



Student Electronic Assignment Cover Sheet

Student Number	10302991
Student Name	Rajesh Tukdeo
Course Title	MBA (Information Systems)
Lecturer Name	Enda Murphy
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1.	Report Objective	2
2.	Renault Group	2
2.1.	What they do.....	2
2.2.	Worldwide Operations.....	2
2.3.	SWOT Analysis	3
2.3.1.	Strength	3
2.3.2.	Weakness	3
2.3.3.	Opportunity.....	3
2.3.4.	Threats.....	3
3.	Renault Entering Foreign Market	4
3.1.	Why India?.....	4
3.2.	Analyzing Indian Market – PESTEL	4
3.2.1.	Political	4
3.2.2.	Economical	6
3.2.3.	Social.....	7
3.2.4.	Technological.....	8
3.2.5.	Environmental	9
3.2.6.	Legal.....	11
3.3.	Indian Automobile Market.....	11
3.4.	How attractive it is	12
4.	Renault in India.....	15
4.1.	Expansion Strategy.....	15
4.2.	Mode of Entry.....	15
4.3.	Company Performance in Indian Market.....	16
5.	Challenges in Managing International Operations.....	18
5.1.	Potential Problems due to Cross-Cultural Environment.....	18
5.2.	Communication Differences	20
5.3.	Managing Diversity.....	20
5.4.	Labor Issues	21
6.	Conclusion	21
7.	References.....	22

1. Report Objective

Objective of this report is to discuss and analyze strategic decisions taken by Renault Group to enter in a foreign automobile market India. It also highlights mode of entry as well challenges Renault faced in establishing itself in Indian market.

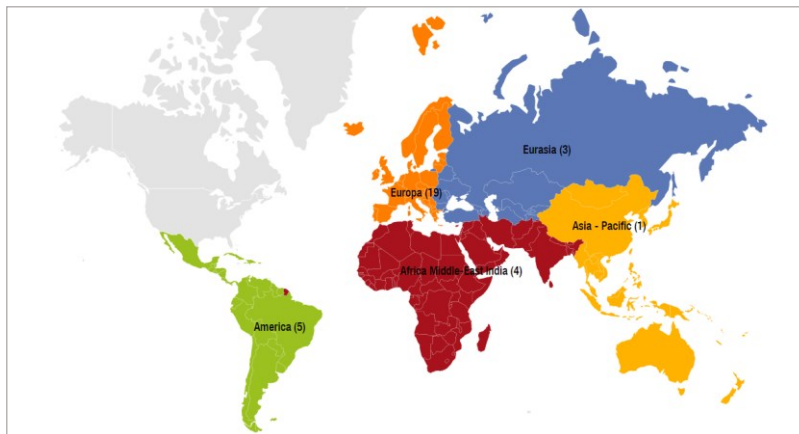
2. Renault Group

2.1. What they do

Renault is a French automobile company which was founded by French engineer Louis Renault and his brothers in 1899. Louis had taken inspiration from Henry Ford and decided to build variety of vehicles, not just the cars but also vans, buses, trucks as well as military equipment during World War. After World War II, French government decided to nationalize the company which resulted in concentrating the business on car manufacturing and bringing new models. ('The Renault Group history', 2015)

Now Renault is among the top 10 car manufacturing companies in Europe. According to magazine BusinessReview Europe, in 2014, Renault was 4th largest automobile group by no. of cars sold in Europe. (Wadlow, 2014)

2.2. Worldwide Operations



2.3. SWOT Analysis

Now let's look at SWOT analysis of Renault – (Deserable, 2014)

2.3.1. Strength

1. Renault has a strong customer base and has maintained loyal customers in European markets
2. By collaboration with Japanese automobile company Nissan, Renault has become one of the largest automobile group
3. It also has good international market presence
4. It has actively involved in organizing events like international motorsport

2.3.2. Weakness

1. Relies heavily on West European and Japanese markets
2. Position in US car market is not strong compared to competitors
3. Brand image affected due to many cases of recalling cars
4. More penetration needed in Asian and Latin American markets

2.3.3. Opportunity

1. Emerging Asian car markets
2. Demands for hybrid vehicles is rising
3. Partnership with Nissan
4. More strategic alliance with local market leaders

2.3.4. Threats

1. Competition from established brands
2. Innovations by larger automobile companies
3. Sudden fluctuations in local economy
4. Raw material price changes

3. Renault Entering Foreign Market

3.1. Why India?

Key facts –

- Population – 1.2 billion
- States – 29
- Union Territories - 7
- Currency – Indian Rupee
- Capital – New Delhi
- GDP - \$7.37 trillion (2014)
- Per capita - \$5,900 (2014)
- GDP Growth Rate – 7.2% (2014)

3.2. Analyzing Indian Market – PESTEL

3.2.1. Political

India being second most populous country in the world has always been on the list of companies as a destination to expand their business. It got independence from Britain in 1947. First decade after independence were politically stable under Prime Minister Nehru but due to unstable governments and red-tape, companies didn't show much interest in entering Indian market which resulted in monopolizing industries in some sectors. Also tax policies and severe import restrictions caused isolation of Indian economy on global front. This situation continued for almost 45 years till government decided to liberalize economy. (Agarwal and Whalley, 2013)

Out of 29 states in India, there are some states that offer environment suitable for investment e.g. Haryana, Maharashtra, Tamil Nadu etc. while some states are still behind in infrastructure development e.g. UP, Bihar, Odisha. (Sasi, 2015)

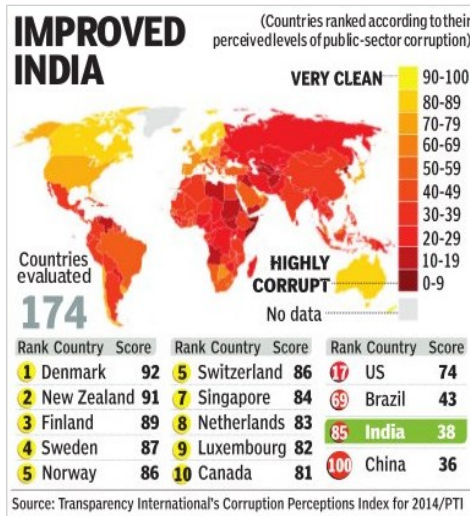
STATE/UT-WISE DISTRIBUTION OF FOREIGN COMPANIES FUNCTIONING IN INDIA

STATE/UT	NUMBER	STATE/UT	NUMBER	STATE/UT	NUMBER
Andhra Pradesh*	78	Jharkhand	1	Rajasthan	7
Assam	1	Karnataka	270	Tamil Nadu	202
Bihar	1	Kerala	23	Uttar Pradesh	56
Chandigarh	3	Madhya Pradesh	4	Uttarakhand	1
Delhi	1476	Maharashtra	772	West Bengal	54
Goa	4	Orissa	9	Grand Total	3254
Gujarat	47	Pondicherry	3		
Haryana	239	Punjab	3		

*Undivided Andhra Pradesh (as on 30.06.2014)
Source: DIPP/MCA21repository.

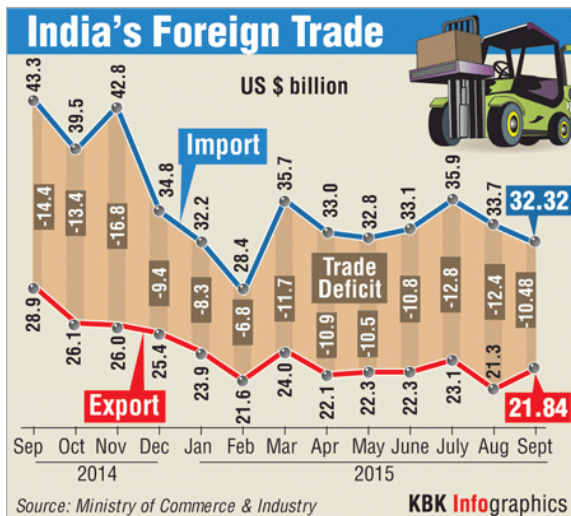
Apart from political developments, India has showed improvement in tackling corruption due to decline in corruption index from 94 in 2013 to 85 in 2014. It is now

lower than China which has slipped to 100. Public awareness towards corruption has attributed this decline.



(PTI, 2014)

Foreign trade policy of India in past had heavily relied controlling domestic market and restricting involvement of outside companies within specific sectors in the country. This has been reflected in Essential Commodities Act of 1955 that includes sectors like drugs, automobile parts, textiles, petroleum etc. India's import management system is complex due to licensing and high tariffs. Also trade deficit had been high in the past which government has tried to bring down.



(International Business Times, 2015)

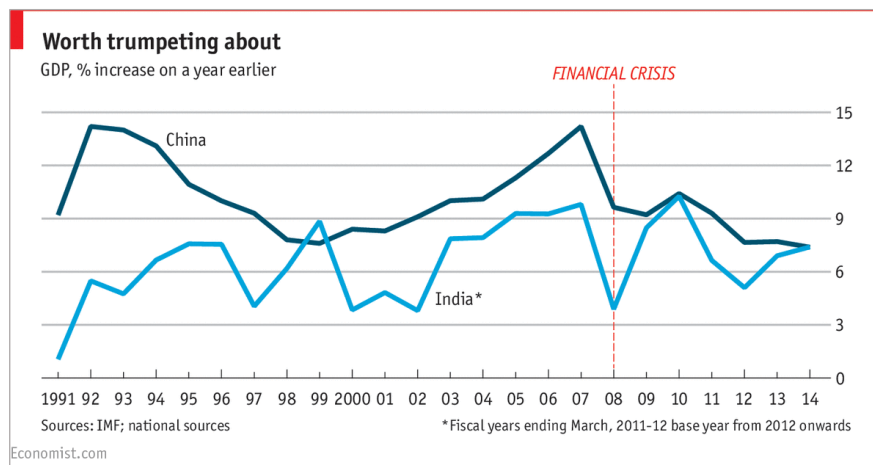
To boost this, government reviewed its foreign trade policy in which important suggestions have been made – (WTO, 2015)

- Control inflation
- Reduce fiscal deficit by giving boost to exports
- Promote schemes like “make in India” to encourage FDI
- Streamline duties & tariffs
- Liberalize investment policies etc.

3.2.2. Economical

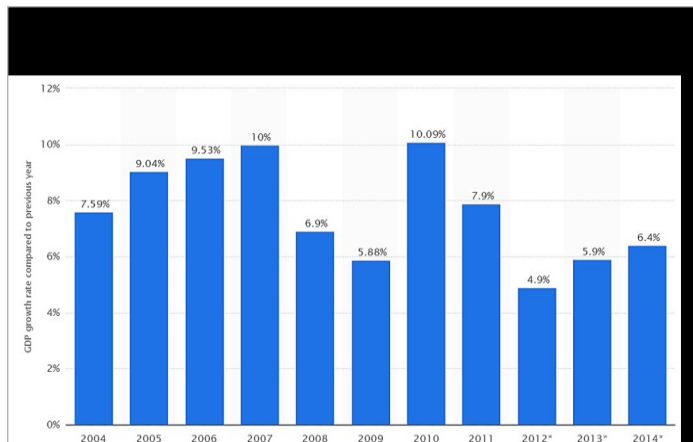
Since independence in 1947 till 1991, government policies were based on socialistic ideologies with very lot of bureaucracy and too many restrictions on foreign companies entering in the country. So during this period, country didn't achieve much economic growth. Fund inflows in India were predominantly by Indians settled abroad, aid programs and borrowings. There was no option for direct investment in the country.

But in 1992, government decided to liberalize the economy by taking pro-active steps like reducing taxes & import duties, inviting foreign companies to invest, getting away with too much paperwork, improving infrastructure etc. This resulted opening Indian economy to foreign brands which the market providing consumers a wide range of products to choose from.

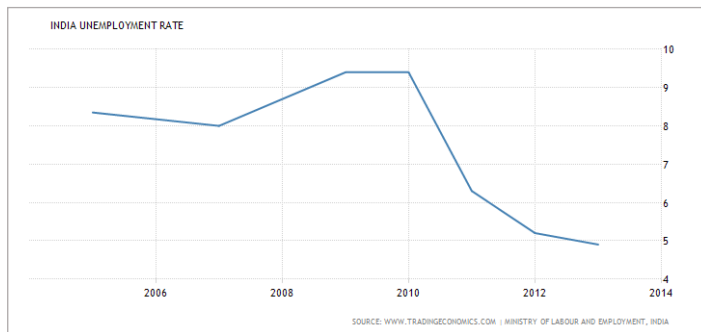


(The Economist, 2015)

Because of economic growth, India has now member of G-20, a group of developed and developing nations in the world. (G20, no date) It has also member of emerging economic group BRICS which includes Russia, China, South Africa and Brazil. (Americas Society, 2015)



(Forbes.com, 2014)



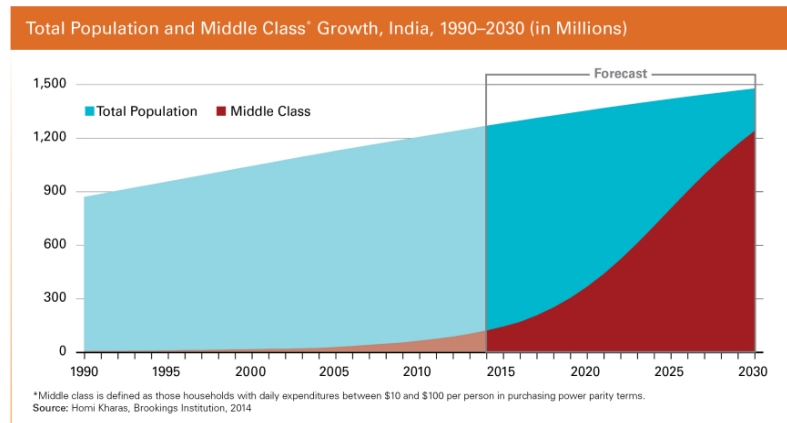
Unemployment rate in India has been coming down since last 5 years and as of 2015, it is 4.9%. This rate is lower compared to developed countries like France, Australia, Italy, UK etc. This rate is expected to reduce further next year.

(Tradingeconomics.com, 2015)

3.2.3. Social

After liberalization, many companies started making their entries in Indian market; there was a sudden surge of skilled manpower for different sectors. This coupled with government policy to give permissions to new schools and colleges especially in engineering and management specialties. People now have more options of education to select for their family members.

Most of the Indians believe in saving money for better future, either in banks or in terms of gold reserves. Earlier salaries in private & public sectors were not attractive for consumers for spending but as multinationals started offering decent salaries, young generation started spending this money on Online shopping and outdoor trips rather than just saving in banks as its parents would do. This has fueled demand for foreign brands like Nike, Reebok, Apple, Samsung, Haier, Sony etc. bringing significant change in buying habits. People also became quality conscious due to wide range of products.



(Global Harvest, 2014)

As far as cultural aspect is concerned, family is very important aspect in Indian culture. This trend is similar in most of the countries in Asia. Indian workers give preference to family and relations in life over work. Success in professional for Indians is always associated with family status in the society. Most Indians follows strict hierarchy in social life as well as business life which focuses on respecting seniors and elders. In business, seniors like manager, CEO, Director etc. often command authority due to their position within organization. (Price & Browaeys, 2011, pp. 81-82)

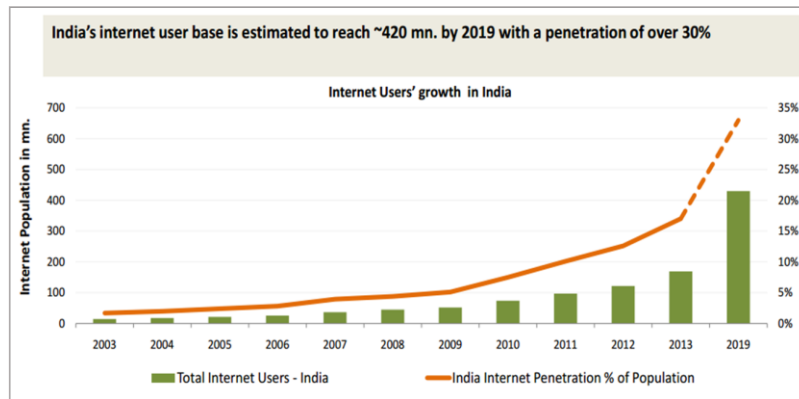
3.2.4. Technological

Before 1991, Indian telecom and information technology industry was in poor state due to heavy regulations. It needed much improvement and lot of technical assistance from other developed nations but government had tight control on these sectors. Liberalization changed this scenario dramatically. Government decided to revamp import duties and taxes that would encourage Indian firms to import necessary equipment to improve local infrastructure.

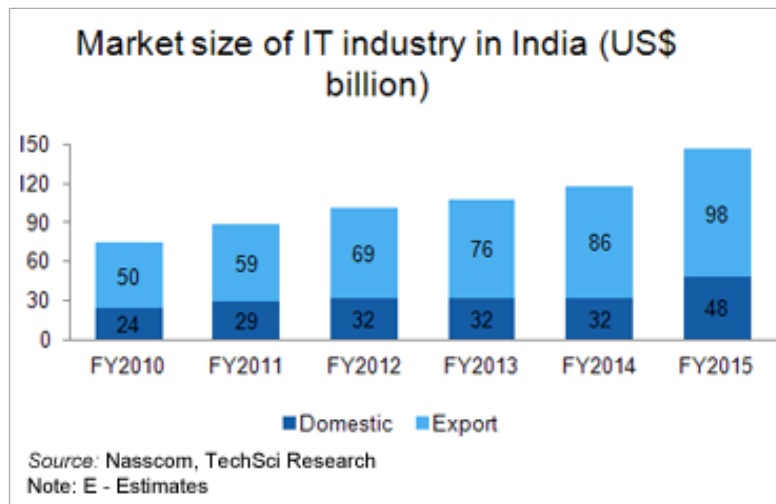
The industry that benefited immensely by this measure was information technology. It brought lot of indirect investment in terms of outsourcing especially from US companies. Improvement in network communications and internet attracted outsourcing from other countries. Better education opportunities also brought a large no. of English speaking young students in the job market who have degrees in diverse subjects like bio-technology, pharmaceutical, petroleum etc. along with IT skills.

Another industry that also flourished because of infrastructure was Telecom. Mobile companies around the world started wireless revolution when government policies brought down call charges. Cellphone became so affordable that even an

average salary earner could own it. Earlier internet service in India was very poor and limited to elite class only. But now due to technical infrastructure improvement, internet is reaching to remote corners of the country.



(Financial Times, 2014)



(‘India's growing market size’, 2015)

India has all four major modes of transport – road, rail, aviation and ports. But roads still constitute almost 60% of country’s total goods movement and large chunk of passenger traffic but its condition has been a bottleneck for progress due to many reasons like poor conditions of inter-linking rural roads, lack of maintenance of national highways, slow growth of road network etc. To improve infrastructure, World Bank is actively investing in Indian transport industry. (‘India Transport Sector’, no date)

3.2.5. Environmental

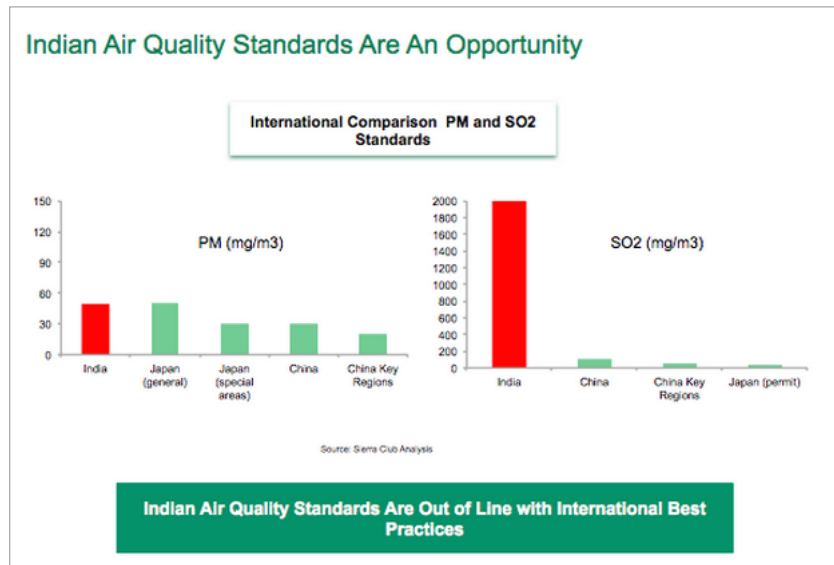
Environmental quality of life in India has been eroded due to population growth. It is causing a big burden on different sectors of business due to increase in pollution levels. There has been significant rise in air, water and noise pollution due to

various reasons. Even though India has laws to curb pollutions, implementing them is difficult most of the times due to bureaucracy as well as corruption. Industrialists usually flaunt these laws for their benefit using political power. ('India: Green Growth', 2014)

Due to illiteracy, there is low awareness among people about pollution and they ignore importance of pollution-free society. They use water resources without realizing hazardous impact on environment. This has contributed to increased water pollution and it is causing shortage of clean water necessary for survival.

Due to rapid industrial growth, there has been increase in air, water & noise pollutions. Earlier vehicle emission norms for automobile industry were not strict which allowed companies to manufacture vehicles with high pollution. But now Ministry of Environment and Forest & Climate Change (MoEF) has taken proactive steps to control air pollution due to Carbon dioxide, Sulphur dioxide etc. emitting from vehicles. ('Water Pollution', no date) As a part of this program, government has launched emission standard framework called "Bharat Stage".

Regarding climate change, Indian government has planned to reduce emissions of carbon dioxide to reduce global warming. Policy drafted in 2015 highlights plan to lower emission levels by 2020 and to meet rising demands of electricity to growing population. Climate Action Tracker, an independent assessment body has ranked India as medium meaning that the targets are not aggressive.



(Guay, 2014)

3.2.6. Legal

Legal system in India has been inherited and heavily influenced by British colonial era due British rule of more than 100 years. After independence, constitution was written along with changes to judiciary which resulted in many new laws and amendments to earlier laws. Industrialization and liberalization of economy also required new laws. In recent years, judiciary has passed judgments about issues in various industries like automobile, information technology, food etc.

In a landmark decision, Supreme Court rejected to lift ban on vehicles more than 15 years old in capital New Delhi. These vehicles were banned due to heavy air pollution they were causing. After ban from local government, transporters requested the tribunal to cancel this ban and permit them to drive vehicles by ignoring its age. Judge upheld earlier decision by government saying that pollution must be kept in control. (Anand, 2015)

India also has laws against gender discrimination but its implementation is still poor in many aspects. This is evident especially in rural parts where rights of women are often abused. Apart from this, intellectual property rights (IPR) and patent laws are also not able to curb blatant violation of copyrights and increasing piracy. Current government has taken some steps to improve policies related to IPR. (McLain, 2015)

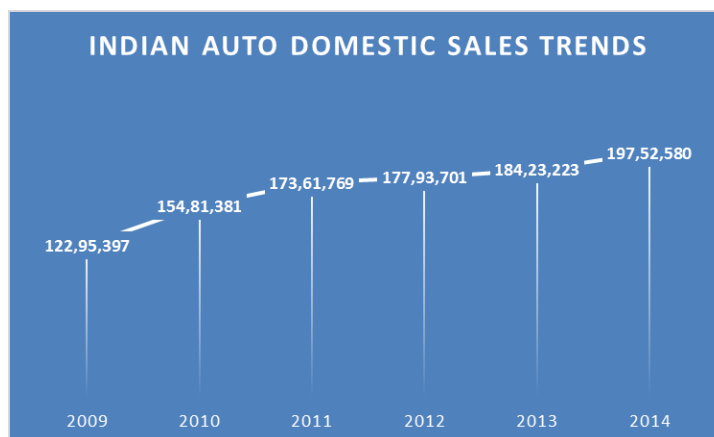
3.3. Indian Automobile Market

Automobile industry in India really came into existence in 1940s, when Hindustan Motors and Premier Automobiles started building vehicles based on General Motors and Fiat respectively. Because of licensing restrictions in private sector, customer had no choice but to import cars of most of the other automobile brands. But now Indian automobile industry has become is one of the largest in the world. Its exports has increased to almost half million vehicles a year. In year 2014-15, it produced around 23 million vehicles as compared to around 21 million in 2013-14 indicating almost 8.5% growth. ('Auto Industry', 2015)

Apart from manufacturing, India is also leader in exporting vehicles around the world for major auto companies like GM, Ford, Toyota, Volkswagen etc.

Passenger Vehicles	Oct '15	Oct '14	Difference	
			Units	Growth (%)
Maruti Suzuki	1,21,063	97,069	23,994	24.72%
Hyundai Motor India	47,015	38,010	9,005	23.69%
Mahindra & Mahindra	24,060	20,255	3,805	18.79%
Honda Cars India	20,166	13,242	6,924	52.29%
Tata Motors	12,798	11,511	1,287	11.18%
Toyota Kirloskar Motors	12,403	12,556	-153	-1.22%
Volkswagen India	3,255	4,663	-1,408	-30.20%
TOTAL	2,40,760	1,97,306	43,454	22.02%

(Autocar Pro, 2015)



(SIAM, 2015)

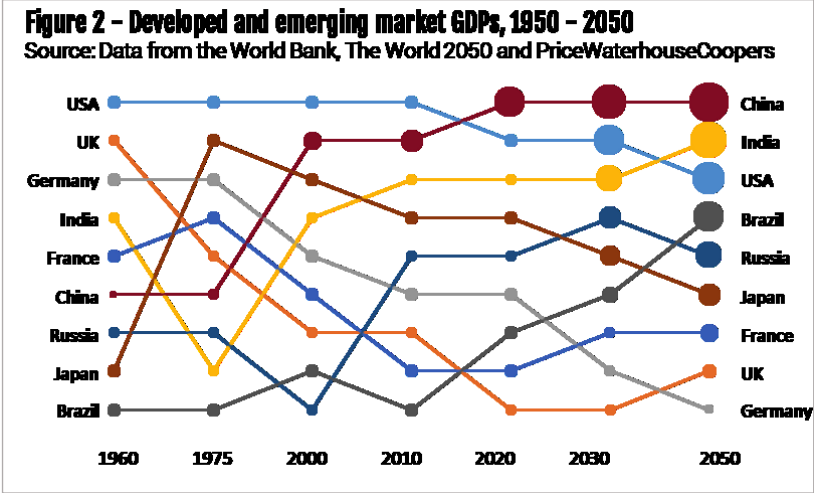
3.4. How attractive it is

Automobile market in India has matured over the years. In last 15-20 years, India has become sixth largest producer in the world. But attractiveness of this market has to be analyzed using “Porter’s 5 Force Model” framework. It helps to identify if a specific industry is really attractive by examining five components that affect any market as shown below (Johnson, Scholes and Whittington, 2011, pp. 54-62)

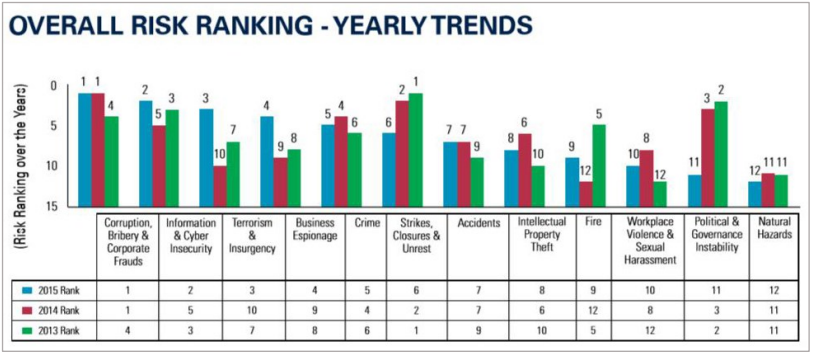


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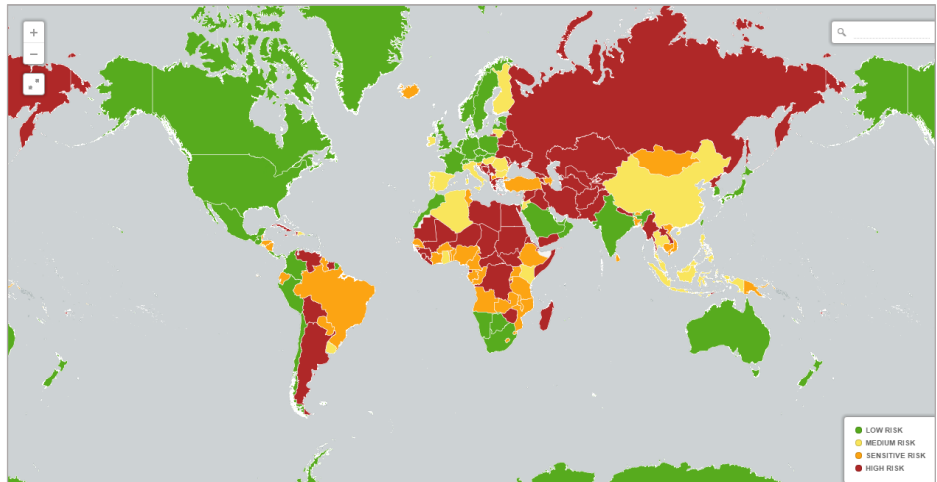
- Threat of entrants - Automobile companies require huge capital investment in machinery, plant, dealership network etc. The industry highly depends on skilled workforce and modern technology. Apart from this, there are several barriers like government regulations for land acquisition, emission standards, labor laws etc. In Indian automobile market, several multinational brands like Ford, Toyota, Honda, and Hyundai are already established. So threat of new entrants in Indian market is **low**.
- Threat of substitutes – Substitute means similar services offered by another product in a different way. In India, there are limited alternatives to automobile products (two and four wheelers) in the form of public transport – road and rail. Airline journey is extremely costly for average Indian. Passenger movement by sea-route is also negligible. Rail and road transports do offer affordable substitutes. So this factor is **high** in Indian automobile market.
- Buyer Power – If customers get many choices in the market within same price range, then it becomes difficult to maintain customer base. Indian car market has been divided in different segments like compact car, midsize, executive, premium, luxury, SUV etc. Apart from luxury and SUV segments, other segments offer wide choice to consumers which makes easy for them to switch brand. At this moment due to optimism in economy, buyer power is **high**.
- Supplier Power –If the market has limited no. of suppliers then their bargaining power is high. In Indian automobile market, there are hundreds of auto component manufacturing units that supply spare parts to different local and multinational companies. ('Auto Components Industry in India', 2015) So here supplier bargaining power is **low** as companies can switch easily from one unit to another.
- Rivalry between competitors – When two or more companies provide similar services or products for similar group of consumers then they are called business rivals. Earlier Indian automobile market was firmly controlled by government using import restrictions. But now many foreign brands like Ford, Volkswagen, Audi, Honda, Toyota etc. have entered and competing with each other for market share. So competitor rivalry in India is **high**.



(Malkiel, 2015)



(Pinkerton and FICCI, 2015)



(Euler Hermes, 2015)

From above analysis, it is evident that Indian market is still evolving at steady pace and good for investment.

4. Renault in India

4.1. Expansion Strategy

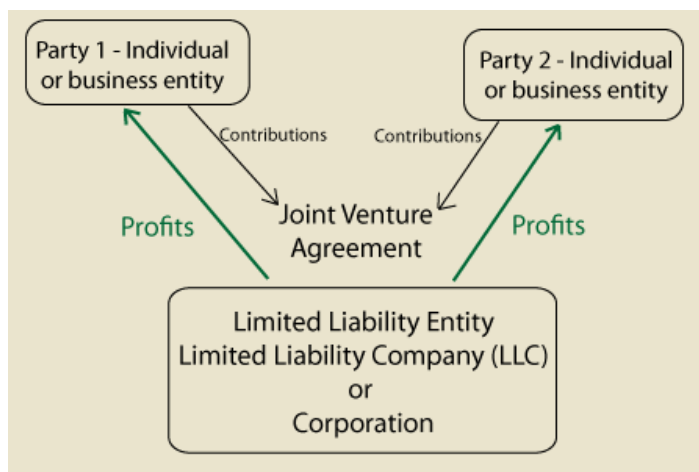
When a company has to decide strategy for expanding its operations beyond its home country, it can have two options – global and multinational. (Wild, Wild and Han, 2010, pp. 335-336)

- Global strategy – it means making same product or service available for all national markets. In this approach, company can use scale of economy to manufacture products on large scale thus reducing cost and marketing.
- Multinational strategy - company has to adopt its products & services according to each potential market. Here company can analyze individual local markets and respond quickly for any emergency. Renault used this strategy for expansion in Indian market.

4.2. Mode of Entry

Entry mode selection depends on various factors like risk, resources, control, market potential, trade barriers etc. Within investment entry options, joint venture as one of the most preferred ways opted by automotive multinationals in developing countries since automotive industry is capital intensive business. There are several advantages of JV such as

- Less capital investment and reduced risk
- Easy access to local distribution network
- Domestic market and competition knowledge from local partner (Wild, Wild and Han, 2010, pp. 380-403)



(Springmeyer Law, no date)

Renault chose JV as preferred mode of entry since many foreign companies had done successful joint ventures in India with public and private companies like -

- Suzuki Motors, Japan and government of India for compact car
- Honda Motors, Japan and Hero Motocorp for two-wheelers
- Starbucks Corp, USA and Tata Beverages to open coffee outlets

In 2005, Renault did JV with Mahindra & Mahindra (M&M), an established Indian auto company. While Renault found M&M as an established & cost-effective brand in Indian market, M&M also saw it as an opportunity to get expertise in vehicle designs and experience in worldwide sales from Renault. It was announced that within JV, M&M share would be 51% & Renault share would be 49%. JV was named as Mahindra-Renault. (The Hindu, 2005)

Initially Mahindra-Renault decided to concentrate on Renault's entry level mid-size sedan car built in Romania called 'Logan'. In 2007, the new company launched its first Logan, a car specifically conditioned for right-hand driving in Indian market. It used M&M's existing plant to produce Logan cars. Due to some problems, M&M and Renault decided to end the venture. Then Renault decided to venture in Indian market on its own. ('Renault ends Indian car alliance over Logan flop' 2010)

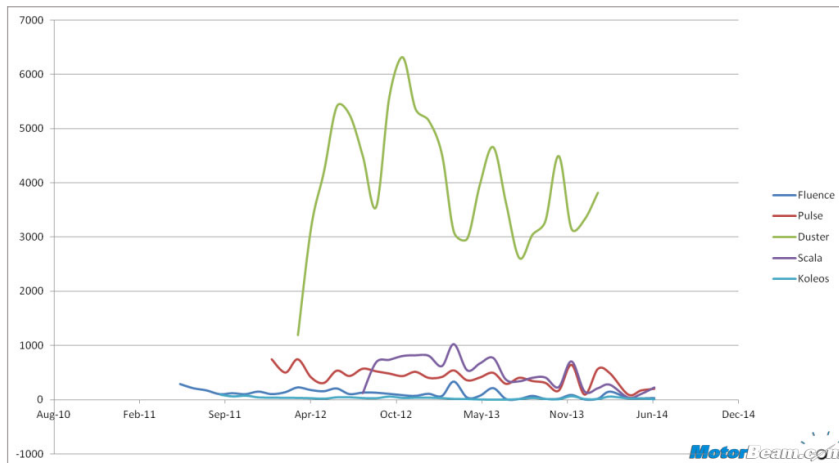
In 2010, Renault switched to new entry mode - wholly owned subsidiary. Wholly owned subsidiary means a single company owns and controls plant or facility for its business activities. Advantage of this mode is complete control of operations in target market for managers. Renault built new manufacturing plant in Chennai with an investment of \$990 million and with capacity to produce around 400,000 cars per year. This plant is now used not just to manufacture cars but also to export them to various countries in Europe, Africa etc. (NISSAN MOTOR Co., 2010)

4.3. Company Performance in Indian Market

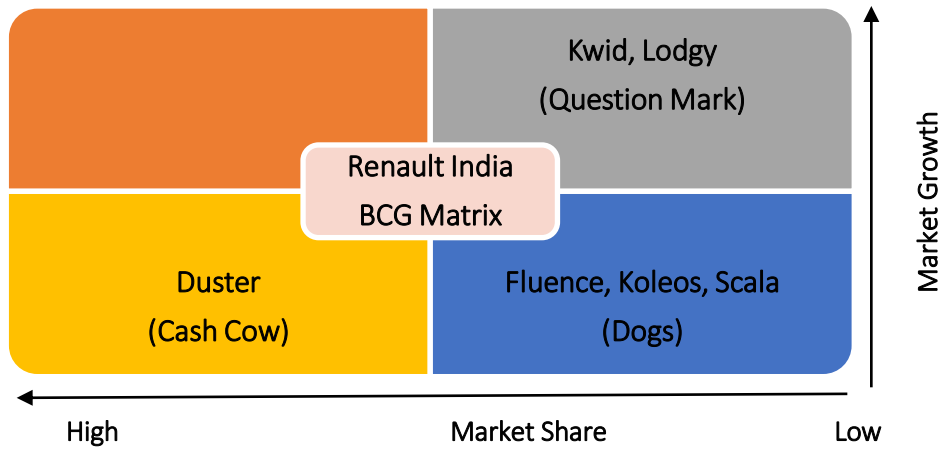
Renault's choice of Mahindra & Mahindra as partner in joint venture backfired. JVs of Mahindra had failed before. Its partnership with Ford ended in 2005 after 10 years. Similarly Renault had unsuccessful partnership with Volvo in early 1990. This venture ended in 1994 due differences between partners over plant location and jobs. (Sanyal, 2001)

Mahindra-Renault's first car – Logan couldn't do well in the market with sales much below its target. Due to imported engines from France, its price was higher than competitors in same category. Similarly it failed to excite consumers due to its old-fashioned look. Dimensions of the car were also a factor in higher taxes. This resulted huge losses for the company. (Baggonkar, 2009)

Since 2011, Renault has introduced many new models in Indian auto market like - sedan cars 'Fluence' & 'Scala', multi-purpose 'Lodgy', luxury car 'Koleos', compact car 'Pulse', SUV 'Duster' and most recently new compact car 'Kwid' in 2015. Kwid has received positive response from customers. ('Renault Kwid crosses 50,000 customer orders', 2015) It is also intended to be exported to Latin American as well as African markets. ('Renault to export Kwid to Latin America, Africa', 2015)



(‘2011-2014 Renault Car Sales Analysis’.com, 2014)



Most of Renault’s models except Duster & Kwid have recorded poor sales in Indian market. In year 2015, three of Renault’s models Fluence, Scala & Pulse failed to attract customers (Chatterjee, 2015) and due to this falling sales figure, company has temporarily halted production of Scala & Pulse. Currently there is no ‘Star’ product with company having high market share with high growth.

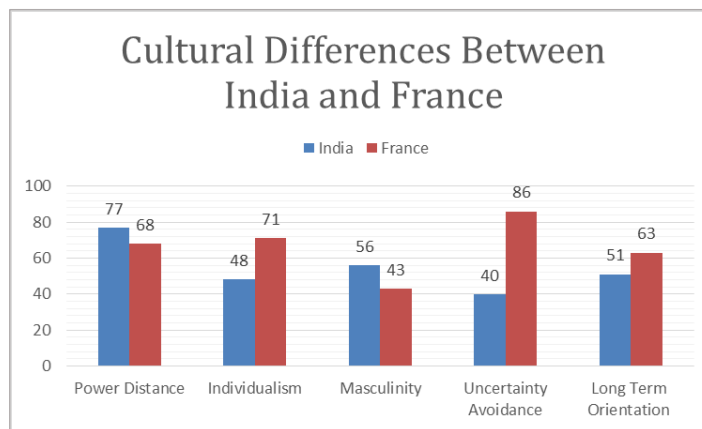
5. Challenges in Managing International Operations

If a company wants to manage its business in an unknown market away from its home country, it can face many known & unknown problems. These problems can be in terms of culture, recruitment, language, partner in case of joint ventures, labour policies etc. Here is review of some of the challenges Renault faced while managing India operations –

5.1. Potential Problems due to Cross-Cultural Environment

Appointing right person to look after company's interest abroad is also a daunting task. There are four staffing policies that a multinational can adopt for international operations away from home. Ethnocentric, Polycentric, Regiocentric and Geocentric. (Ball et al., 2008, pp. 543-547) Renault had initially adopted ethnocentric policy but then decided to switch to polycentric approach by promoting local executive director to manage operations in India. It was essential since there are many differences in working styles of French & Indian and perhaps most significant is cultural.

Culture can be defined as knowledge acquired by people that they use to interpret social behavior. It is learned & shared by experience among groups. (Luthans & Doh, 2015, p. 112) According to Geert Hofstede's model, culture of a potential market can be judged using five dimensions of national culture. It is useful in understanding differences between host and target societies -



(Hofstede, no date)

- **Power distance**
Higher power distance means authority of superiors is to be respected. Within the business, this factor also indicates that manager directs & expects the subordinates to follow the instructions. India's score 77 clearly indicates importance of hierarchy in the organizations and power is centralized within top layers of management. France also has power distance of 68 so it follows similar trend where superiors have powers and they may not be easily accessible.

- **Individual vs. Collective**
Individualist culture gives stress on personal or self and its family life while collective culture emphasize on members to act in the well-being of the group rather than individual. Indian culture scores 48 is a mix of both characteristics. In contrast, French are highly individual society with score of 71. So in France, management and subordinates play equal part in the business.
- **Masculine vs. Feminine**
In masculine cultures, success and competition is more important rather than quality of life. India is masculine society since its score is 56 because reputation within society and showing achievement is always essential in India. France has feminine culture i.e. quality of life is important than status in the society. They usually prefer relaxed atmosphere rather than competition.
- **Uncertainty avoidance**
Indian score of 40 indicates that Indians are usually prepared for sudden schedule changes. They are ready to follow them without questioning or hesitation. So in the business context, employees can work out solutions for unexpected situations. Compared to this, French people are highly planned and structured. They don't like surprises and like to follow guidelines & rules.
- **Short-term vs. Long-term**
Since India is developing country, people prefer to plan long-term goals rather than short-term. Due to high score of 51, culture is pragmatic and doesn't give more importance to time compared to western societies. It inherently means that managing time commitments with Indians is difficult. France also has high score of 63 meaning it is also pragmatic. (Price & Browaeys, 2011, pp. 25-30)

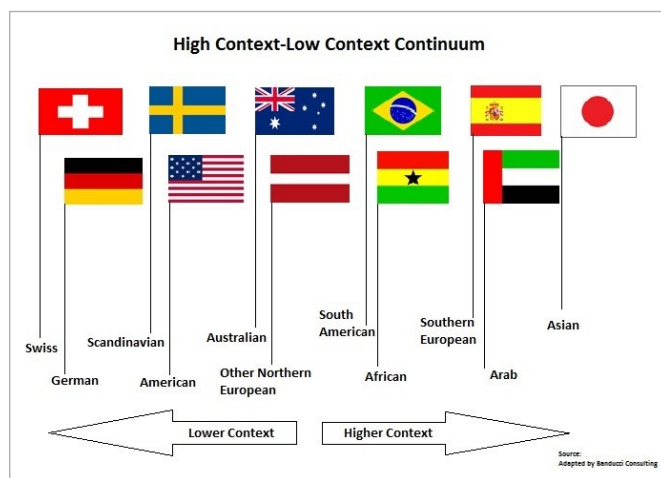
Apart from this, Luthans & Doh (Luthans & Doh, 2015, pp. 165-166) also points out many challenges for an outsider to manage Indian employees –

- French is not commonly spoken or understood language in India. It is either English for corporate & managerial staff and native language for workers. So manager must have working knowledge of English to manage.
- Most Indians prefer vegetarian spicy food that can a big challenge for westerners during official lunch or dinner. Use of left hand is often forbidden in Indian context
- French Managers insist on following strict guidelines & structures which employees may not be comfortable due to low uncertainty avoidance.
- Collective nature of Indian workers will create groups within company as compared to individualist French
- Due to more pragmatic nature of Indians, managing time commitments will be a tough task
- Greeting styles are also different in both cultures

- Job is usually associated with social status in India so using appropriate titles during meeting is considered necessary

5.2. Communication Differences

There are two broad categories of communication in each culture – low context and high context. Low context cultures use exact words to convey the message while in high context cultures, people use less words in communication and most of the meaning is implicit. French people being individualistic, tends to be low context by using precise words. But Indians represent high context culture which has many implicit meanings that can cause potential problems for French. (Luthans & Doh, 2015, pp. 186-187)



(Stouffs Grimes, 2015)

5.3. Managing Diversity

As per Hofstede model, India is highly collective society. So it is essential for a manager to know importance of cultural diversity among the employees. Cultural diversity can have good or bad impact on organization groups. It can bring people with different beliefs & perception together that can result in creativity and there can be knowledge exchange among them which can contribute towards decision making.

On the other hand, it can encourage people to form subgroups within existing cultural groups. Because of this, members can be more loyal towards their subgroups rather than group as a whole. Any difference of opinions among these subgroups can be negative for the management because it affects decision making due to communication boundaries.

In Indian context, there are chances that employees tend to form lot of subgroups based on cultural parameters like language, religion, geographic location, food preferences etc. (Price & Browaeys, 2011, p.238)

5.4. Labor Issues

Relations matters more than expertise in Indian business. So there is lot of favoritism at almost all levels of management. This can become primary cause of friction between management and employee since management may choose promotions based on influence rather than worthiness. This is opposite to Western philosophy of promoting people based on merit.

There is another challenge for managers in India that employees expect seniors in the organization to make decisions. It is common that employees will always tend to take opinions from managers and follow them due to influence of hierarchy. So management in India is often autocratic driven from top-to-bottom unlike European or American which is more participative in nature. (Deresky, 2006, p. 429)

It seems that company has to evaluate its India strategy again since sales are not up to expectations. Recently it has downsized manpower at its car factory by around 3000. (Vaitheesvaran, 2015)

6. Conclusion

Despite average performance, there is lot of potential for Renault in India for further growth since automobile market is still expected to grow. According to Ernst & Young (Ernst & Young, 2015), India has become most preferred destination for investment. Plus many international auto brands have settled and established themselves successfully. Also recently World Bank has raised India's ranking for investment. ('India Improves its Ranking in Doing Business', 2015) So these positive points can be beneficial for the company to establish itself as a trusted brand outside Europe.

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