these changes, putting great stress on the private sector in the country's industrial development.

Internally, the reforms focus on shifting the economy from a state-led coordination and state-led investment growth regime to a more market-led coordination and market-led investment growth regime. This implies the massive de-regulation of private sector controls and a step-wise privatization of public sectors and their enterprises. The first liberalization measures mainly target the fiscal sector and banking system. Other liberalization efforts in the 1990s include the gradual liberalization and abolishment of the state monopoly in different sectors including the telecom, airline and other industries. What is more, a careful start is made, privatizing state-owned enterprises. Externally, the reforms aim at liberalizing the trade regime summarized by Krueger and Chinoy (2002) as follows:

In the first two years of the reforms, measures liberalizing the trade regime included: (a) the removal of import licensing requirements for most imports (although prohibitions on the import of consumer goods remained); (b) the beginning of a program of tariff reductions; (c) restrictions on inflows of foreign direct and portfolio investments were significantly eased; (d) a number of export restrictions were removed or relaxed (although some remained). (Krueger and Chinoy, 2002: p.23)

For Indian companies, the liberalizations imply the emergence of international competition in what used to be an entirely protected market. Yet, the liberalization pace is incremental with periods of slow down. For example, import tariffs remain high and indigenization requirements for FDI stay largely in place throughout the 1990s. In the mid 1990s, the reform-speed even loses momentum. In 1996 after the eleventh general election the National Front coalition forms a government supported by the Congress Party. In 1997, the National Front government falls and the BJP wins the following general election. Two years later, the BJP-led coalition falls, however, in the ensuing election in 1999, the BJP-led National Democratic Alliances wins again a majority in parliament. Despite protectionist tones, calling for 'swadeshi' (self-reliance), the BJP-led government picks up the stalled reform process. In 2000, new liberalization measures are initiated, including the privatization of the insurance sector and the domestic telecom sector.

In the passenger car industry the reforms arrive in 1993 with the abolishment of licenses. Like in other sectors, import tariffs are reduced and the 'Phased Manufacturing Program' is reformulated. Moreover, the pre-entry security for investment decisions (such as expansion, diversification, merger and acquisition) for big companies – such as companies falling under the MRTP – becomes obsolete (Mohnot, 2001). However, also in the automobile industry FDI is kept under strong regulations. While FDI up to 51% foreign equity receives automatic approval, FDI above 51% requires the approval by the Foreign Investment Promotion Board until 2002. Starting in 1995, the import of CKD/SKD kits requires a Memorandum of Understanding (MoU) signed between the Union Government and the car maker.

The MoU signed with the government requires car companies to set up a production unit, and not merely an assembly facility. The minimum foreign equity of \$ 50 mn is to be brought in by the foreign partner within three years. These companies are required to achieve a local content level of 50% in the third year and increase to 70% by the fifth year from the date of clearance of the first CKD/SKD kit imports. These companies also have to conform to broad neutralisation of foreign exchange over the entire period of the MoU in terms of balancing between imports and exports. (Mohnot, 2001: p.328)

Regarding to the demand-side of the automobile industry, economic growth and fiscal and monetary reforms have a positive effect on consumption. On the one hand, the reforms of the 1990s contribute to recovery and growth of the Indian economy. On the other hand, the fiscal and monetary reforms also include a reduction of the excise duty on automobiles. In 1991/92, the excise duty for passenger cars is 66%. In 1994/95 it is reduced to 40% and further to 16% in 2001-2002 (Mohnot, 2001). While Maruti-Suzuki expands and benefits from the effects of the economic reforms, the company also experiences increasingly the bite of competition entering the market, equally resulting from the liberalization (see table 6). At the end of the 1990s, Maruti-Suzuki's main competitors are Hyundai, Telco, Ford, and Fiat Honda, General Motors and Hindustan Motors. However, it is particularly the Hyundai, Fiat and Telco that cut into Maruti-Suzuki's market share (Red Herring Prospectus, 2003).

Table 6: Automobile firms in the passenger car sector entering the Indian market after 1993

OEM (date of foundation)	Partner (Site location)	Foreign partner equity	Cars or MUV	Production (2005-06 April- March)
Daewoo (1994)	ehem. DCM (Ghaziabad, Uttar Pradesh,)	74% → 91% → 100% → 0%	Matiz, Cielo, Nexia	Production stopped
DaimlerChrysler India Pvt. Ltd. (1994)	ehem. Telco (Pune, Maharashtra)	51% → 76% → 86% → seit 2001: 100%	C-Klasse, E-Klasse, S- Klasse	1.780
Fiat India Pvt. Ltd. (1996/1997)	Premier Automobiles (PAL) (Mumbai, Maharashtra)	51% → 76% → 93% → 95%	Palio, Petra, Adventure	-
Ford India Pvt. Ltd. (1995/1999)	Mahindra & Mahindra (Chengalpattu, Tamil Nadu)	50% → 85% → 90%	Ikon, Mondeo, Endeavour, Fusion, Fiesta	26.946
General Motors India Pvt. Ltd. (1994)	Hindustan Motors (Halol, Gujarat)	50% → 85%	Opel Corsa, Corsa Sail, Chevrolet Optra, and Chevrolet Tavera	30.687
Honda Siel Cars India Ltd. (1995)	SIEL (Gautambudh Nagar, Uttar Pradesh)	90%	City, Civic, Accord, CR-V	41.361
Hyundai Motor India Ltd. (1996)	- (Chennai, Tamil Nadu)	100%	Santro, Getz, Accent, Elantra, Verna, Sonata, Elantra and Tucson	260.440
Peugeot (1995-97)	Premier Automobiles (PAL)	50% → 33,96% → 0%	Peugeot 309	Production stopped
San Motors (1996)	(Goa & Bangalore, Karnataka)		San Storm	-
Skoda Auto India Pvt. Ltd. (2000)	- (Aurangabad, Maharashtra)	100%	Octavia, Superb, Laura	9767
Toyota Kirloskar Cars India Ltd. (1997)	Kirloskar Group (Bangalore, Karnataka)	70% → 88,86%	Prado, Camry, Corolla, Innova	44.975

Source: Becker-Ritterspach and Becker-Ritterspach, 2007

2002 - 2006: COMING TO TERMS WITH COMPETITION (REGAINING GROUND)

Ownership development

In 2002 Suzuki finally acquires a majority in Maruti-Suzuki. A Revised Joint Venture Agreement is signed that stipulates the Indian Government's divestment in two stages. Specifically, after the rights issue and initial public offering in 2002 and 2003, Maruti-Suzuki becomes a subsidiary of Suzuki. At the end of 2004, after the Indian Government's divestment, Suzuki has a 54.21% stake in the company followed by the Indian Government with an 18.28 % and other investors. In 2005, the Indian Government invites Expressions of Interest (EoI) from public sector financial institutions and banks for selling 8 % of its remaining 18.28 % stake in the company. The government restricts, however, the bidding for the shares to public sector financial institutions and banks. In 2006, offers from eight banks and financial institutions are accepted reducing the Indian Government's stake to 10.27%. In the same year, further divestments plans are announced for the remaining 10.27%. Similar to the preceding offer, only public sector banks, financial institutions and mutual funds registered in India are allowed to make a bid. The date for this latest round of submitting expression of interest (EoIs) expires on March 9, 2007.

Profit strategy

Starting in 1998 Maruti-Suzuki faces a constant decline in market share. The emerging competition from other international competitors, a paradigm shift to mid-size models in the Indian market and only a modest success of model introductions (Baleno and Versa prove not very successful) lead to a loss in market share. One of Maruti-Suzuki's main responses is a series of price cuts and the introduction of new and cheaper model variants.

As part of the ongoing strategy, Maruti will either lower the price of existing models or provide more features at the same price to attract and facilitate entry of new customers to its fold. In sum, the company will want to make its ultimate selling point, 'value for money', even more attractive. "We will employ all to our resources and strengths to make it easier for a prospective customer to go for our product and to remain ahead of competition," says Khattar. The company is working on the premise that for a long time to come the Indian market will remain an entry level market (Segments A and B) where pricing will be a decisive factor in attracting new customers. And as the only company, which has a Segment A offering (Maruti 800, Alto LX and Omni) and the largest Segment B bouquet, it can continue to dominate the market and regain its lost share. This would be possible if it is able to reduce its production cost, and continue to provide cars and features at a price, which others can't match. And it will fully leverage its parent company's proven leadership in small car technology as well as use the highest level of indigenisation in the car industry to its advantage. ... Nonetheless, the challenge at hand is a declining market share, and Maruti has to respond to it. "To say that we will continue to enjoy 60 per cent market share in a growing market will be unrealistic. No where in the world does any automobile company enjoy that kind of market share," Jagdish Khattar, Maruti's managing director points out. So is this admission of a drubbing in the offing? Not in the least, he quickly adds. What he wants to draw attention to is that as the car pie grows bigger, the overall share of his company may come down, but Maruti would remain the largest and would sell much more than before. So, whether the company grows bigger or smaller depends upon the way one wants to look at the picture. As far as the current drop in market share is concerned, Khattar has a word for competition. "Don't come to any conclusion as yet. The car industry is marathon race." (Shelley, 2002)

In the new competitive scenario Maruti-Suzuki is not counting on the same levels of market share as it has been enjoying in the past. While, at the beginning of the 2000s Maruti-Suzuki's overall profits strategy remains to be based on volume, diversity and on the constant reduction of cost (see box 3), there is a shift from the 1990s emphasis on volume and diversity to an emphasis on cost reduction. More than ever before, Maruti-Suzuki competes on price which translates into a permanent pressure for cost reduction in the whole value chain. At the same time, Maruti-Suzuki continues its efforts to improve its service and expands its offerings in related businesses.

Box 3: Maruti-Suzuki's strategic orientation in 2003

OUR BUSINESS STRATEGY

We intend to continue to focus on the small car segment, while offering products in most segments of the Indian passenger car market. We aim to achieve our principal objectives by pursuing the following business strategies:

Maintain and enhance our product range.

We intend to utilize Suzuki's expertise in small car technology to produce new variants of our existing models and to upgrade our products with contemporary technology and features.

Increase reach and penetration.

We plan to continue to utilize our extensive sales and service network to increase the reach, in terms of geographical spread, and penetration, in terms of sales volumes, of our products across India.

Increased availability of automobile finance.

We continue to seek opportunities to expand the size of the Indian passenger car market, especially in the small car segment, through facilitating easy availability of automobile finance. To that end, we have recently entered into an agreement with the State Bank of India.

Secure repeat purchases by offering a "360 degree customer experience".

On the basis of our belief that securing repeat purchases from an existing customer requires less expenditure than acquiring a new customer, we aim to provide customers with a "one-stop shop" for automobiles and automobile-related products and services.

Continue to benchmark our manufacturing capabilities.

We plan to continue to benchmark our manufacturing capabilities with the most efficient car manufacturing facilities of Suzuki and its subsidiaries.

Continue to reduce costs to offer more competitive products.

Cost competitiveness has been, and continues to be, central to our strategy as the leading manufacturer in the small car segment to expand the size of the market by offering competitively priced, high quality products.

The components of this strategy are:

- Higher levels of localization*
- Vendor participation in cost reduction*
- Cost reduction on warranties*
- Reduction in initial investment cost*
- Reduction in number of vehicle platforms*
- Achieve further cost reduction through higher productivity*

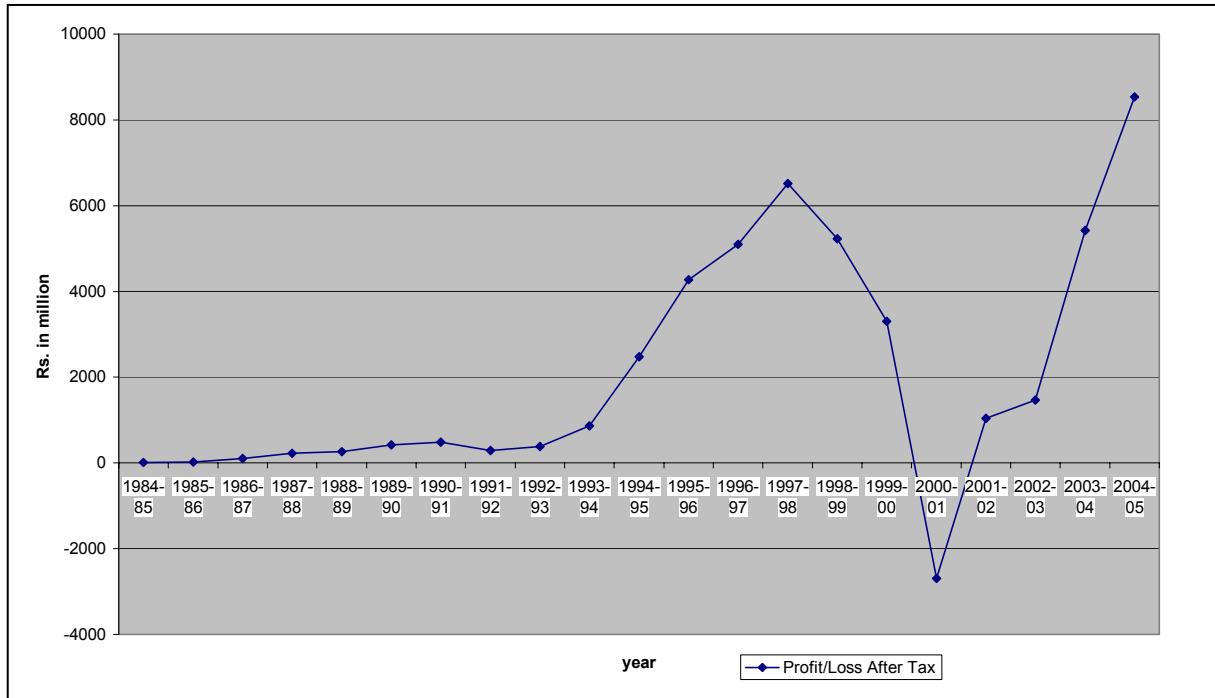
Lower cost of ownership.

Through our business strategies, we seek to reduce the consumer's cost of ownership of our cars, which comprises the cost of purchase, the cost of fuel and maintenance, including spare parts and repairs, during the life of the vehicle, insurance, and resale value.

Source: Red Herring Prospectus, 2003

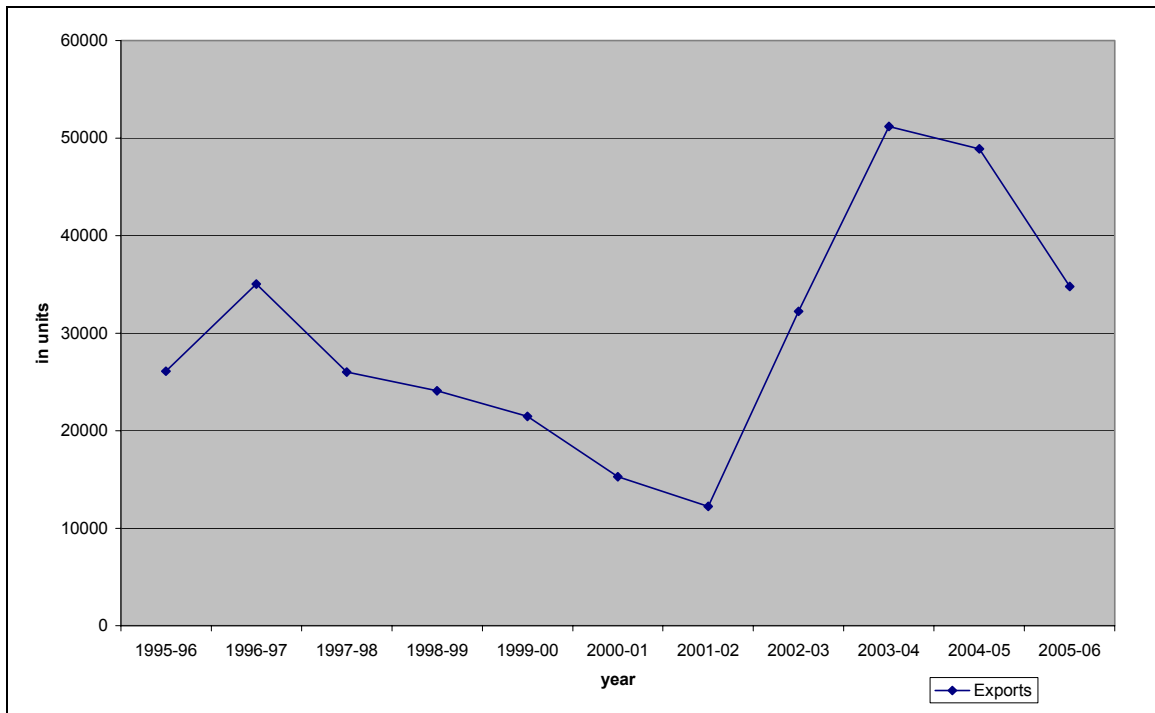
Maruti-Suzuki's strategic reorientations beginning in the late 1990s/early 2000s show increasing effect. In 2004-05 Maruti-Suzuki's overall sales see a sharp rise and the company's profits recover (figure 4). The company also succeeds in increasing its exports between 2002 and 2005 (figure 5). Moreover, although the company's production remains mainly dedicated to the domestic market, the parent Suzuki increasingly prepares its Indian operation for becoming a global production and R&D hub for its small cars range.

Figure 4: Maruti-Suzuki's profit after tax, 1984/85 – 2004/05



Source: Compiled from Maruti Annual Reports 2000/01 – 2004/2005 and Mohanty et. al 1994, p. 139

Figure 5: Maruti-Suzuki's exports, 1995/96 – 2005/06



Source: Compiled from Maruti Annual Reports 1995/96 – 2004/05

Despite a shrinking market share, Maruti-Suzuki remains the market leader – Tata and Hyundai being second and third – in the Indian passenger car market. Maruti-Suzuki's ongoing leadership in the market is also expressed by various service-related awards. In 2005, Maruti-Suzuki is awarded for the fifth time in a row first in the J.D. Power Asia Pacific Customer Satisfaction Survey.

Product policy

The economist intelligence unit summarizes Maruti-Suzuki's product policy in 2006 as follows:

Maruti has followed a policy of offering the cheapest cars in each vehicle segment in which it operates. The tiny Maruti 800, which sells for the equivalent of around US\$6,000, has been the best-selling car in India for years, but it is about to be toppled; it captured just 14.8% of all sales by volume in April-December 2004, down from around 25% in the last two years. Indians are moving upmarket at the expense of the M800, but Maruti's position as a company remains secure: many Indians are choosing Maruti's Alto instead. The Alto, with a 14.5% market share, is about to become India's best-selling car. Maruti also has successful models such as the Zen in the compact segment and the Esteem in the lower-medium segment. In the half-year to September 30th 2004, Maruti's net profit rose by 45% year on year, resulting in a margin of 5.6%. (The Economist Intelligence Unit Limited, 2006)

In line with its shifted profit strategy, mainly building on rising volumes and on a constant reduction of cost, the company's product policy refocuses on producing the lower and entry level models for the Indian market. Out of its 11 base models, six cater to the small and compact car market in 2005. Low priced small and compact cars offering 'value for money' move again to the center stage. Maruti-Suzuki's product policy strongly builds on cost leadership which is reflected in series of price cuts as well as new model/variant introductions (see table 7) that feature lower price tags (Alto LXi in 2002, non-A/C Alto 2004). In this context, Maruti-Suzuki also introduces a new version of its long-standing entry-level model the Maruti 800 (see also box 4). On this occasion the Managing Director Khattar is quoted as saying:

Just when there was talk about Maruti 800 being phased out, this iconic brand donned a fresh new look and again surprised everyone. The new M-800 is our gift to the million two-wheeler owners in the country who are looking to upgrade to a car. (Nair, 2006, p.7)

Box 4: Maruti-Suzuki's rationale for a low segment product policy

Maruti is also convinced that despite all the noise being made by its competitors about the B segment cars — this segment includes the Santro, the Indica and the Palio apart from the three models from the Maruti stable — becoming the entry level, the Maruti 800 will continue to remain its bread and butter model. Therefore, says Mr Khattar, Maruti will not be unduly worried if the other manufacturers bring in cars in the C and D segment. Maruti, Mr Khattar explains, is quite willing to cede the C and D segments to its competitors. However, it will do what it takes to maintain its share in the A segment — the Maruti 800 and the B segment. Even in the C segment, where Maruti has the Baleno, the company will aggressively indigenise the car and then take on competition with competitive pricing.

Maruti's critics and analysts, however, point out that the company has been slow in responding to competition and in bringing in new models. For instance, when most of its competitors were switching over to multi-point fuel injection system, Maruti still stuck with the carburettor injection. It was forced to go in for the MPFI after the courts mandated tighter emission norms for the metros, they say.

Likewise, because of the strained relations between the two joint venture partners — the Government of India and Suzuki Motor Corporation — there was a stage in Maruti's life when new models were not being introduced, especially when a number of multinational companies were aggressively bringing in products and chipping away at Maruti's market share. Maruti also did not beef up its presence in the diesel segment, even though the Zen came with a Peugeot TUD5 diesel engine. Even the Esteem was fitted with a Peugeot TUD5 diesel engine variant only a few months ago, when a competing brands like Ford Ikon was available with diesel engine option right from its launch.

Source: Ramakrishnan, 2002

Probably the biggest development in terms of product policy is the introduction of the hatchback model Swift in 2005. The Swift is a model that is co-developed by Japanese, European and Indian engineers and designers (Maruti Annual Report, 2004/2005). As part of Suzuki's internationalization strategy and as part of Suzuki's goal to develop India into a R&D hub for small cars, a team of Indian designers and engineers is involved in the development of the 'world car' (Nair, 2006; Mankad, 2006).

In India, the Swift is launched in 2005. Like other models, the Swift is modified for India, mainly to adapt the car to harsher driving conditions, but also to achieve a fast localization in a highly price sensitive market (Mankad, 2006). In fact, the Swift is the first car to achieve an 85% localization level at the time of its introduction. Positioned between compact and mid-size cars in the Indian market, the new model is perceived as "an ideal upgrade for the price-conscious compact car customer" (Nair, 2006: 7). Directly pitted against the slightly more expensive 'Hyundai Getz', Maruti-Suzuki's Swift proves a success in the market.

The introduction of the Swift underlines an increasing shift towards introducing state-of-the-art models without time-lag in the Indian market. According to the Annual Report of Maruti (2004/2005), the introduction of the Swift is a tribute to the Indian consumer who "demands the most contemporary global products and aspires to an international lifestyle, who values aggressive styling and looks in a car as much as the traditional Maruti Suzuki values of performance, reliability and low cost of ownership" (p.15). However, introduced to be produced for exports at a new production site at Manesar, the Swift is also a tribute to Suzuki's emerging transnational strategy of developing worldwide hubs for its different groups of models.

Table 7: Maruti-Suzuki's model introductions between 2002 and 2006

Year	Models introduced
2002	WagonR Pride; Esteem Diesel. All other variants upgraded: Alto Spin LXi, with electronic power steering; Special edition of Maruti 800, India's first colour-coordinated car
2003	New Suzuki Grand Vitra XL-7, Redesigned Zen, Upgraded WagonR
2004	Non-A/C Alto variant; New Esteem variant with minor alterations but at a lower price, LPG variant of the Omni, new variant of Versa (5 seater), new variant of Baleno LXi
2005	New version of Maruti 800; introduction of the Swift, a 1.3/1.5 litre petrol in 3 variants

Source: Maruti-Suzuki website

Apart from marketing offensives, promotional offers and innovative financing schemes (strongly targeting two-wheeler owners), Maruti-Suzuki engages in efforts to improve dealer efficiency and profitability in the first half of 2000s (Nair, 2006). Moreover, the company tries to increase its involvement in the whole lifespan of a car by establishing and offering a whole range of services (see table 8). Maruti-Suzuki's efforts in terms of product policy and services play an important role in securing the company's leadership position in the Indian market in the 2000s.

Table 8: Services introduced by Maruti-Suzuki between 2002 and 2006

Year	Services introduced
2002	Maruti Insurance. Two new subsidiaries started: Maruti Insurance Distributor Services and Maruti Insurance Brokers Limited; Maruti True value in Mumbai; Maruti Finance in Mumbai with 10 finance companies
2003	Maruti enters into a Partnership with the State Bank of India for a promotional scheme 'Do Se Char' (from two to four) allowing two-wheeler owners to buy a car; dealerships are further increased
2004	'Teacher plus' scheme targeting teachers in rural areas

Source: Maruti-Suzuki website, 2007

Production Organization

Starting with Suzuki's with the new directorship of Jagdish Katthar in August 1999 and more importantly Maruti-Suzuki's takeover by Suzuki in 2002, the company introduces a series of changes in the organization of production. Suzuki proposes a roadmap and asks Maruti-Suzuki to present an action plan for enhancing productivity and reducing costs. In response and focusing ever more on cost leadership, Maruti-Suzuki launches the program 'Challenge 50'. The goals of the program are improvements in safety, productivity, quality, cost and material management (Maruti Annual Report, 2004/2005). The defined goal is to improve productivity by 50% (bring down man hours per vehicle from 24 to 12) and reduce cost by 30% within 3 years (Muthukumar, 2004). The program not only focuses on Maruti-Suzuki's internal organization but also involves key suppliers (see box 5 detailing the Challenge 50 initiative). In 2005 Maruti-Suzuki launches the follow up program 'Next Leap', which is also a new cost-cutting program focusing on productivity improvements.

Box 5: The Challenge 50 initiative

Suzuki Motor Corporation (SMC) of Japan has drawn up an elaborate road map to put its Indian subsidiary Maruti Udyog Ltd. (MUL) among the top car companies in the world. SMC has placed MUL "as the focus centre among all its overseas activities", according to Yuichi Nakamura, Joint Managing Director of MUL. Far from achieving a mere reduction in cost, SMC wants MUL to change the mindset towards 'bench-marking costs' in every conceivable area. The broad objective is to reduce cost by 30 per cent and improve quality by 50 per cent over the next three years. Mr. Nakamura told visiting journalists from Chennai at the company's plant in Gurgaon that the production practices followed by SMC were now being inserted in MUL as well to bring about a reduction in manufacturing costs. Essentially, he said, SMC practices resulted in better planning, greater production control and lesser inventory. Mr. Nakamura, who had been deputed to MUL for the second time by SMC, said the challenge for MUL lay in not only controlling and monitoring the nine base models and over 200 variants that the company had now but also that of over 300 vendors. Already, MUL had begun an exercise to limit the worker movement that is not yielding any value addition. "Workers must be paid not to walk but to work," said Jagdish Khattar, Managing Director, quoting SMC Chairman Suzuki as saying to the Cabinet Minister, Murli Manohar Joshi. MUL, according to Shinichi Takeuchi, Director (Production), was looking at eliminating needless movement of a worker in the line so as to improve productivity. Mr. Nakamura said MUL at the moment required 24 man hour to produce a vehicle. The SMC plant in Japan took just two-thirds of the MUL time to make a vehicle. The Joint Managing Director said MUL required to bring this to the level of 12 man hour per vehicle within the next three years to stand a global comparison. According to Mr. Khattar, now that MUL had become its subsidiary, the SMC's participation in the company "has become intense". "They have given us a road map and asked us to give an action plan to implement them over the next three years. I am going to Japan next month to discuss the action plan," he added. As SMC had to consolidate the accounts of MUL with its balance sheet, it had begun to look at the financials of the company far more seriously, he pointed out. "Hence, SMC's involvement will be greater in view of the fact that whatever happens to MUL will affect SMC share prices," Mr. Khattar said. (Jagannathan, 2002)

Maruti Udyog, in the run-up to its public issue later this year, will find it useful to position itself as a global auto manufacturer by targeting the benchmarks for global best practices. As positive margins in the passenger car business in India are almost non-existent, good global prospects will come in handy in tempting investors. For that two developments are necessary: one, global benchmarking and two, earmarking a part of Suzuki's global business to the Indian arm. By happenstance or design, Maruti has moved in good time on both these fronts. The goal Maruti has set for itself is to rub shoulders with "the Kosai plant of Suzuki which is among the best in the world," says Jagdish Khattar, managing director. Trying to be equal to the best in Japan in

automotive manufacturing is the same as trying to be a global front runner as the Japanese lead the US and Europe in automotive manufacturing practices. Maruti's Gurgaon plants are 30 per cent behind the Kosai plant in productivity. While Kosai has set for itself a target of 20 per cent improvement in productivity in three years, Maruti has set for itself a target of 50 per cent improvement in the same period. This is how Maruti will 'catch up', explains Khattar. Suzuki has also 'designated' a part of the global market to Maruti by making it the base for the development of A segment cars. Hungary has been designated the base for B segment cars and Spain for sports utility vehicles. For bigger cars Suzuki in Japan will be the base. Japanese managements typically plan things with a long-term perspective and Maruti has announced that in seven years it will become a design and development centre for Suzuki's cars in Asia. Thailand will be the base for Suzuki's two wheelers. This needs a substantial ramping up of Maruti's design and development capabilities in India. Engineers are being trained in Japan in batches for the Maruti development centre, which got a Japanese head last year.

On the productivity front, Maruti has already announced its Challenge 50 programme to achieve 50 per cent rise in productivity in three years, beginning 2002-03. The productivity improvement has a cost facet. It should lead to a 30 per cent cut in costs over the same period. The overall productivity improvement will be captured in the man-hours per vehicle rate. The lower it is, the better the productivity. In the first year of Challenge 50, the man-hours per vehicle went down from 26.11 in April 2002 to 20.35 in March 2003. The direct pass rate has gone up from 38.8 per cent to 79.06. The direct final check OK rate has gone up from 67.21 per cent to 86.91.

Productivity will be improved first by eliminating waste -- in time, energy and materials. Osamu Suzuki is fond of saying, we pay workers to work, not walk. Which means, supply lines should be so aligned that components are close at hand for assembly line workers. That way they don't have to go hunting for components.

Second, emphasis will be placed on quality, particularly of components, so that repairs are minimised. This will be achieved by bringing component manufacturers within the ambit of Challenge 50. Cost reduction will be partly achieved by continuing localisation or indigenisation, which helped cut costs in the past. The localisation will not be restricted to components but also extend to machinery and equipment used in the plants. (Roy, 2003)

Source: Jagannathan, 2002; Roy, 2003

The main point of reference, in all the improvement programs are Suzuki's operations in Japan, specifically Kosai. More than ever before, Maruti-Suzuki is benchmarked with the Japanese operations and their productivity. Although, Suzuki's Japanese operations form the major template, there is still no ambition to transfer all aspects of the Japanese home plants. Apart from the new measures to boost the productivity of existing facilities, Maruti-Suzuki and Suzuki also engaged in setting up new production facilities in 2007. These facilities have the role of being able to service the still expanding domestic market, of reducing cost through further localization of critical components and of building facilities for global exports.

Location, layout and technology

In February 2007, a new assembly plant is inaugurated at Manesar, the state of Haryana. The initial capacity is set at 100,000 cars per year, with the goal to scale up production to about 300,000 cars by 2010. On the same compound, Suzuki inaugurates in February 2007 Suzuki Powertrain India Limited (SPIL), a diesel engine and transmission plant. SPIL is a joint venture between Maruti-Suzuki and SMC in which SMC holds 70 per cent and Maruti-Suzuki 30 per cent equity. Like the new assembly plant, SPIL is not primarily set up for the Indian market but for exports to SMC's worldwide operations. This facility will also have an initial capacity to manufacture 100,000

diesel engines a year to be scaled up to 300,000 engines by 2010. The Manesar plant facilities are announced to be state-of-the-art plants and will also include, for the first time in the Indian automobile industry, a nearby supplier park. With three fully integrated plants at Gurgaon and the newly commissioned fourth plant at Manesar, Maruti-Suzuki, will be capable of producing close to a million cars per year by the year 2010 (Maruti-Suzuki website).

The introduction of the Swift – first produced in Gurgaon to be shifted to Manesar – also sets new production standards. About 70% of the car's welding is automated with the use of 89 robots on the line. This contrast with the Alto, which has automation levels in welding of about 50%. Maruti-Suzuki will also be able to use the Swifts new welding line more flexibly than those of older models. While earlier jigs have to be moved physically into position a different system is being used on the Swift line. However, in terms of reducing its vehicle platforms Maruti-Suzuki has only made modest progress. In 2006 Maruti-Suzuki is still working on reducing them from 7 to 8 to about 3 to 4.

Apart from its new investments in Manesar, Maruti-Suzuki is also heavily investing in new model introductions, upgrades and an improved infrastructure of its existing Gurgaon plants. Investments in these plants also focus on further expansion and higher automation.

We have a lot of robots compared to what we would have three or 5 years ago, and many of them are designed within Maruti, and made within Maruti, probably because, you were adapting them to certain different conditions. But still there would be many more people in the factory here than you would find in a Suzuki plant. (Assistant General Manager Maruti, 2002)

However, like in the past, the automation levels remain below the levels of Kosai in Japan. Maruti-Suzuki's automation continues to be mainly based on local/in-house solutions and their application focuses on those operational areas that are critical for quality levels (Maruti Earnings Conference Call, Q2 2006).

Work organization

Maruti-Suzuki's drive for improved productivity and cost reduction in the 2000s relies only to a limited extent on higher levels of automation. The main thrust of productivity increases, rest on the introduction of new work practices. Clearly, the takeover by Suzuki in 2002 triggers a new transfer effort by Suzuki to bring Maruti-Suzuki's operations further in line with the parent operations. A corner stone of the transfer is the program 'Challenge 50' and, as part of that, the introduction of the Maruti Production System (MPS) to increase productivity. Derived from Suzuki, its major emphasis is "to identify and eliminate waste in operations, such as unnecessary movement of men and material, in process waiting and so on" (Maruti Annual Report, 2004/2005). Furthermore, Maruti-Suzuki continues its Kaizen initiatives, value analysis and engineering practices as wells as cost workshops to improve, for example, the cost or yield of inputs such as the yield of metal (MAR 2004/05). Relatedly, Maruti-Suzuki adopts an online system to schedule and order material which is extended to all components used in assembly-, weld- and engine-shops, bringing down Maruti-Suzuki's inventory levels at its plants (Maruti Annual Report, 2004/05).

Two further corner stones of the 'Challenge 50' program that impact Maruti's work organization are related to quality and safety. By introducing or improving a number of quality initiatives and other quality measures or systems – such as the Suzuki's Global Customer Audit (GCA), the Planing-Doing-Checking-Acting practice (PDCA), or new ISO and TS standards (see also box 6) – Maruti is able to reduce the warranty cost per vehicle by more than 50% between 2002 and 2005 (Maruti Annual Report, 2004/2005).

Box 6: Maruti-Suzuki's quality improvement initiatives in the 2000s

Quality improvement initiatives

We have recently introduced for quality control:

- *Tracking surveys and direct customer contact in order to better understand customer satisfaction levels and customers' problems;*
- *Full-time task forces for improvement in initial quality study problems and departmental cross-functional teams to work on defined problems with challenging targets;*
- *Quality gates at various stages in order to raise alarms for correction and immediate action on defects;*
- *Fool-proofings, or Pokayoke in Japanese, which comprises checks conducted in order to prevent defects arising from human error during the manufacturing process;*
- *A real-time feedback system, cross-linked with overall targets; and*
- *The "Pica Pica" system, which aligns the sequence of components and vehicles in order to prevent incorrect fitting of components.*

Source: Red Herring Prospectus, 2003

In order to improve its safety records and also as a part of improving quality and productivity, Maruti-Suzuki introduces Kiken Youchi Training (KYT) to the shopfloor. This system aims at identifying on a regular base safety hazards in the operations area. Based on this practice, layout and sequencing of production is said to be changed regularly to prevent accidents (Maruti Annual Report, 2004/2005).

According to Som (2004), Maruti-Suzuki has until 1999 "a non-functional administrative HRM department" with a highly reactive role restricted to administration, time keeping and case-to-case disciplining (Som, 2004: p.5). Moreover, the division of labor between the human resource department and line managers who are also taking on a range of human resource tasks is unclear and problematic. However, this situation changes in the early 2000s with the new Managing Director Khattar assuming office and in the wake of crisis and labor unrest. Maruti-Suzuki realizes that it has to professionalize human resource management in the new competitive scenario, establishes an independent human resource division and recruits human resource professionals for the new department. Issues of internal communication, performance management, career planning, job rotation, standardization of promotion policies and above all individual training needs are more systematically addressed and in the hands of human resource (Som, 2004). Resulting from these changes, Maruti-Suzuki engages in the 2000s in a series of new training measures. Many of these focus on customized training for different employee groups. The training also seeks to develop a stronger customer focus within the workforce. An example of these efforts is sending factory executives to "field sales orientation programs" (Maruti Annual Report, 2001/02). At the same time, Maruti-Suzuki also continues with regular exchanges and transfer of employees across different levels from India to Japan (and to less an extent also the other way round). Out of Maruti-Suzuki's 4590 employees in 2003, 1900 employees have received training in Suzuki's facilities in Japan (Maruti Annual Report, 2003/2004).

In 2005 Maruti-Suzuki's 'Challenge 50' program ends. However, remaining under pressure to reduce cost and improve productivity, Maruti-Suzuki introduces the new program 'Next Leap'. Like its predecessor the program mainly focuses on cost reduction and productivity increases. However, next to further improving the efficiency of in-house manufacturing, more emphasis is said to be on the suppliers. Overall, Maruti-Suzuki's efforts seem to pay off. In its Annual Report 2004/2005 Maruti-Suzuki claims that 'Challenge 50' has improved productivity by 46%. Looking at the ratio of number of employees divided by production volume, Maruti-Suzuki's productivity increase is even more impressive (see table 9). However, as a part of Maruti-Suzuki's productivity

improvements stems from increasingly outsourcing of low value-addition jobs to contract labor as well as the intensive use of apprentices – which are not counted as permanent employees – numbers about productivity gains have to be treated with caution (Maruti Annual Report, 2004/2005).

Table 9: Maruti-Suzuki's productivity development between 1994/1995 and 2004/2005

Year	Nos. of employees	Production Volume	Productivity
1994/95	4840	206330	43
2000/01	5770	350376	61
2001/02	4627	358108	77
2004/05	3453	540409	157

Source: Red Herring Prospectus, 2003; Maruti Annual Report, 2004/2005

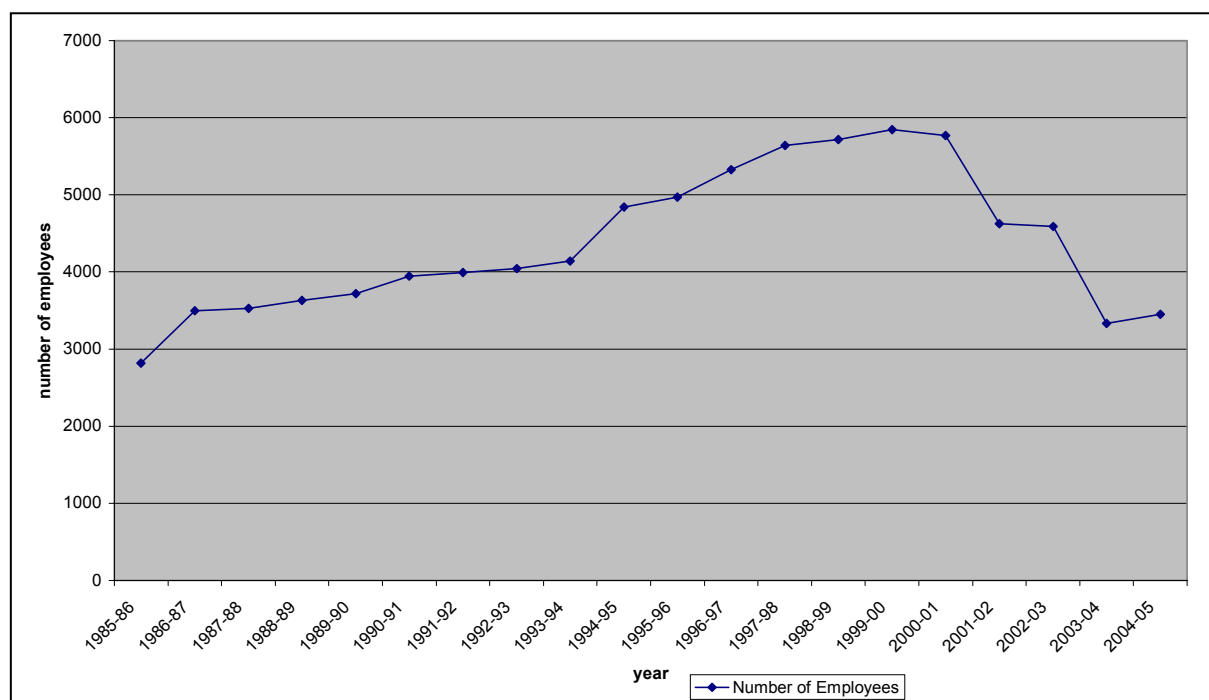
Labor relations

Following the take-over by Suzuki, the new cost reduction programs and the strike experience in 2000/2001, Maruti-Suzuki's management pushes for a new governance compromise, mainly by altering the employee-level, the employee-composition as well as the compensation and incentive systems. The new governance compromise is caused and facilitated by the new competitive situation for Maruti-Suzuki in the Indian automobile market and by the new ownership situation of the company. It is essentially imposed by Maruti-Suzuki's management who's bargaining power increases with the company's difficulties in the early 2000s and the dwindling influence of the Indian Government. In the words of the company, the main goal of this changed approach to Maruti-Suzuki's employee relations is "to share with its workforce the opportunities and challenges faced in its business operations" (MAR 2003/2004). The professionalization of the human resource management following the labor unrest, plays a pivotal role in implementing the new compromise (SOM, 2006?).

Reflecting Suzuki's drive to reduce what it sees as rampant overstaffing² and the drive to bring down cost and improve productivity, Maruti-Suzuki seeks to reduce its level of permanent employees through Voluntary Retirement Schemes (VRS). The first round of employee reduction starts in 2001/2002. As 19% of Maruti-Suzuki's employees accept the scheme, the employment level comes down by more than 1000 employees, reducing its employment levels from 5770 in 2000/2001 to 4590 in 2002/2003. In 2003/2004 Maruti-Suzuki initiates a second round of Voluntary Retirement, bringing the employees level down by another 1251 employees to around 3334 employees in March 2004 (MAR 03/04) (see figure 6).

² Suzuki feels that the bottom line, over the years, has been that the aims of one partner to create as many jobs as possible have clashed with the desire of the other partner for the plant to run more efficiently. As a result of this obstacle, both sides have been at loggerheads for years and the situation has constantly prevented development progress. Now it believes, the stranglehold has been removed, and this clears the way for a lot of processes to be streamlined and brought up to date to enable Maruti to compete more effectively. With an output of 400,000 vehicles per year, Maruti production is 60% devoted to the Alto supermini. An all new version is being built for launch across Europe in the next months. No information is available on the factory's productivity levels, but it is understood that Suzuki will be keen for it to go some way to matching that at Kosai, its biggest Japanese production base. (Glover, 2002: p.10)

Figure 6: Maruti-Suzuki's employee levels, 1985/86 – 2004/05



Source: Compiled from Maruti Annual Reports 2000/01 – 2004/2005

While Maruti-Suzuki massively reduces its employee levels of permanent employees to raise its productivity levels and reduce cost, there are also shifts in the workforce composition. There are strong indications that Maruti-Suzuki is increasingly sourcing out 'low-value jobs' to contract labor (Red Herring Prospectus, 2003). This development can be seen as a Japanization of the company, indicating a development towards a small core of permanent employees and a growing body workforce that is pushed into precarious work relations acting as a buffer in phases of economic downturn.

Another development in the 2000s comprises the 'streamlining' of Maruti-Suzuki's salary structure and the stronger alignment of cost to the company, company performance and employee performance with compensation and incentive packages of the employees. In this push Maruti-Suzuki not only introduces new incentive and compensations schemes for workers. For managers as well, a new 'rigorous appraisal system' is being introduced that links 'manager compensation entirely to performance' (Maruti Annual Report, 2000/2001 and 2004/2005). However, while there is a stronger performance orientation for those core employees who remain in the company, Maruti-Suzuki simultaneously improves their social security packages by setting up "a pension scheme with more favorable terms for employees than the statutorily required employee provident fund" (Red Herring Prospectus, 2003). Moreover, the human resource management focuses more on core employees in terms of training. Apart from specific skills development a crucial goal is to restore the work atmosphere in the company, which severely deteriorated in the 1990s. To foster a new corporate culture a number of 'training programs' are conducted. 'Vision and values workshops' are held, for example, "to align all employees to our common vision and instill our core values (Maruti Annual Report, 2001/2002: p. 14). Another case in point is the 'training program' 'Sankalp' for Maruti-Suzuki's entire workforce "on the global business trends and the ever-increasing competition" aiming "for a change in the mindset and approach to business" (Maruti Annual Report, 2003/2004: p. 30).

In this context, Maruti-Suzuki also seeks to improve its deteriorated union-relations. As a crucial step to achieving this Maruti-Suzuki, seeks to restore its one-union policy. In 2000/2001, during Maruti-Suzuki's first labor conflict, a second union is formed, the Maruti Udyog Kamgar

Union (MUKU). In 2002 Maruti-Suzuki's management derecognizes Maruti's old union Maruti Udyog Employees Union (MUEU) and recognizes instead the MUKU. According to Maruti-Suzuki:

This was done following the de-registration of MUEU by the Registrar of Trade Unions of Haryana. The Registrar of Trade Unions of Haryana de-recognised MUEU following a complaint by some members that there was mismanagement of funds. The MUEU has filed a case challenging this decision in a civil suit in Gurgaon. The Company has in the interim recognized another union, the Maruti Udyog Kamgar Union ("MUKU"). MUKU was registered during the days of the employee unrest in 2001. (Red Herring Prospectus, 2003)

In all likelihood MUEU's de-registration by the Registrar of Trade Unions of Haryana is a welcomed development on the part of Maruti-Suzuki's management. It helps the company to outmaneuver the old company union that sparked the company's first labor conflict in 2000/2001. The new union is swiftly recognized by Maruti-Suzuki management, ceasing the opportunity to build union relations that are more in line with company goals. In 2003 around 3000 employees are represented by the new union MUKU. As far as union-management relations are concerned, there are indications that the new union proves to be more cooperative. After all Maruti-Suzuki engages in a number of 'training activities' for the union that are aimed at fostering such a more cooperative relationship. Among those 'training activities', union members (compiled from Maruti Annual Report, 2002/03, 2003/04 and 2004/05):

- ✓ Are sent for workshop and industrial visit to different companies across the country to give them an exposure to good work practices.
- ✓ Receive a training program on the managements perception of the company's future and to familiarize them with the competitive pressures faced by the company to be communicated then to the workmen
- ✓ Are sent to Suzuki in Japan to familiarize with the parent organization and acquire knowledge of good practices.

In summary: By the mid 2000s it seems that Maruti-Suzuki has established a new governance compromise. Maruti-Suzuki reduces its employment levels through Voluntary Retirement Schemes thereby circumventing India's frequently cited rigid labor laws. Maruti-Suzuki is also able to change its workforce composition and to establish a new salary structure and more performance driven compensation and incentive packages. At the same time, the company succeeds in improving work and union relations with the help of training initiatives and some improved social security packages for the company's remaining core of permanent employees. Maruti-Suzuki also restores its one union policy and is able to secure industrial peace. Since 2002 attendance levels rise again to around 96%. In 2004 and 2005 not a single day of work is lost due to strikes or disputes (Maruti Annual Report, 2003/2004; 2004/2005).

Supplier relations

The continued focus on cost-leadership and cost-reduction programs 'Challenge 50' and 'Next Leap' also affect Maruti-Suzuki's suppliers. Moreover, Maruti-Suzuki continues its effort to reduce its inventory levels and supplier base. While Maruti-Suzuki fosters cooperative relations with its suppliers from early on, it emphasizes in the 2000s that the role of suppliers has "gradually evolved from tactical to strategic where the vendors work in close coordination with us to meet our long-term goals in terms of: component development; quality; delivery; and cost control" (Red Herring Prospectus, 2003).

As part of the 'Challenge 50' and 'Next Leap' program Maruti-Suzuki works with suppliers to reduce costs by stepwise implementing the Maruti Production System at their sites. In 2004/2005 Maruti-Suzuki has implemented the system with 57 suppliers and continues the effort (Maruti

Annual Report, 2004/2005). Maruti-Suzuki continues to work with its suppliers in areas such as improving their productivity, reducing the number of their components that are rejected, reducing materials handling, improving their yield from materials, and reducing their inventories. This helps to reduce their costs of production, and thereby costs to Maruti-Suzuki (Red Herring Prospectus, 2003). Maruti-Suzuki conducts cost reduction workshops with key suppliers and sets targets for cost reduction. To help suppliers reach the targets, Maruti-Suzuki sends engineers from Maruti-Suzuki and Suzuki to the supplier sites and supports the development of action plans (Maruti Annual Report, 2003/2004). In the initial period of the cost reduction, Maruti-Suzuki shares the benefits of the reduction with the supplier to provide them with an additional incentive to reduce costs. Maruti-Suzuki also consolidates the raw material requirements of suppliers – mainly for steel and aluminum – and negotiates competitive prices for them. Lastly, Maruti-Suzuki increasingly involves in the 2000s its suppliers in component development through value analysis and engineering. It also encourages them to build up their own R&D facilities (Maruti Annual Report, 2003/2004).

While Maruti-Suzuki underlines that the average productivity and quality standards of its suppliers have improved over the years, it still sees in the 2000s the need to reduce fluctuations. In 2001/2002 Maruti-Suzuki introduces a system of ‘vendor rating’ to give quick feedback about the supplier performance and improvement requirements (Maruti Annual Report, 2001/2002). Maruti-Suzuki continues to conduct periodic vendor quality system audits to ensure quality standards. Additionally, Maruti-Suzuki also extends its cluster approach for small and medium suppliers to adopt QS 9000 and TS 16949 certifications. As a result of these measures Maruti-Suzuki is able to substantially reduce supplier warranty costs per vehicle.

Maruti-Suzuki also continues efforts to reduce its inventory levels. Maruti-Suzuki reduces its inventory levels from 13 days in 2001/2002 to roughly 3 days in 2002/2003 (Muthukumar, 2004). In 2003 Maruti-Suzuki starts efforts to integrate its suppliers into Suzuki’s worldwide purchasing system. This gives suppliers the opportunity to become the sole supplier for a Suzuki product in several countries. In the 2000s Maruti-Suzuki intensifies its Tierization efforts that start in the late 1990s. To improve quality and generate economies of scale Maruti-Suzuki reduces its supplier base from around 370 to about 220 between 2000 and 2004 (Maruti Annual Report, 2003/2004, Red Herring Prospectus, 2003). The measure also aims at improving supply chain efficiency by lowering the time and cost that are required to deal with more suppliers. While Maruti-Suzuki seeks to reduce suppliers, it founds a new JV in 2002 with Suzuki. The new aluminum foundry, Suzuki Metal India Limited (SMIL), is set up to supply a wide range of aluminum and metal products. The set up is a measure to counter rising steel and metal prices. The Red Herring Prospectus for Maruti-Suzuki’s IPO in 2003 summarizes Maruti-Suzuki’s supplier relations as follows:

We work closely with our vendor base for the supply of raw materials, components and spare parts of our products. In order to improve quality and generate economies of scale, we have reduced the number of our vendors of components in India from 370 as of March 31, 2000 to 299 as of March 31, 2003, and intend to continue to reduce the number of our vendors. 113 of our vendors at March 31, 2003 were in technical collaboration with foreign entities. As of the same date, we had strategic equity interests through joint venture agreements in 13 of our vendors, who together supply a substantial portion of our purchases of components. A number of our vendors are our dedicated suppliers in that we account for a majority of their turnover. Vendors located within a radius of 100 kilometres from our facility supply the majority of our components. The production systems of our vendors are generally aligned to our need for a reliable and timely supply of components that meet our quality requirements. This has enabled us to increase the proportion of locally sourced, lower cost components in our models, a concept we refer to as localisation. We have been able, in collaboration with our vendors, to increase the rate at which we are able to localise production of our new models over time. This has helped us reduce the cost of our components. (Red Herring Prospectus, 2003)

Socio-economic context

Maruti-Suzuki's increasing strategic focus on cost reduction, its recovery as well as its ongoing leadership in the Indian market in the 2000s, has to be placed into a the wider context of a stabilizing new economic growth regime. An economic regime that steadily, albeit with intermediate slow downs, shifts from a state-led investment to a market-led investment regime. One of the most striking expressions of this development is the composition of investment between the private and public sector in the wake of the liberalization starting mainly in the mid 1980s (figure 7).

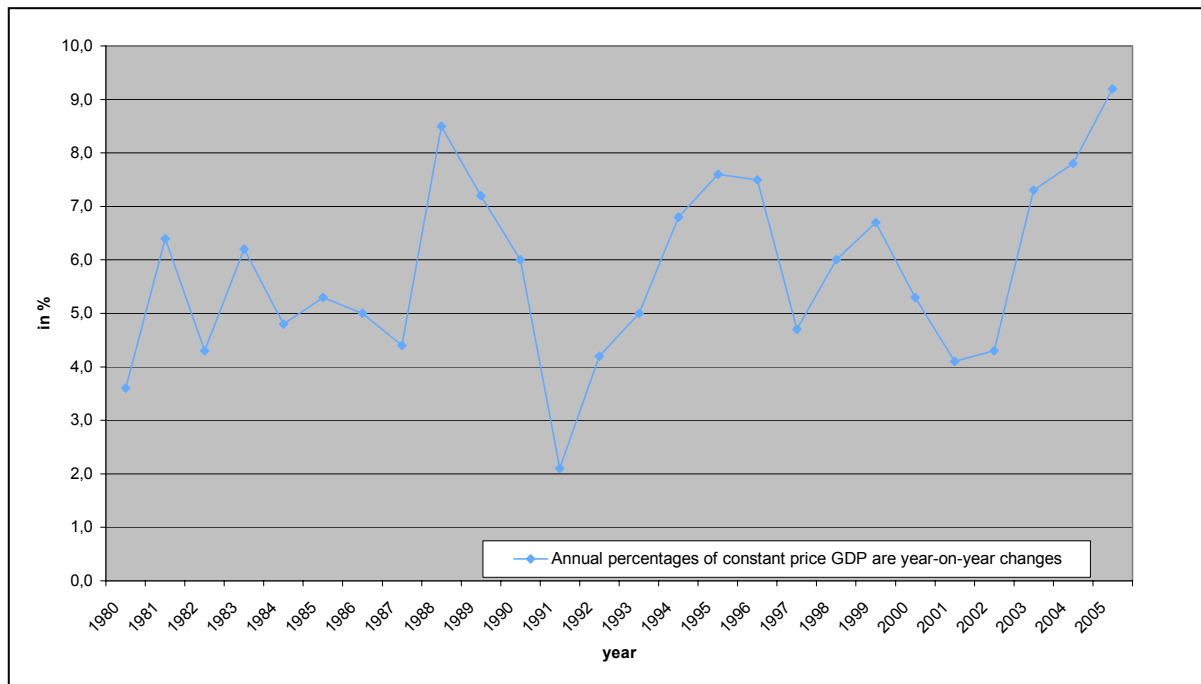
Figure 7: Gross fixed capital formation, 1980/81 – 2004/05



Source: Ministry of Finance, Economic Survey, 2005 – 2006

Probably the biggest socio-economic factor for Maruti-Suzuki's recovery after 2002 is the strong performance of the Indian economy. After some fluctuation in the late 1990s and early 2000s, the Indian economy sees a steady and strong growth at around 8 per cent from 2003 onward (see figure 8).

Figure 8: India's GDP percentages, 1980 – 2005



Source: IMF - database

This economic growth contributes to growing disposable incomes, to a further growth of the Indian middle class and thereby to an expansion of consumer demand (D'Costa, 2005). The Indian Government in turn plays its part in directly stimulating consumer demand. Between 2001 and 2006 the Indian Government further reduces the income tax as well as customs and excise duty across a range of products. At the same time, despite efforts to improve the country's fiscal performance, the economic growth allows increased public spending in crucial infrastructural areas, most important of which transportation (e.g. the 'golden quadrilateral', connecting New Delhi, Mumbai, Chennai, and Kolkata). On the supply side the opening up of space for private investments by national and international investors continues. This happens to a large degree by further privatization of public sector enterprises. Moreover, the Indian Government further liberalizes the country's trade and FDI regime in the 2000s, partly responding to pressures by the WTO (Mohnot, 2002). However, the new Congress-led coalition, the United Progressive Alliance that forms in 2004 slows down the structural reform process owing to compromises with Left Front in the volatile coalition (Economist Intelligence Unit, 2005). This development continues to reflect India's careful approach in shifting from a state-led to a market-led economy.

For the Indian automobile industry, the high growth rates and growing disposable incomes since 2002/2003 translate into a substantial sales growth. In 2004/2005 the sales of passenger cars and multi-utility vehicles cross for the first time the 1 million mark (Maruti Annual Report, 2004/2005). In 2004 India is "the fastest-growing large market for passenger cars in the world" (Economist Intelligence Unit, 2006: p.40). The economist intelligence units states in this context:

Although the outlook for the automotive sector is buoyant, growth is occurring from a low base: India remains poor and largely undeveloped, with only a small proportion of the population able to aspire to car ownership. Yet, a low average income obscures wide urban-rural disparities and the influence of a growing middle class that is increasingly able to afford personal transport. Growth in car sales in India has moved roughly in line with trends in disposable personal income. We expect solid gains in disposable income during the forecast period, in the range of around 10-15% a year. More importantly, the percentage of the population that can afford a car is also rising. According to India's National Council of Applied Economic Research, in 2002 only 6.1m households out of a total of 176m were classified as

'affluent or very rich', and therefore able to afford a personal car. However, another 56.8 m households were considered to be 'well off' able to afford motorcycles and scooters, but not cars. Some of those aspiring consumer households will have already moved into the 'affluent' group during the current economic boom. If only 10% of these 'well-off' households can move to the next level in the next five years, the number of car-owning households could rise by nearly 6m, nearly doubling current levels. Although this structural shift seems eminently achievable, economic shocks – such as a drought or a fiscal crisis that leads to much higher interest rates – could stem demand for a period of time. (Economist Intelligence Unit, 2006: p. 38)

Catering to highly price sensitive customer segments in an 'extremely price sensitive market'³ (Economist Intelligence Unit, 2006), Maruti-Suzuki has also very much benefited from excise duty (coming down to 8% in 2003/2004) and import tariff (coming down to 12.5% in 2006) cuts in successive union budgets between 2002 and 2006 (ACMA, 2006; Nair, 2006). Moreover, low interest rates and easier financing arrangement equally support consumer demand and growth of the Indian automobile industry in the 2000s. Lastly, the automobile industry is benefiting from infrastructure projects, government efforts to reduce poverty and rural development. The Economist Intelligence Unit notes that investments in agricultural efficiency already contribute to increase demand in rural areas.

India remains an overwhelmingly agrarian society, so that any initiative to raise farm incomes should translate into rising car sales. Car producers are already opening more dealerships in semi-urban and rural regions to tap rising incomes and demand, and these areas now account for a growing share of overall sales. (Economist Intelligence Unit, 2006: p. 39)

On the supply side, the ongoing liberalization of the Indian trade and FDI regime in the 2000s – lower import tariffs, abolishment of local content requirements, 100% foreign ownership, dropping mandatory minimum levels for investment etc. (ACMA, 2006) – have made the entry for new international competitors in the industry even easier. With the entry new player's the Indian market will see a further increase in competition. In this context it is noteworthy that Renault, VW, BMW and Audi are in the process of entering the market. At the same time, Maruti-Suzuki will only in the long run be threatened by these additional players as the Indian Automobile market is already highly competitive and the first movers are well established with their extensive sales-, service- and supplier-networks. Thus, while new competitors are entering or planning to enter the Indian market in the mid 2000s and while Maruti-Suzuki is unable to reclaim its high market share of the 1990s, the overall growing automobile demand provides Maruti-Suzuki with growing sales and production volume despite shrinking market share. Drawing on the largest service network and the highest levels of localization, Maruti-Suzuki is in a strong position to cater to the fastest growing lower segments and to defend its leadership despite rising competition.

³ India's car market is, however, strikingly one-dimensional: the mini- and compact car segments combined accounted for 74.5% of new-car sales in April-December 2004, the first nine months of the fiscal year. One car in particular, Maruti's ubiquitous 800 model, with an engine size of less than 1000cc, remains the biggest seller, although its market share plummeted to 15% in 2004 from around 25% in previous years. Sales in the luxury-car segment – vehicles priced at US\$20,000 and above – doubled between 2002 and 2004, although they make up only 4.6% of the market. Few inexpensive cars are imported because of high duties, although import tariffs are coming down. (2006, p: 41)

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* The paper draws theoretically and empirically on a PhD project which was conducted between 2002 and 2006 at the University of Groningen, Department of International Business and Management (Title: The Hybridization of Local MNE Production Systems: The Case of Subsidiaries in India). The study involved a intensive desk research and a research stay of five months in India and drew on a total of 38 Interview with company and industry representatives. The study is a comparative qualitative case study exploring how and why the hybridization profile of four international automobile subsidiaries differ. The comparison was based on theoretical sampling choosing four subsidiaries (Maruti-Suzuki, Fiat India, DaimlerChrysler India and Skoda India) that differed systematically with regard to strategic choices in terms of generic strategy as well as entry and establishment modes. This paper mainly draws on the data and information collected for the Maruti-Suzuki case.