Make in India: Leveraging Human Capital

SIAM HR Conclave 2015
Introduction

The EY-SIAM HR Study - Make in India: Leveraging Human Capital captures the insights of CEOs and HR Heads of leading OEMs, auto component manufacturers, service and sales partners. The study focuses on three main themes critical for leveraging human capital for the success of the “Make in India” initiative.

1. Skill development

Skill development of the large talent pool is seen as the most critical lever in delivering manufacturing excellence under the “Make in India” initiative. This theme details the key challenges and interventions undertaken to address the skill demand-supply gap. Viewpoints in the report highlight the future needs and areas that need immediate attention.

2. Building people capability

India is fast becoming a popular destination for career opportunities. The manufacturing sector is competing for talent with other sectors such as IT/ITES, Service, etc. This theme enumerates the challenges of talent attraction, employability and retention for OEMs as well as its partners in the ecosystem.

3. Industrial Relations (IR)

Harmonious industrial relations (IR) is the nerve center for delivering manufacturing excellence for OEMs and its partners in the eco-system. This theme identifies the issues facing the industry and the required constructs in changing times.
It gives us great pleasure to launch the EY-SIAM HR Study – Make in India: Leveraging Human Capital Report for the automobile sector.

With the Indian automotive sector contributing 7.1% to the overall GDP, 27% to the Industrial GDP and 47.3% to the Manufacturing GDP, it has garnered considerable attention globally among investors and also of the Indian Government as a thrust area.

We hope that the study, along with the perspectives collected at the HR Conclave, will help the industry leaders arrive at a collective vision towards managing sector challenges.

The study brings forth the challenges faced by the industry with respect to skilling, capability building and industrial relations. It also attempts to articulate the differentiators, which if focused will help achieve the vision of ‘Make in India’.

We would like to thank all the SIAM, ACMA and FADA leaders, participating organizations as well as EY professionals who generously shared their time and inputs to help us with this study.
The EY-SIAM HR Study 2015, published by the SIAM Human Capital Group (HCG), outlines the critical needs for leveraging human capital in the automobile sector and explores a wide range of opportunities and of the “Make in India” initiative.

With reduction in product life cycles and evolution of automotive technology, we expect an increase in product development, manufacturing and supply chain complexity for both OEMs and suppliers.

In light of the above, will the industry have the right skills available in order to effectively attract and utilize investment across levels of value chain? What is the preparedness with respect to capability building of talent in OEMs, suppliers and sales & service network partners? How conducive is the industrial relations scenario in order to facilitate improved productivity and business continuity?

Our study provides perspectives on these questions and analyzes emerging trends, issues and challenges affecting key stakeholders in the ecosystem.

The Indian automotive industry is at a stage of transformation with respect to sustainable growth and profitability. Fundamentals for the automotive industry growth drivers remain intact and the industry is likely to see increased upward trend in demand in coming years as the economic environment improves and investments are made as part of “Make in India” initiative.

Talent employability has emerged as a significant contributor for transforming human resource availability into real human capital. This transformation is percolating through all levels of government initiatives and numerous innovations are being carried out by the industry on a daily basis.

The report delves into three major themes – skill development, building white collar capability and harmonious industrial relations.

Currently, the automotive industry is at an inflexion point. This report is an endeavor to evaluate the challenges and suggest future areas of focus necessary to catapult the industry to become a global destination of manufacturing and R&D excellence.

The scope for the transformational agenda is limitless. However, singular focus on execution of the identified initiatives will be crucial to this journey.

We thank the core group at SIAM-Human Capital group in selecting themes, which are closest to the human resource challenges faced by the automotive sector.
India, an emerging economy, has traditionally been looked upon as a favorable destination for low-cost manufacturing. Prime Minister Shri Narendra Modi has provided further drive to economic development by launching the “Make in India” initiative. This initiative has an aggressive ambition to transform India into a manufacturing and technology hub, which puts the country on the centre stage of global economic activity.

Through the “Make In India” initiative, the Government aims to
► Promote the manufacturing of low-cost, eco-friendly and zero-defect products
► Foster innovation
► Enhance skill development
► Protect intellectual property
► Build best-in-class manufacturing infrastructure

The “Make in India” vision document details the following priorities for success of the initiative: cross sector approach, significant outreach programs with cross-border economies, multiple complementary campaigns, actions to facilitate FDI/projects through reforms in approval, clearances and investment process as well as an overall strong commitment to introduce change across the government machinery.

While this has already boosted the confidence of investors - FDI numbers are up by 135% and there is a significant increase in the number of projects and jobs being created – there is a need to revisit some of the enablers which would make this initiative a greater success.

India is set to become a nation of job creators rather than job seekers

Amitabh Kant,
Secretary Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry, Government of India quoted in EY India Attractiveness Survey 2015
Attractiveness amongst potential investors

To understand the attractiveness of India amongst potential investors, EY Attractiveness Survey 2015 was conducted covering a total of 505 respondents. India was ranked amongst the three most attractive markets for investments for the next three years.

A leading 32% of the investors ranked India as the most attractive market this year, while 60% placed the country among the top three investment destinations.

India’s attractiveness
Which will be the most attractive market for investment in the next three years?

<table>
<thead>
<tr>
<th>Country</th>
<th>First mention</th>
<th>Total mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>32</td>
<td>60</td>
</tr>
<tr>
<td>China</td>
<td>15</td>
<td>47</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>12</td>
<td>38</td>
</tr>
<tr>
<td>Brazil</td>
<td>5</td>
<td>27</td>
</tr>
<tr>
<td>North America</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td>Latin America</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Middle East</td>
<td>4</td>
<td>17</td>
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<tr>
<td>Western Europe</td>
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<td>12</td>
</tr>
<tr>
<td>Northern Africa</td>
<td>4</td>
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</tr>
<tr>
<td>Central Eastern Europe</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Japan</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Russia</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>CIS</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Can't say</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Source: EY’s 2015 India attractiveness survey (total respondents: 505).
The factors which enable attractiveness of India as an investment hub are elaborated below:

Attractiveness pillars for India
Please rate the following parameters for investment in India as very, fairly, little or not at all attractive.
(Percentage of respondents who rated the parameters as “very attractive” or “fairly attractive”)

<table>
<thead>
<tr>
<th>Parameter</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor costs</td>
<td>81%</td>
<td>82%</td>
</tr>
<tr>
<td>Domestic market</td>
<td>82%</td>
<td>86%</td>
</tr>
<tr>
<td>Macroeconomic stability</td>
<td>70%</td>
<td>76%</td>
</tr>
<tr>
<td>Labor skills</td>
<td>72%</td>
<td>76%</td>
</tr>
<tr>
<td>Stable political and social environment</td>
<td>59%</td>
<td>74%</td>
</tr>
<tr>
<td>Research and development availability and quality, and innovation</td>
<td>69%</td>
<td>72%</td>
</tr>
<tr>
<td>FDI policy</td>
<td>60%</td>
<td>68%</td>
</tr>
<tr>
<td>Ease of doing business</td>
<td>57%</td>
<td>67%</td>
</tr>
<tr>
<td>Flexibility of labor law</td>
<td>57%</td>
<td>59%</td>
</tr>
<tr>
<td>Ease in acquisition of land for setting up projects*</td>
<td>54%</td>
<td>55%</td>
</tr>
<tr>
<td>Tax and regulatory reforms*</td>
<td>52%</td>
<td>54%</td>
</tr>
<tr>
<td>Regulatory compliance cost (stated and unstated)*</td>
<td>52%</td>
<td>54%</td>
</tr>
<tr>
<td>Transport infrastructure*</td>
<td>52%</td>
<td>54%</td>
</tr>
</tbody>
</table>

Comparison of parameters with respect to people pillar

Source: EY’s 2015 India attractiveness survey (total respondents: 505).
* Added in 2015.

India’s most attractive feature for foreign investors is abundant labor. According to the UN Conference on Trade and Development, India’s workforce will reach 557 million by 2020, even as the global labor market tightens. To reinforce this labor cost advantage, the Indian Government is aiming to improve labor skills. Its National Skill Development Policy 2015 aims to ensure one Indian in four has skills appropriate to the labor market by 2020, and there are plans to open 1,500 more industrial training institutes and 5,000 skill development centers across the country.

Source: EY’s 2015 India attractiveness survey
Ease of doing business in India

In support of the “Make in India” initiative, the Government has embarked on a series of actions, including those outlined below:

1. **A new trade policy**: Export and import taxes on small volumes of goods have been abolished, and incentives have been introduced for export-oriented units (EOUs) and export processing zones (EPZs).

2. **New labor laws**: These include a “single-window” labor compliance process for companies, simpler Provident Fund (compulsory employee insurance and pension) procedures, and a new inspection scheme.

3. **Simplification of regulatory compliance**: To make doing businesses easier, companies can obtain environmental approvals and licenses online.

4. **Improvement of its resource management program**: India has ample reserves of natural resources. Government is taking steps to ensure they are used more efficiently.

5. **Focus on skill development**: To ensure workers have the right skills, the Government launched its Skill India initiative. The initiative will train over 500 million young people by 2020 to make them more employable.

The auto sector has an aggressive vision ahead. Human Resources will become a critical driver to achieve this vision. Thus, need was felt for a detailed study to ascertain the *readiness of human resource capability and IR scenario* to support the “Make In India” initiative in the sector.

Government has undertaken multiple initiatives for ease of doing business in the country. Industry leaders express *labour law reforms* as the bedrock for success of “Make in India” initiative.

EY-SIAM HR Study 2015 was conducted to understand the trends, imperatives and enablers with respect to “Skill Development”, “Building People Capability” and “Industrial Relations” for the auto sector. The study covers views of CEOs and HR Heads across 34+ conversations involving leading OEMs, auto component manufacturers, sales and service network partners in the country.

**Readiness of human resource capability & Industrial Relations (IR) scenario**

SIA’s Automotive Mission Plan 2026 aims to propel the Indian automotive industry to be the engine of the “Make in India” initiative.

It is estimated that by 2026, the Indian automotive sector will contribute around 12% to the country’s GDP and comprise more than 40% to the manufacturing sector. This is expected to create additional 15 million direct jobs by 2022 and a total of 65 million by 2026 in both direct and indirect sectors.

The EY India attractiveness survey highlights advantages such as abundance of labor supply, talent pool for R&D capabilities, India’s readily available IT/ITES capabilities. To leverage these advantages, industry and government must partner to a greater extent and build a readily employable workforce. Additionally, harmony in the industrial relation environment will be a key requisite for the same.

Source: Make in India website, makeinindia.com
An effective “Make In India” initiative for the Indian auto industry is expected to create a globally competitive industry serving both domestic and global markets. This will imply an equivalent increase in demand for a world class skilled workforce.

India’s abundant talent reserves have always been an attraction for employers. These talent reserves appear sufficient to meet the overall manpower requirements of the automotive industry. However, the industry is faced with certain key challenges with respect to skill development:

a. What percentage of available resource pool is industry ready and whether they have the requisite skill set to help organizations deliver on manufacturing & R&D excellence?

b. Are there any new skills which have emerged critical for the industry?

c. Are the government and industry initiatives sufficient to bridge the skill gap?

1.1 Scarcity amongst plenty

By 2022, the automotive industry will employ nearly 15 million people across the value chain comprising OEMs, auto component manufacturers (Tier1/2/3), service centers and dealerships. The National Skill Development Corporation (NSDC) auto sector report reveals that out of these 15 million, auto-component manufacturers are going to employ around 50% of the workforce, OEMs will employ 13%, service centers will employ 23% and dealerships will employ 14% of the workforce.

The EY SIAM HR Study reflect varying severity of challenges between OEMs, Tier 1 and Tier 2/3 auto-component manufacturers, service centers and dealers. For OEMs and Tier 1 auto-component manufacturers, attracting talent from the available pool was not found to be a significant challenge. However, ready employability of the workforce requires additional effort on the part of these organizations. To address these issues, organizations have made significant investments in training programs/academies to prepare new employees for shop floor operations. They have additionally invested in regular classroom and on the job trainings for skilling/reskilling of these employees. While a lot has been done by the OEMs in collaboration with the government, it takes additional effort during setting up of additional capacities by the OEMs.

Other partners in the value chain such as Tier 2/3 manufacturers, service centers and dealers have much higher requirement in terms of numbers. They face multitude of challenges such as attracting talent, skilling of workforce and managing industrial relations. Majority of such organizations lack sufficient resources and know-how to deal with these challenges.

While the partnership between the Government and leading manufacturers is a step in the right direction, much needs to be done to meet the overall industry requirements.
Addressing the gap: Scarcity amongst plenty

The study results highlight the following interventions to address the demand-supply gap:

Building talent pipeline

The findings of the study highlight that current educational institutions such as ITIs are unable to meet the industry requirements of skilled manpower, leading to an increased reliance on the private and diploma institutions. The stated reasons for this preference were gap in technical curriculum as per the industry needs, lack of exposure of the teaching faculty to the changes in technology and up-gradation of infrastructure at ITI’s.

Developing competency-wage grid

Lack of commonly accepted standards which define required proficiency levels of competency for an individual and correlates the same to an ideal wage is a key challenge being faced by the sector. In absence of such a framework, hiring, planning and developing employees according to required capability levels have become increasingly difficult and complex. There is a stated need for defining industry/government recognized competency levels for auto sector specific roles such as machinist/turner/painting/electrical/fitting etc.

Some of the survey respondents see relevance in linking National Skills Qualification Framework to an equivalent wage grid as a means to address the challenge.

Need for a centralized certifying agency

Greater role of a recognized agency which can certify skill levels on defined competency levels is required by the sector. While the Sector Skills Councils have made significant efforts, the survey highlights an increased need for an industry-recognized, centralized certifying body laying out clear standards and certifying the talent pool.

Critical skills required by the industry

The study reveals the below areas where the automobile sector players face a gap:

<table>
<thead>
<tr>
<th></th>
<th>OEMs and auto-component</th>
<th>Service centers</th>
<th>Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff/ Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil engineering &amp; project management for Building Plants</td>
<td></td>
<td></td>
<td>Understanding of local geography dynamics and customer requirements</td>
</tr>
<tr>
<td>Quality and manufacturing excellence related concepts such as 5S, TQM etc.</td>
<td></td>
<td></td>
<td>Customer need diagnostic skills</td>
</tr>
<tr>
<td>Production operations such as Total Productive Maintenance (TPM) etc.</td>
<td></td>
<td></td>
<td>Product knowledge</td>
</tr>
<tr>
<td><strong>Non-Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fitters, machinist, welder, painting etc</td>
<td></td>
<td>Regular maintenance</td>
<td>Selling and communication skills</td>
</tr>
<tr>
<td>Advanced electrical, CNC operations, automation skills</td>
<td></td>
<td>Automotive service</td>
<td></td>
</tr>
<tr>
<td>Soft skills, work discipline</td>
<td></td>
<td>Automotive and accident repair/ body repair/ paint repair etc</td>
<td></td>
</tr>
</tbody>
</table>

Additionally, there has been an increasing demand for trained drivers, accident repair - full body/parts and painting technicians. These will emerge as critical areas for the sector and will demand focused skilling activities.
1.2 Skill Scarcity: Are we doing enough?

The government & industry has focused on various initiatives to help develop the skillset of the current / potential employee base. While some of these were highlighted during the study, they have been validated through additional secondary research.

Key initiatives by the Government

Some of the key initiatives taken by the Government in recent times include:

Changes to the Apprenticeship Act to increase flexibility

The government has taken positive steps by bringing changes to important Acts such the Apprenticeship Act. Such changes on the part of the government reflect a positive commitment towards encouraging industry to invest in skill development of youth.

Key provisions of the proposed amendments to the Apprenticeship Act:

- Dismantling of trade-wise and unit-wise prescribed numbers
- Setting the minimum and maximum limits on number of apprentices to be engaged
- Linking of the stipend to minimum wages for apprentices
- Inclusion of all undergraduate, postgraduate and other approved vocational courses
- Revision of curriculum of apprenticeship courses to align to industry requirements
- Focus on bringing self-regulation and monitoring in the industry rather than enforcement by state through penal measures
- Online portal for bringing in speed and transparency in approvals

Development of National Skills Qualification Framework (NSQF)

NSQF lays down the competency framework and standards with respect to levels of competency for many trades in the industry.

Key highlights of National Skills Qualifications Framework (NSQF):

- Creation of National Occupational Standards (NOS) for various job roles by sector skill councils (SSC)
- Establishment of 10 competency levels thereby enabling vertical mobility in terms of skill levels
- Inclusion of competency levels that can be acquired by educationally disadvantaged/ school dropouts, 10th/12th pass-outs thereby, enabling them to acquire skills for livelihood

However, to ensure success, the Government needs to put further impetus on the execution of the above initiatives and collaborate with industry to ensure sustainable success.
Key initiatives by the Industry

There is an increased awareness in the industry to undertake skilling initiatives within the organization to improve the employability levels of the talent pool. The results of the study highlight that the OEMs are increasingly viewing investments in skill development as core to the business and integrating it as a part of their people agenda. Several initiatives are also being rolled-out as part of the CSR strategy in partnership with the Government.

For auto components suppliers, the focus has been largely on providing short-term technical trainings (mostly on-the-job) with support from OEMs to meet internal requirements. Skill development initiatives among dealerships have also increased significantly with active guidance from OEMs.

Few of the initiatives undertaken by the industry (OEMs/Tier 1 auto component suppliers) to meet the demand for quality workforce are:

**Partnership with academia:**
Specialized courses such as automotive manufacturing, automotive servicing and repair of varying durations have been designed and introduced as part of ITI curriculum. Additionally, apprenticeship scheme and short-term internship programs are being leveraged.

**Extensive training investments/adoption of new methodologies:**
Industry has defined the skilling quality benchmarks and leveraged technology (virtual class rooms) to supplement class room and on the job training.

**Dedicated training academies:**
Training academies have been set up for upskilling of all workmen working on the shop floor. The programs are of varying duration and focus both on technical as well as soft skills. Additionally, dedicated programs are being run for suppliers, dealers and vendors through the same.

### Sample modules/programs offered by the training academies

<table>
<thead>
<tr>
<th>Functional</th>
<th>Behavioral</th>
<th>Technical</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 5S, 3G, 3K</td>
<td>• Communication Skills</td>
<td>• Assembly Process</td>
</tr>
<tr>
<td>• VA/VE</td>
<td>• Negotiation Skills</td>
<td>• Weld Process</td>
</tr>
<tr>
<td>• Cost Conscious</td>
<td>• Time Management</td>
<td>• Paint Process</td>
</tr>
<tr>
<td>• Plant Safety</td>
<td>• Business Etiquettes</td>
<td>• Vehicle Inspection</td>
</tr>
<tr>
<td>• Shop wise safety</td>
<td>• Power of a Team</td>
<td>• Engine Assembly</td>
</tr>
<tr>
<td>• Core Values</td>
<td>• Problem solving Skills</td>
<td>• Machine process</td>
</tr>
<tr>
<td>• MS Office</td>
<td>• Effective planning</td>
<td>• Casting process</td>
</tr>
<tr>
<td>• Basic Automobile Tech</td>
<td>• Workplace Etiquette</td>
<td>• Die/Jig Maintenance</td>
</tr>
</tbody>
</table>

### Leading Practice: Case study

- A leading Indian OEM has adopted 27 ITIs including 4 women’s ITIs under its CSR initiative and is involved in the revamping of infrastructure, curriculum development, teacher training and enabling placements.
- In addition, the OEM works with 88 ITIs in auto-sector-related training programs.
- It has also introduced four specialized courses in automobile manufacturing, servicing, paint and body repair certified by NCVT in select ITIs.
- Organization has also set-up its own training center to offer technical trade-related training to operators (certification program equivalent to ITIs).
- In addition, OEM has signed multiple MoUs with central and state governments to impart technical and vocational trainings to 10th/12th pass students.
India has the advantage of talent demographic in terms of availability of vast and young talent pool. In order to build a strong workforce powerhouse, the skill demand and supply gap needs to be bridged by investing in critical initiatives immediately:

- Greater collaboration between industry & academia on relevance of curricula in line with industry developments
- Increased internships & apprenticeship opportunities for students
- Standardization of the competency-wage grid for the industry and aligning recruitment & systems
- Strengthening the role of a centralized skill assessment and certifying agency
- Collaboration between the government, industry experts & auto sector players for the partnership roles as enumerated below:

<table>
<thead>
<tr>
<th>Agenda</th>
<th>Partnership role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skill Gap Assessment</td>
<td>Undertaking periodic studies for assessing the demand and supply gaps in the auto sector</td>
</tr>
<tr>
<td>Institutionalization of</td>
<td>Use the Auto Skill Development Council (ASDC) as a platform for engagement</td>
</tr>
<tr>
<td>Industry Engagement</td>
<td></td>
</tr>
<tr>
<td>Creation of skill development</td>
<td>Setting-up ITI s/ SDC with Govt funds, CSR funds</td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Training of Trainers &amp;</td>
<td>Partnership to create a cadre of world class trainers and assessors trained in line with the industry requirements</td>
</tr>
<tr>
<td>Assessors</td>
<td></td>
</tr>
<tr>
<td>Candidate Mobilization</td>
<td>Capitalizing on the data and outreach of the administrative machinery for mobilization of candidates; Creating aspirations amongst youth for a career in auto sector</td>
</tr>
<tr>
<td>Robust Assessment &amp; Certification System</td>
<td>Ensure transparency and robustness in the assessment and certification process</td>
</tr>
<tr>
<td>ICT Enablement</td>
<td>Implementing information management systems for creating central repository of data/information; monitoring and tracking systems</td>
</tr>
<tr>
<td>Incentivization &amp; Reforms</td>
<td>Incentivizing industry for investment in skill development; Initiating labour market reforms</td>
</tr>
</tbody>
</table>
Synopsis - Skill Development

**Context**
- Reduced attractiveness of ITI’s as compared to polytechnics and diploma institutions
- Lack of commonly accepted standards defining skill levels and wage equivalence
- Need for increased thrust on assessment and certification of skill levels

**Key Challenges**

**OEM’s and Tier 1 manufacturers** are successful in attracting talent, but have to invest in upskilling to make them shop-floor ready.

**Tier 2/ Tier 3 manufacturers** face challenges of both attracting and training of the workforce.

**Government Initiatives:**
- Proposed changes in the Apprenticeship Act
- Development of National Skills Qualification Framework (NSQF)
- Partnering with industry on up-gradation of certain educational institutions

**Industry Initiatives:**
- Design and introduction of specialized courses in partnership with academia
- Leveraging of technology & new methodologies to supplement OTJ
- Setting up of training centers to train employees as well as ecosystem partners

**Academia**
- Revision of curricula in alignment with industry needs

**Government**
- Defining competency level & supporting assessment & impetus on certifying bodies to increase reach and effectiveness

**Industry**
- Increase partnership with academia & government on the skill development agenda

**Way forward**

Key recent initiatives:

- Revised apprenticeships, qualifications, and wages
- Partnering with industry for skill development programs
- Enhanced focus on technical and vocational education

Key challenges:

- Reduced attractiveness of ITI’s as compared to polytechnics and diploma institutions
- Lack of commonly accepted standards defining skill levels and wage equivalence
- Need for increased thrust on assessment and certification of skill levels

Context:

**Government Initiatives**
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**Government**
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**Industry**
- Increase partnership with academia & government on the skill development agenda
EY’s third annual automotive survey 2015-16 covering 125 global executives reveals ‘talent’ as the most critical resource, which will offer a competitive advantage to organizations going forward and also ensure business continuity.

“Make in India” will increasingly require organizations to further enable their HR functions for identifying the capabilities required for business continuity and future growth and also ensure attraction, retention and nurturing of talent. The traditional role played by the HR function and capabilities of HR professionals will also need to be relooked. Going forward, the HR – Business partnership in ensuring continuity and growth of the organization will take new and more complex dimensions than ever before.

People Capability Pillar

**Talent Attraction & Employability**
Ability to attract talent into manufacturing sector and talent employability given fast changing business needs

**Ask from HR?**
HR function will need to enhance its ability for Numeracy, application of Technology and build cultures that reward manufacturing excellence

**Eco System**
Conducive workforce environment at the Vendor and Dealer organizations is a critical business needs
The auto sector eco-system extends not only to Tier 1 global and large auto-components partners but also to Tier 2 and Tier 3 family owned, medium, small and micro enterprises (MSME) supplier and dealer organizations. While the Tier 1 partners are matured with respect to building organizational capabilities, the entrepreneurial ventures continue to struggle with challenges of talent attraction, retention and capability building.

This section enumerates various challenges faced in the people capability pillar by OEMs and the eco-system at large.

2.1 Manufacturing – a career destination?

While attracting talent with the right skill sets is a key focus area for the automotive sector, it also remains one of its biggest challenges. NSDC research data suggests that more than 16.7 million engineers enter the Indian job market each year. However, the OEMs and auto component manufacturers have not reaped benefits of this demographic dividend and struggle with ready employability of the available talent pool.

Limited talent attraction: Auto sector being a major employer in the country, faces the challenge of attracting the best talent. Booming e-commerce, IT and financial institutions pose stiff competition to the auto sector when it comes to attracting top talent.

Furthermore, there is an overall low inclination of Gen-Y to work in a manufacturing environment resulting in challenges of attracting good talent to leading OEMs and global auto-component companies.

The auto sector has increasingly reduced focus on Tier 1 engineering and management campuses for their hiring needs due to the competition in the hiring market. The study highlights that for Tier 2 suppliers and dealers, talent attraction is the biggest challenge.

Reduced Employability: The study respondents indicated a severe gap in the curricula of the institutions towards preparing engineers according to actual industry requirements. This has led to longer talent gestation periods as a significant amount of time is spent on training and unlearning/re-training such employees.

Additionally, building manufacturing excellence requires focus on new and more innovative production techniques and introduction of integrated streams such as Mechatronics. Building R&D Excellence requires increased focus and investments in new digital platforms/technologies. While some OEMs and auto-component manufactures are partnering with a few engineering colleges, the need remains largely unaddressed.
2.2 Human Resources - changing horizons

Human capital is widely acknowledged as a key enabler of growth and a critical differentiator for organizations. Increased globalization, talent constraints and rapidly evolving technology are driving fast paced changes to the HR function. Top three emerging areas of focus for HR professionals identified through the study are:

**Emphasis on numeracy of HR**

One of the key highlights of the study was the increased need for HR professionals to showcase relevance of people initiatives, supported with impact on business results.

The results of the study highlight that data and number-backed conversations will bring HR professionals to the forefront with enhanced interest of the business leaders in the people agenda.

**Building a culture of repeatability**

The “Make in India” initiative lays significant emphasis on India becoming a manufacturing hub and globally competitive to enhance exports to developed countries such as Japan, Europe and Americas.

The study results highlight the need for building a work culture that encourages excellence and rewards repeatability in performance thereby enabling organizations to achieve manufacturing excellence and consequently competitive advantage.

**Use of technology to build predictive HR capability**

The results of the study highlight that most organizations have adequate capabilities in the area of data automation and use of enterprise resource applications for managing employee data. However, there was limited preparedness to use the data for any predictive analysis.

Organizations indicated their openness to predicting trends in hiring, training and attrition basis available data and using the results for finalizing the HR priorities. However, they highlighted that they were currently at a nascent stage in utilizing any predictive analysis.
2.3 Partners in the ecosystem: Readiness on the HR building blocks

Overview of the Automotive Ecosystem

The automotive ecosystem is a combination of OEMs, Supply Network and Sales & Service Network. The preparedness of the industry towards the vision of ‘Make in India’ is dependent upon the health of this ecosystem. The ecosystem may be viewed in three levels, corresponding to the state of maturity of the organization. These are independent organizations with their own culture, processes and ways of working.

The Automotive Ecosystem Partners – Vendors & Dealers: A people process and systems maturity outlook

Supply network (Auto component manufacturers)

- Tier 1 Suppliers (Global/Indian MNCs)
- Tier 1 Suppliers (Multi Location Indian MSME Family owned business)
- Tier 1, 2 & 3 Suppliers (Single location Indian MSME Family owned business)

OEM

- Level 1
- Level 2
- Level 3

Decreasing maturity of systems & processes

Sales & Service network (Dealers)

- Large Multi Location/Brand Indian Dealers (Group Owned)
- Mid Size/Single Brand Dealers (Family owned Businesses)
- Single location/Brand Dealerships (Family owned Businesses), Authorized service stations (Individual owned)
Business drivers for the sector & expectations from partners in the ecosystem

Business drivers for the sector

Change in automotive market dynamics during the last 5 years has sparked an evolution in the way OEMs, suppliers and dealers are collaborating together for growth. There are some clear business trends emerging that are impacting the sector:

1. Both domestic and export markets are becoming increasingly attractive for auto manufacturers, and new and existing OEM players in the market are scaling up operations

2. Major automotive players are widening their product base and offering more models and variants to serve growing customer maturity in the domestic market

3. Increasing product complexity that requires confluence of technology from different streams and percolation of technology know-how to stakeholders at all levels of ecosystem

4. Shorter product lifecycles that require frequent upgrades, facelifts and even change of platforms to stay competitive in the market

5. Changing consumer lifestyle and preferences that requires products & services of highest quality and innovation, leading to change in way the products are designed, manufactured, sold and serviced

Expectations from partners in the ecosystem

The above business drivers have implications across the value chain (Product Development, Operations, Sales & Service, Information systems etc.), and have led to certain expectations from auto component manufacturers and dealers. CEOs & HR Heads of OEMs covered through the study believe that the ecosystem may not be ready to achieve the growth vision and expect the following from the ecosystem partners to jointly achieve the growth vision the industry has set for itself.

Product quality and timeliness from suppliers are top expectations

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Total mention</th>
<th>First mention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product quality</td>
<td>86%</td>
<td>54%</td>
</tr>
<tr>
<td>On time delivery</td>
<td>71%</td>
<td>40%</td>
</tr>
<tr>
<td>R&amp;D capability</td>
<td>60%</td>
<td>32%</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>43%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Primary Research

OEMs expect Dealers to provide exceptional customer experience

Consumers feel that an improved buying process would motivate them to visit dealerships more often

Organizations believe that customer experience is driving business growth strategies

Source: Engaging customer experience, EY Study, 2014

Challenges faced by the ecosystem partners

Not all auto component manufacturers & dealers have requisite readiness to deliver as per the expectations. Some of these are family owned businesses and face the following challenges which impede their ability to deliver basic expectations.

Succession planning & leadership development to make a future ready organization

An organization stays in perpetual existence, but the individuals occupying the critical positions keep changing. “Succession Planning” is essential to ensure that suitable candidates are chosen to occupy these crucial positions and are well prepared for the responsibilities that come with it. This allows a smooth transition between incumbents and avoids any unnecessary losses in opportunity or efficiency. Most of the partners in the eco-system are family owned businesses, who face the challenge of transition between generations.

Results of the study indicate that succession planning and leadership development is a critical challenge facing entrepreneurial or family-owned businesses.

In many organizations, the second line of leadership is not adequately available or ready to take over the baton. This challenge is also observed in organizations, which have become multi location and even global. In order to build scale, introduce new technologies, make operations efficient and profitable, effectively serve the market, and most importantly, continue the legacy, it is imperative that both vendors and dealers identify and develop next line of leadership by taking concrete steps.
Talent attraction & talent retention

Vendors and dealers find it difficult to attract top notch talent at all levels. The talent acquisition process in these organizations does not enable hiring talent with right skills and behaviours. Further, organizations have found it difficult to retain any high performing talent.

Some of the reasons contributing to this are:

- The demand for qualified talent far outstrips than what is available readily
- Aspiration of high performers to move up the value chain and look at wider and challenging opportunities
- Limited attractiveness of career with dealers and smaller vendors as the culture, career growth opportunities and work environment may not be most conducive
- Growth of other sectors (both engineering and retail) and availability of comparable and competitive jobs in these sectors

Building HR process robustness, especially with the respect to hiring, salary levels and career path creation to meet the above challenges requires increased attention.

Culture and goal alignment to drive repeatability of performance and excellence

Over the last two decades, all the players in the ecosystem have invested in building systems of measurements and reporting. However, ensuring consistency of performance remains a challenge. Organizations are often unable to deliver upon the defined performance metrics, not due to lack of resources or effort on the part of its employees, but because the efforts of all the employees are not channelized towards the same goals.

Traditionally, India has celebrated the outstanding one time effort (e.g. an innovation, overcoming a challenge etc) but has underrated consistent performance. Transformative action is required by the industry in defining a well balanced view of performance culture that celebrates repeatability of operational excellence.

Entrepreneurial mindset

In today’s Volatile, Uncertain, Complex & Ambiguous (VUCA) world, owners/promoters need to make adequate investment in strengthening their strategic leadership outlook and have a holistic approach in building organizational capabilities.

Furthermore, there is a need to inculcate a collaborative mindset for growing the organization by overcoming personal & professional barriers and adopting a professional approach towards making business decisions to effectively implement business strategy.

Organization structure for building scale, with emerging new roles/specialities & cross functional teaming

The absence of an appropriate organization structure severely impediments the everyday operations and leads to redundancy, role conflicts and low operational efficiency, eventually hampering the ability of the organization to deliver on its strategy.

As automotive products and services become more complex with evolution of technology and shift in consumer preferences, newer roles will emerge across the value chain. These roles will need to find an appropriate place in the organizational hierarchy. More importantly, to address scalability of the complex operating model – organization structures will need to be revamped to drive greater coordination and to achieve organizational objectives.

Top challenges faced by Automotive Ecosystem

<table>
<thead>
<tr>
<th>Major Challenges</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inability to attract &amp; retain talent</td>
<td>&gt;75%</td>
</tr>
<tr>
<td>Ability to effectively manage operations is impacted</td>
<td></td>
</tr>
<tr>
<td>Mindset challenges with Family Owned Businesses (FOB)</td>
<td>&gt;70%</td>
</tr>
<tr>
<td>In understanding and running a complex business operation</td>
<td></td>
</tr>
<tr>
<td>Lack of effective HR processes</td>
<td>&gt;60%</td>
</tr>
<tr>
<td>In attracting, developing, incentivizing, and retaining staff to deliver on expectations</td>
<td></td>
</tr>
</tbody>
</table>

Many suppliers are yet to start moving towards market linked pay

- Head HR, Leading Tier 1 supplier
Viewpoint

The entrepreneurial ventures of dealers and suppliers in the eco-system have grown rapidly over the years, increasing competition and demands from OEMs require these organizations to equip themselves with the requisite management and organizational tools to continue delivering towards manufacturing excellence.

EY market and organizational understanding reveals that entrepreneurial organizations in the eco-system grow rapidly during the early stages of their evolution, building on the entrepreneurial abilities of the promoter and strength of the “Core Idea”. This way, they are able to rapidly capitalize on the opportunities available in the market.

However, after reaching a significant mass in terms of size and scale of operations, entrepreneurial organizations in the ecosystem need to ensure that apart from their continued focus on Strategy, Business Process and Technology, they invest in the development of capability across three critical HR levers – Organizational Institution Building, HR Process Capability, and Talent Capability.

It is imperative for organizations to ensure that their structure is aligned to deliver on their strategy, the HR systems and processes are equipped for scalability and growth and that they have a robust talent pipeline, which will enable the organizations to deliver on business goals. The organizations can partner with industry experts to assist in conceptualization of the way ahead in line with business goals.
Synopsis - Building People Capability

**Context**
- Competition from other emerging sectors in talent attraction
- Gap in curricula of engineering institutions & actual industry needs
- Growth in entrepreneurial and MSME partners along with OEMs

**Key Challenges**
- Employment attractiveness of Auto Sector
- Ready employability of the available talent
- Readiness of ecosystem partners on key people building blocks

**Key initiatives**
- **OEM**
  - Partnering with educational institutions on adopting colleges and faculty training
  - Working with suppliers in the eco-system on training and skilling agenda
  - Working with dealers in the ecosystems on management information systems, training and incentive frameworks

- **Ecosystem**
  - Partners collaborating with OEMs on training and skilling of workforce

**Way forward**
- **Technology**
  - Utilization of available data to predict trends in hiring, training and attrition

- **Human Resources**
  - Better understanding of competitive landscape and business context

- **People Capability in Ecosystem**
  - Three-way collaboration between OEMs, Dealer/Suppliers and Experts
To reap the benefits of the “Make in India” initiative, harmonious industrial relations will stand out to be a critical driver. This necessitates the new age change in industrial relations within the automotive sector. EY India Attractiveness Survey 2015 indicates that labor costs, labor skills and flexibility of labor laws are critical parameters for driving investment in India. Due to the intertwined nature of business, criticality of IR in the auto sector does not stop with the OEMs, but is critically dependent on the partners in the ecosystem.

The changing times call for a mutual appreciation for ease of doing business and maintaining the cost competitiveness of the organization while treating the larger workforce with fairness, trust and equity.

However, the industry is faced with the following challenges with respect to managing the industrial workforce:

a. Pace of change in labor laws especially in the context of setting up/upscaling/downsizing of operations

b. Need for change from being a collective voice to greater appreciation of organizational goals

c. Awareness of partners in the ecosystem to maintain compliance and fairness
3.1 Industrial Relations in the changing times

Does the IR scenario drive cost competitiveness?

Driving operational productivity with continuity and quality at its corner stones will necessitate newer ways of engaging with workforce. Upgrading the skills of existing employees will help improve productivity levels & subsequently drive quality. Additionally, working together to build a culture of mutuality will help change traditional mindset of management against union and sustain continuity of operations.

A partnership with workmen and unions is critical to develop mutual appreciation of the fact that an employee’s growth is dependent on the profitable growth of the organization. The study highlights that trade unions can play a key role in delivering organizational agenda including the up-gradation of skills.

Study also suggests that factors such as building high performance culture, building positive work environment, transparency and fairness of treatment, increased visibility of leadership in employee forums have become areas of increased focus. Going forward, organizations will need to be more transparent, open and authentic while dealing with all sections of employees.

Make in India for Industrial Relations is about building relationships

Does the IR scenario enable ease of doing business?

Existing compliance procedures and labor laws are cumbersome for organizations starting or scaling operations in the country. Limited availability of information and government machinery support also add to the challenge. However, Government initiatives on single window/e-enablement are a positive step towards enabling ease of doing business in India.

In order to manage the complexity of the existing laws in the face of changing business requirements, organizations are resorting to considering employment of contract labor at near minimum wages and thus skewing the workforce composition towards temporary employees. The study reveals that 50% of organizations are unsure of increasing their permanent workforce.

Furthermore, there is a need for streamlining the dispute settlement procedures. The existing slower and bureaucratic approaches for dispute resolution may be perceived to be unfair and lead parties to resort to undesirable actions.

100% of survey respondents believe “Culture Building” to be the game changer in building positive industrial relations.
Top challenges in IR as rated by respondents

>77% Stringent labor reforms
‘With the changing time and trends labour laws have remained unchanged’

>65% Contractual labors
‘Issue of contractual labour is on rise. Entire machinery needs flexibility and contract labour is a stop gap arrangement’

>50% Managing aspirations of labors
‘In today’s world, aspirations of workers are continuously increasing and managing them has become a challenge’

3.2 Industrial Relations: The nerve centre
The significance and impact of Industrial Relations emerging as a nerve center between the OEMs and the partners of the ecosystem was first felt in 2008. Due to a disruption at an auto-component manufacturer, the effects were felt across the value chain by the OEMs who faced a loss of production and delay in automobile delivery to the customers. This exemplifies the criticality of conducive industrial relations between the OEM and the partners in its ecosystem.

The results of the study indicate that Tier 2/3 suppliers and dealers need enhanced focus on their IR philosophies and build maturity in IR practices. It has been observed that an increased awareness and constant assessment of IR climate of these organizations will become imperative to ensure sustainability of the overall ecosystem.

Viewpoint
The organizations must evaluate the below catalysts for building positive industrial relations:

• **Regular and improved communication** between management and employees to build trust, motivation and commitment. The study suggest that the channels of communication will also need to undergo a significant change in the future
• **Investment in skill building** of workmen and providing career opportunities will act as catalysts for change
• **Fairness in treatment** and resolution of grievances by the management and transparency of communication around the same
• **Active Engagement with unions** to bring change and thus upgrading the skills of workmen
• **Include industrial relations in the capability frameworks** of dealers and suppliers. Development of a harmonious industrial relations scenario across all partners in the ecosystem is critical for business continuity and growth
Synopsis - Industrial Relations

Context
- Labor laws not keeping pace with the changing industry requirements
- Difficulty in managing increasing wage and career aspirations of workforce
- Traditional mindset of Management vs Unions

Key challenges
- Building a culture of high productivity
- Absence of regular personal connect with the workforce and unions
- Cumbersome and lengthy labor laws for setting up and scaling down operations
- Ease of information sharing between industry and specific government departments

Key recent initiatives
- Government
  - Steps towards simplification and consolidation of labor laws
  - New Inspection Scheme
  - E enablement for all returns and availability of information
- Industry
  - More inclusiveness in interactions with employees
  - Investment in skill upgradation of employees and unions
  - Providing career progression opportunities

Way forward
- Government
  - Provide flexibility of operations through reforms related to upscaling/downscaling of workforce numbers
- Industry
  - Focus on maturity of IR practices internally as well as for partners in the ecosystem
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