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Impact of The Bargaining Power of Original Equipment Manufacturers on The Growth of Intermediate Goods Manufacturing MSMEs In India

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Abstract
The bargaining power of Original Equipment Manufacturers (OEM) plays a vital role in the manufacturing ecosystem and growth of the Intermediate Goods Manufacturers (IGM) under MSME sector in India. After liberalisation and economic reforms, OEM companies started depending on domestic ancillary industries for sourcing intermediate products as part of their operations plan to gain comparative advantages offered by different MSME units in its value chain. The value chains supplying intermediate products are weak both structurally and financially which keeps them on the wrong side while bargaining, hence the impact of the monopsonistic power of the OEM is anticipated to be significant on the growth of IGMs. This study aims to investigate the manifestation of unequal bargaining power and its predicament with business competitiveness, performance and ultimately its impact on the growth of IGMs under MSME sector. This paper discusses how market structure and enterprise considerations influence bargaining power and therefore the need for monitoring monopsonistic power in play and the importance of state intervention to safeguards the interest of IGMs. In short, a comprehensive picture of the factors influencing the bargaining of OEM firms and its impact on the growth of IGMs in the value chains has been attempted through this paper.

Keywords: OEM, IGM, bargaining power, MSME, manufacturing, intermediate goods, competitiveness, monopsony, monopoly, bargaining power,

1. Introduction

The Micro Small and Medium Enterprises (MSMEs) manufacture and supply some of the intermediate products as inputs to the Original Equipment Manufacturers (OEMs) who use them for making finished goods for final consumption. This intermediate market of inputs links the IGMs with OEMs that determines the revenue of IGMs and cost to OEMs. Automotive industry is the classic example of OEM vs. IGM relationship where OEMs exhibit the case of monopsony and IGMs depend on an OEM as their sole market. The revenue earned by the IGMs determines their growth among other factors while the purchase cost determines the profit of the OEMs. The OEMs mostly enjoy the monopsonistic power that enables them to locate themselves in a favourable position in the process. However, their relationship exposes the MSME-intermediate goods manufacturers (IGMs) to advanced technologies, knowledge, development of technical and management skills, and enhance their market linkage thereby improving their overall efficiency and effectiveness. The relationship between OEMs and the IGMs nurtures the growth of IGMs under MSMEs and improves their productive efficiency. This market structure makes the relationship between IGM input suppliers and OEMs both imperative and formative to the growth and development of the IGMs. The regulatory bodies would monitor the behaviour of the organisational participants i.e. OEMs and IGMs, to ensure the best possible environment is available to both for maintaining a level playing field, fair competition, and to ensure consumer welfare. This nurturing and monitoring of the ecosystem would enable the IGMs under MSMEs to gain expertise and the strategically placed OEMs to allow for a high degree of integration in local sourcing and indigenisation of IGMs to achieve the required output at a lower cost but maintain the required level of efficiency. The bargaining and market power impacts the participants both the buyers and the sellers differently due to the uncertainties arising from cost, prices, and demand. Hence there is a requirement to continuously monitor the participants to ensure fair play and safeguard countervailing IGMs centric strategies ensuring corporate responsibility and industry resilience.

This paper aims to systematically explore the economic theories behind the unequal bargaining power prevailing in the intermediate markets and the factors leading to the vulnerability of the IGMs involved in intermediate supply of goods. Second it explores the prevailing markets between the OEM manufacturers and the MSME input suppliers. Third, it explores the options for the regulators to prevent moral hazard of exploitation of the IGM suppliers due to their inadequate bargaining power. In short, a comprehensive picture of the factors influencing the bargaining of OEM firms and its impact on the growth of IGMs in the value chains has been attempted through this paper.

2. Overview of the Functional and Operational Structure of MSMEs

The MSMEs are the backbone of the Indian economy because they contribute 30 % of the GDP, 40 % of industrial output, and 50% of exports (Subramanian & Chandramohan, 2023). MSMEs are also the second largest employment generator in India after agriculture. It employs close to 15 crore people who are involved in manufacturing over 8000 products and delivering services across all walks of economy. MSMEs play a critical role in job creation, entrepreneurship, innovation, and development of supply chains (RBI, 2019).

The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act, 2006) regulates the promotion, growth, and development of the MSMEs through facilitation of trade including procurement preferences, access to export markets and grants to reduce incidence of sickness, and to enhance their competitiveness. The MSMEs in India were classified based on their investment in plant and machinery for manufacturing and investment in equipment for services. This classification was revised, and the current classification is in force from June 2020 redefining MSMEs in the framework of investments and turnover. The new definition is progressive as it enables greater inclusion owing to prioritisation and easier implementation of development plans including revive, revitalise and rejuvenate (RRR) launched by the government or transfer of subsidies to the intended beneficiaries within the targeted segment. This method also improves accounting, transparency and accountability for individual firms and in the value/supply chain to streamline the tax system. The current classification for MSMEs is given below in Table 1.

Table 1: Classification of MSMEs

Classification	Investment in Plant and Machinery	Turnover
Micro	Does not exceed Rs. One crore	Does not exceed Rs. Five crores
Small	Does not exceed Rs. Ten crores	Does not exceed Rs. Fifty crores
Medium	Does not exceed Rs. Fifty crores	Does not exceed Rs. Two hundred and Fifty crores

Source: Ministry of Micro, Small & Medium Enterprises

To address the major challenges and bottlenecks hindering the development of the MSMEs and to create a conducive environment that fosters inclusion and its rapid expansion, it has been brought under Priority Sector Lending (PSL) formalised by RBI in the year 1972 (RBI. n.d.) to ensure availability of viable and addressable debt demand. This is out of recognition of the sector's criticality to generate employment, contribute to GDP and exports (Cook & Nixson, 2000, Pedraza, 2021). This status ensures that it is accorded priority in securing institutional credit, guidance and facilitation, and policy interventions for sustainability and resilience.

Irrespective of their position in the supply chain, size, and financial capacity the MSMEs are expected to comply with various regulations which includes:

i) Statutory regulations laid down by the law of the land and their purchaser which includes safety of both personnel and environmental (emissions), corporate governance and ethical business practices, accounting integrity, and social aspects which includes employee well-being, fair pay and benefits, equal opportunity, and social responsibility involving community engagement.
ii) Sustainable practices which include sourcing of raw materials, energy usage and efficiency, manufacture according to the stipulated specifications, follow acceptable manufacturing practices standards, and minimise wastage and timely delivery in accordance with contractual obligations.
iii) Compliance to statutory regulations is critical to sustainable growth and resilience of enterprises irrespective of its size.

2.1 Integrating with Large Enterprises: Strategic Alignment and Management

An important area of strategic alignment and management in the development of MSMEs is the inter-organisational linkage between Large Enterprises (LEs) and MSMEs (Barbin, 2017) involved in manufacturing of input goods. IGMs under MSME act as captive contract manufacturers or vendors to LEs either in Tier-1 or Tier-2 and or directly to OEMs. This significantly lowers the entry barrier for MSMEs apart from substantially reducing capital requirements and minimising the need to infuse fresh capital for plant and machinery for LEs, where two or more conversion stages for production are involved. While this establishes the inter-firm vertical relationship which can be viewed as an adaptive response to free-up capital for the LEs, at the same time, this market structure can also possibly lead to vertical disintegration due to lower risk appetite of the micro and small businesses. Mahoney (1989) argues that cooperative arrangements is a suitable substitution to vertical integration under certain conditions. Additionally, the implementation of a cooperative strategy results in establishment of a large number of participants in the intermediate market. Economic literature tells us, that increasing competition helps keep the prices under check at competitive levels. However, it also might suppress profit margins for MSMEs and reduce innovations (Ro, et al., 2013) apart from exposing them to credit

and liquidity risks. While antitrust laws restrict engaging in anti-competitive practices to encourage healthy competition, industrial and intentional policies for bilateral cooperation promotes domestic and cross-border alliances, fostering technological upgradation and adoption of best practices by MSMEs (Joo, et al. 2019). Moderate levels of competition both at local and global levels fosters innovation (West, 2007), reducing quality ambiguities and performance uncertainties thereby improving competitiveness, encourages forward and backward integration and improves business opportunity. Thus, it provides the enabling support ecosystem to OEMs (Fawad Hussain et. al, 2015).

2.2 Competitive Advantage and Tailwinds

India has developed a significant competitive advantage in the MSME segment owing to five reasons:

i) A large domestic market,
ii) The second largest steel manufacturer and has the second largest production capacity for aluminium (IBEF, 2023) in the world,
iii) A large pool of skilled and semi-skilled workforce,
iv) Proximity of Asia/Oceanic/Middle East which are counted among the largest markets, and
v) Low labour cost leading to cost-advantage in manufacturing.

Apart from the strategic competitive advantage the IGMs are also driven by operational considerations which includes:

i) A high degree of indigenisation by the growing bandwagon of OEMs
ii) Flexibility in embracing change owing to market dynamics like technological improvements and obsolescence due to updates and upgrades during the lifecycle and changing consumer preferences and priorities,
iii) Excellence in meeting quality, cost and delivery timelines
iv) Continuous skill development
v) Intensifying investment to increase levels of import substitution and exports.

The diffusion of knowledge and technology has exponentially increased the potential for localisation (Behera, et al., 2012), driving the growth of the sector and the Indian economy. However, regardless of the size of the MSME as an IGM supplier, many auto-component ancillaries lack the authority to significantly influence their client to develop and establish a strong pricing power to their advantage over their customers. Also, most of the auto-component manufacturers do not have high bargaining power over their suppliers, as the suppliers are also large players in the commodities market, including ferrous and non-ferrous metals. Both the foregoing impacts the profitability of the MSME sector. Chart 1 below illustrates the operational considerations of MSMEs.

Chart 1: Operational Considerations of MSMEs

2.3 Intrinsic and Extrinsic Challenges

In general, over 99% of total MSMEs in India, as of March 2024 qualify to be classified as micro-enterprises along with the small enterprises in MSME sector. They face numerous challenges which can be broadly classified under:

i) Credit and Financial capital and payment delays that constrain working capital and profitability.
ii) Skill development both managerial and technical and sourcing of skilled manpower.
iii) Access to technology both machinery and intellectual property rights (IPR) for Quality Upgradation and modernisation.
iv) Sourcing of Raw materials.
v) Capacity Utilisation.
vi) Market Linkages.

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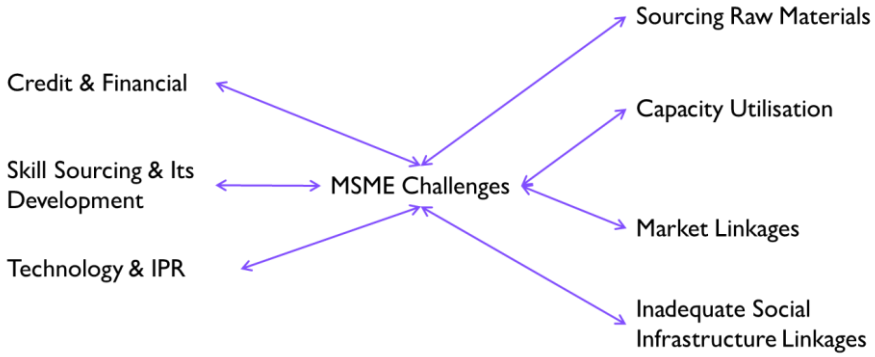
vii) Inadequate Social Infrastructure.

All these challenges impact the growth and development of the MSMEs and suppress them from delivering its full potential. While much has been researched in these foregoing areas, there is little to no literature available on the impact of monopsony on the growth and development of IGMs under MSME. Chart 2 illustrates the challenges faced by MSMEs.

Chart 2: MSME Challenges



Over the years, the IGM growth has been enabled and well-complimented by a growing number of enterprises in the OEMs across all the industry segments. This has also been instrumental in ushering new OEM players and many micro and small entities in ancillary manufacturing, thus creating a huge ecosystem that is poised for growth. Thus, positioning of OEMs is essential to leverage both domestic and export market opportunities. With India continuing to remain at the forefront as one of the fastest-growing major economies of the world, the future looks optimistic for exponential growth, which will be a definitive tailwind for the OEM industry for increasing localisation and reducing dependence on imports.

3. Objectives

This paper examines the unequal bargaining power of the IGMs under MSMEs and its impact on their capitalisation and growth.

i) To explore the prevalence of imbalance in bargaining power between the OEM as monopsonist and the IGMs under MSMEs as seller.
ii) To examine the impact of unequal bargaining power of IGMs under MSMEs involved in contract manufacturing on their growth and development.
iii) To identify the potential sector(s) where monopsony power of the OEMs having influence on prolonged yet silent stunting of the IGMs under MSMEs.

4. Imbalanced Bargaining and Market Power in the Intermediate Markets

The industrial ecosystem is essentially a network of heterogenous businesses that are independently managed (di Comite, et al., 2011). These businesses are network centric, meaning within their network they share resources, technology and execute activities governed by contracts to successfully manage production and innovation, establish a reliable supply chain, and to gain comparative advantage over rival networks for sustainability (Hunt, & Morgan, 1995; James 1996). It indicates there exists interdependence between organisations that operate upstream and downstream in the value or supply chain that spans across geographies or market(s). The flow and control of resources determine how organisations are interrelated. Inter and intra-organisational strategies play a pivotal role in controlling resources to achieve competitive advantage and shaping the bargaining power. Also, these strategies determine the levels of cooperation among the organisations to achieve the desired results. Therefore, the intensity of bargaining power exerted by one over the other shapes the level of interdependence on resources (Anderson, 2019). It fuels the ability to reason and persuade the other without fear of the consequences of ignoring rationality.

IGMs under MSMEs, either directly or indirectly, share their complex relationship with OEMs manufacturing final goods for consumption. Between them, they share, own, or manage independently different responsibilities, including technology support along the value chain transforming intermediate products into finished goods (Desai & Taneja, 1990). To create a conducive environment that ensures mutual organisational goals are met, the related parties embark on finding mutually beneficial agreements. In this process, aligning interests, concerns, and priorities are systematically addressed for deal-making through the process of bargaining and negotiation (Steinel, & Harinck, 2020). Large enterprises with significant market share are capable of dominating the entire supply chain through their strong bargaining power.

This section focuses on the definition of the bargaining and market power. Studies suggest that bargaining and negotiations are saddled with immediate self-interest and long-term collective interest. However, in either case the effort maximises the desired outcomes of the dominant. Factors that affect the power equations are:

i) The degree of competition (i.e. number of buyers and sellers and their relative size in terms of value and volume).
ii) Pricing power of the buyer
iii) Criticality of the product in demand, options for substitution and product differentiation, relative strength of barriers to entry and exit.

Bargaining power and market power are powerful tools that determine value-extracting behaviour. These are the significant factors in determining the profitability of a transaction and the long-term viability of an organisation. Both the factors demonstrate price and terms setting behaviour that affects value and the efficient flow of trade and effective transfer of profits. Faster technological adoption, absorption, and advancement, apart from the innovation capacity of individual firms, are critical to market expansion and corporate success in a market-based economy, but they do not, in all instances, necessarily culminate in ensuring larger operating profits. Market power has a direct impact on relative price performance, pricing behaviour, productivity, demand elasticity, contestability, elasticity of supply (Maasoumi et al., 2002), quality (Taylor & Zona, 1997) in addition to exposing the gap between client expectation and supplier perception.

4.1 Bargaining Power

Bargaining power is the capacity of an organisation placed either in an upstream or downstream market to influence, persuade and secure an agreement that best suits its objectives. This means that every negotiation involves a minimum of two parties, and rarely both enjoy the same levels of bargaining power (Choi, & Triantis, 2012). The difference in the bargaining power stems from the varying levels of reservation utility and risk aversion, enabling one to have a distinct advantage over the other to derive excess benefits. It means the more dominant one has an advantage over the other. Thus, the organisation that enjoys a dominant bargaining power pursues the highest value to optimise its cash flow (Galil, et al., 2023), and profits by means of capitalising cost through negotiating to either depress cost or distend prices, establishes a favourable trade credit (Fabbri, & Klapper, 2016) and supply/delivery terms. Thus, power asymmetries help arrive at a mutual agreement over price, trade credits, inventory levels, and delivery terms to realise favourable cash conversion cycles, that helps free-up operating and working capital requirements, reduces capital cost and improves profitability for the dominant. Therefore, the net beneficiary in the deal is the organisation with higher bargaining power that displays value-extracting behaviour. Thus, unequal bargaining power often results in extending excessive concessions or unreasonable costs and or tariffs that are one-sided and a biased treaty that is detrimental to the interest of the entity with the lower bargaining power (Kirkwood, 2005).

4.2 Market Power

Market power describes the situation when a buyer or seller is able to control the prices of products or services by controlling its supply or demand. Monopsony power appears once the buyer gets the supremacy to lower the price of a product or service by reducing the quantity they purchase. The characteristics of the market for market power is defined differently for the monopoly (seller) and the monopsony (buyer). In monopoly, it is defined as the ability of the seller to raise and maintain selling prices above the competitive levels. Similarly in the case of monopsony, it is the ability of the buyer to lower the price of products or service below the competitive levels. Market power can also be influenced by non-price competition like product differentiation, collusion, and distribution network. Currently the best example of a monopsony is the automobile industry which outsources their input good from MSME ancillary units. This has made the IGMs in automobile industry to specialise and commit to specific products meant for a particular OEM or the group companies. This symbiotic relationship connotes the OEM has the monopsony power and the IGMs always depend on a particular industry to sell their products as input goods. IGMs are weak due to their capital inadequacy, institutional support and many other factors. It is a case scenario where a few large buyers with an enormous purchasing power, with little to no unopposed competition dominate the market which usually results in regulating the prices and terms of supply with its vendors or suppliers as favourable to them (Chen, 2008). This condition for monopsony power allows to control the bulk of the market share by means of sales. The lack of alternate market enables them to maximise their profits by coercing their vendors to lower the price of the goods/services they procure and have them supplied at terms favourable to them. This imbalance in bargaining power is a consequence of market concentration.

4.2.1 Impact of Monopsonic Power of OEMs on Growth and Stability of IGMs

IGMs under MSMEs outsource contract manufacturing and value-added services (VAS) from LEs. This implies that the output of IGMs under MSME is largely determined by the output of OEMs. In other words, the output of the IGMs under MSMEs depend on the output decisions of OEMs (Alexei Alexandrov, et al., 2008). The presence of large number of MSMEs in any industrial sector is an indication of labour costs, and value and supply chain restructuring to minimize the number of suppliers (Haritha Saranga, et al., 2009). This effort is driven by motivation for profit maximisation while increasing market share. MSMEs help to achieve the objectives of cost optimisation for LEs where they have any inherent

challenge in addressing them and in that process, MSMEs add value by bringing in newer capabilities at lower costs. This help to achieve at least the four objectives:
i) Freeing up the equity of LEs,
ii) Reducing labour costs,
iii) Developing a widely dispersed value and supply chain ecosystem,
iv) Improved time to market.
Table 2 categorises and groups OEMs and its suppliers on the nature of responsibility, client base, level in supply and value chain in supporting the industry in manufacturing and improving product quality and functionality. All of them play a critical role in enhancing the supply and value chain improving efficiency.

Table 2: Level and Nature of Responsibility in Manufacturing

Level	Nature of Responsibility	Status	Market Relationship
OEMs	Design, Assemble, Market and Sell automobiles	Critical. High barriers to entry. Capital and technology intensive, economies of scale	With end customers either through direct marketing and through distribution network
Tier 1	Work with limited OEMs. In select scenarios share some design responsibility. Manufacture critical major parts, complex assemblies (integration of multiple components) or system/sub-system.	Compulsory – focus on manufacturing specialised components, sub-systems, and major assemblies and sub-assemblies improving functionality/features of the end product.	Contract Manufacturers and suppliers for OEMs
Tier 2	Manufacture and supply individual components and sub-components or other essential inputs. Do not share design responsibility.	Essential – focus on precision to contribute to overall quality	Sub-Contract Manufacturers and suppliers for Tier 1 suppliers
Tier 3	Manufacture and supply individual parts or supply raw materials for use by Tier 2 to produce more complex components	Necessary	Suppliers for Tier 2

Source: compiled by the author from multiple sources

Table 3 illustrates the division of labour distributed deeply across the different Tiers. When superimposing this structure for absorption of their production within the broader context of restructuring, it demotes the status of Tier-2 and Tier-3 as to that of OEMs and Tier-1 enterprises (Porter, & Phillips-Howard, 1997). This relegates the MSMEs position in the industrial structure and philosophy of its existence to operate as a captive to LEs. It, therefore, suggests the potential to naturally create wage differentials and discrimination even among similarly skilled and productive workers. The situation can get amplified in the event of imperfect competition resulting from a higher market concentration while the ownership and the title to factors of production are legal and real, however, the control may prove to be illusory.
A countervailing strategy suggested for the regulatory body is to develop sub-sectors in the value chain. It has its premise in Resource Dependency Theory, where organisations compete with each other to secure resources for their survival, and this tendency creates economies of scope by developing holistic industrial-sector clusters. It improves the capability and flexibility of organisations to respond and diversify both vertically and horizontally. For example, Tier-2 and Tier-3 manufacturers of auto-components in automobile industry can expand their activities extending to other adjacencies, including commercial vehicles (CV), agriculture machinery, defence, and aerospace. These are contiguous segments where cross-selling and opportunities for expertise repurposing may exist or arise due to technological complementarities. Therefore, instead of depending on a single buyer/client for the total sales value, producing complementary intermediate goods for multiple clients gives them a significant competitive advantage. For employees, this allows ease of mobility to move across different roles and different enterprises with the available knowledge, skill sets, and competencies as these are compatible between industries (Atallah, 2006). This practice allows creation of substitutability across both supply and demand for trained workforce and commodities. This growth plan as a strategic realignment could be pursued for at least five reasons.
i) Hedge risks.
ii) Diversification of portfolio to improve capacity utilisation.
iii) Higher growth and profit potential.
iv) Early mover in sunrise industries/rising star products: lever head start advantage in underserved market.

v) Ambition to expand and grow.

However, existence of substitutability does not cause much dent to the bargaining power of the buyer or monopsony in an imperfect market. This is because:

i) The source of a buyer's power comes from his market share i.e. his share of purchase made in the upstream market. This includes both in terms of quantity and value of the total sales made by all relevant sellers (Chen, 2007) and thereby has the potential to impact demand elasticity.
ii) There exists an unequal economic dependence between a supplier and the buyer. The supplier is relatively more contingent on the buyer for trading and profitability than the buyer (Paul, 2005).
iii) Risk of delisting and re-contracting i.e. the IGM producer runs the risk of losing out on renewal and subsequent contracts because he is substitutable by another inclined to expand and willing to work on terms established by the supplier (Glover, 1987). This is more likely to happen in cases where the products supplied are generic by nature, and a replacement supplier is readily available and is capable of meeting demand as in the case of a value chain network.
iv) The supplier switching does not involve specific factors, which include transfer of patented know-how, expert knowledge, new factor flows, or requires developing specific skill sets (Roger, 1978) and hence the buyer has no special interest or incentives in retaining nor the supplier replacement poses inherent risks to efficient outcomes. As a result of availability of substitutable suppliers, the supplies perceived value declines, undermining cost-based pricing (Shapiro, & Varian, 1998).
v) Lack of product alignment with the downstream market. This is because the products produced by the MSMEs suppliers are input supplies and not finished goods for the consumers hence has no perceptible intrinsic value to the downstream final consumers.
vi) Concerns on opportunity costs at the expense of productivity loss in the event of the supplier not integrated in the larger environment of supply and value chain.

Thus, the buyer's power stems from the MSME's multiple dependencies, which includes but are not limited to:

i) Vocation
ii) Patronage
iii) Insecurity
iv) Surplus inventory
v) Lack of market alignment
vi) Opportunity cost

Bargaining power imbalances can weaken business responsiveness due to increased shocks and cost leading to allocative efficiency losses (Ryan, et al., 2018) despite the ability to jointly generate a surplus through the contract, resulting in adverse consequences due to wastage of factors of production eventually stunting economic growth (Pitchford, 1998).

The pervading perception on the relationship between the OEM and that of the IGM, is that of, predatory and abusive (Sivramkrishna, & Jyotishi, 2008; Helveston, & Jacobs, n.d.). However, there will be asymmetries when two parties are involved and therefore an imbalance in power (Porter, & Phillips-Howard, 1997). This also drives us to conclude that two equal parties might never be tangled in negotiating a contract in a production economy and that the lack of avenues to achieve self-sufficiency leads to a weak bargaining power for the IGM and their eventual subservience to the OEM buyer. Therefore, the outcome is an inequality in bargaining power often results in unfair treatment and unequal distribution of wealth.

It is a well-established fact that as market concentration by OEMs and as the aggregate number of IGM or suppliers increases, the OEMs develop monopolistic power in the consumer market and exercise monopsony power over the IGMs. In other words, low competition and high market share of OEMs enables them to set prices and favourable terms of supply with both the upstream IGMs and for their downstream consumers. With limited competition the OEMs can thrive, operate successfully, and generate profits. However, the same situation can get tricky for their suppliers/vendors. In a condition where competition is limited and with no suitable alternatives/substitutes available to the vendors/suppliers, they are then left with no alternative but to continue to seek their support to sustain the supply chain. This implicitly indicates conditions of low attrition can arise even when imperfect competition exists invariably weakening the link between productivity and fair compensation. This, however, potentially impacts the long-term relationships between the OEMs and IGMs in the absence of a balanced approach in OEMs interactions with IGMs under MSME as returns to scale, factor flows, and trade complements each other (Melvin, 1996; Gowa, & Mansfield, 2004).

In a case scenario where alternatives are limited, reluctance and unwillingness to seek and switch OEMs or even exit the market by the suppliers/contract manufacturers, who are mostly comprised of the micro and small enterprises, cannot be ruled out as switching costs can be prohibitively expensive due to capital lock-in (Farrell, & Klemperer, 2007), and the other deterrent is the need for additional investments due to technological limitations and efforts required for migration due to changes in product design and adaptation to standards both of which can briefly impact performance (Debi P. Mishra, 2019). Another aspect is the huge costs involved in acquiring a new OEM/client including the pursuit for increases in market share as opposed to market expansion (Akinci, et al., 2008) due to information asymmetries on various critical

aspects that includes technological and market information including on competition and the barriers to entry (Bergh, et al., 2019) in addition to, geographical proximity which happens to be one of the factors that had earlier restricted opportunities. The costs of switching at a high level include the cost of capital for investments in fixed assets for development/production machinery and tooling, proof-of-concept and its acceptance, test-runs for prototype and specialised skill development, tight coordination, all of which can demand a lot of capital bandwidth stressing the MSME-IGM. All the foregoing is accentuated with the risk to scarce capital due to uncertainties emanating from the opportunities. In the likelihood of the skill sets, and investments in production machinery and tooling are transaction specific then switching customers can be prohibitively expensive (Monteverde, & David, 1981).

Thus, reluctance and unwillingness to explore alternative options due to switching costs weakens the bargaining power of MSME-IGMs and creates space for exercising the monopsony power by the OEMs. In the process, the OEMs leverage their bargaining power to depress prices in order to fix high margins and realise profits, while the MSMEs operate on lower margins despite being capable of achieving higher production efficiencies. The higher the resistance for reluctance and unwillingness to find alternate market or the lack of it, the greater the potential to suppress the price point to a level closer to the regret price reducing profits. This unequal bargaining power results in low transfer of wealth and sluggish growth for the IGM-MSMEs eventually leading to reduced levels of profit infusion for recapitalisation and capital intensification, which causes the state of perineal dwarfism. This is a cause for concern, as it not only creates challenging condition for self-preservation and resilience for the MSME manufacturer/supplier but also increases disparities and income inequalities which can have a broader implication for the overall society and consequently the economy resulting in lower output, employment generation, and impact social welfare. Therefore, MSMEs, as a contingency plan, should also focus on increasing their integration with adjacencies rather than relying solely on one OEM to manage their business profitably; this would better equip them to overcome the barriers that contribute to disparity in negotiating power.

5. Scope of Automobile IGMs in Domestic Value Chain and Global Value Chain

Despite the fact that IGMs confront myriad and varied challenges supporting the domestic value chain (DVC), they have the potential to play a significant role in domestic production and contribute to exports integrating with the global value chains (GVCs) of the automotive industry. A GVC is described as "the full range of activities that firms and its employees perform to bring a product from its conception to end use and beyond" (Gereffi & Fernandez-Stark, 2011). They are synchronised by many MNCs or large companies that perform lead activities in the value chain. However, opportunities for MSME-IGM business and market development and economic outcomes including the entity's long-term business success (Romer, 1986, Porter, 1992) depend on how they learn, upgrade to advanced technologies, innovate in the space of both products and business processes, development of financial systems (Tadesse, 2006), development of human capital and an inclusive culture (Gao, & Zhang, 2017). The existing potentials of the IGMs remain untapped requiring financial support, conducive government policies that encourages and subsidises new businesses and innovation (Howell, 2017) with an appropriate product strategy, and promotion of foreign direct investments (FDIs) to improve effectiveness of access to technology, to underpin focus on and to increase domestic innovation capacity (Fang, et al., 2017, Brown, et al., 2019) apart from reinforcing and influencing development of intangible assets including intellectual property (Heath, & Mace, 2020). IGMs competitive ability can be improved through technological collaborations and joint ventures. The gains from DVC and GVC participation will be higher for businesses that have greater access to intangible inputs like IPR which will open prospects for innovation, creativity, and sustained growth (Sowmya, et al., 2021, Samriti, 2023) and businesses backed by local financial markets that have greater short-term risk-tolerance and continue to invest and incentivise innovation to achieve long-term success (Comin, & Nanda, 2019, He, & Tian, 2020). With access to appropriate technology, innovation mindset and policy support, IGMs can produce quality goods at relatively competitive price. IGMs might face certain risks in even GVC participation due to their weaker bargaining power. This problem however can be mitigated through the consistent development of competitive advantage of the IGMs and by the creation of a level playing field. The bargaining strength of IGMs depends on their ability to innovate and produce improved products, improvise processes and functions in the value chain. However, the OEMs would continue to operate and control high value-added functions and therefore capture higher profits than IGMs.

6. Conclusion and Recommendation

Market structure and concentration is an important parameter that helps in understanding the forces that shapes the growth of the industry. High market concentration is generally associated with increased efficiency from economies of scale though it also indicates low competition. However, market power when exercised resulting in low-capacity utilisation prevents the IGMs under MSMEs from achieving productivity frontiers. Thus, when the buyer power impacts upmarket conditions, it would also invariably impact the downmarket conditions and therefore at some stage will impact the end-consumer. It would be counter-intuitive to allow monopsonistic power in play.

In order to achieve full capacity if upstream IGM manufacturers plan to stockpile goods to respond better, it could considerably increase the risk to investments made by them, if the anticipated demand does not materialise. This lack of appetite for risk taking arguably is one of the factors that dictates the level of imbalance in negotiating power. This can

impact employment generation, wages, and inequality apart from losses to economic growth due to loss of productivity gains.

The Monopolies Restrictive Trade Practices Act, 1969 was replaced by The Competition Act 2002 in the year 2009. These were rolled out to ensure, "freedom of trade, a level playing field, sustain fair competition and welfare of the consumers." However, to achieve these objectives, surveillance for scrutiny of firms may not be a solution to gather information on violations of fair and ethical practices as management discussions and decisions remain opaque. The situation gets tricky due to reservations among victims in whistleblowing, formally reporting and sharing data. In the absence of formal evidence should the regulators turn a blind eye? No, absolutely not!

A theoretical approach of connecting economic theories and empirical evidence with macroscopic observations and behaviour can perfectly explain and suggest that counteracting market power i.e. monopsony could be in play limiting the sub-sector and the overall industrial-sector growth. This leads the way for further scope of study to model data collection and test with precision observations and accurate data sets to recommend countervailing measures that can create a level playing field for both the OEMs and the IGMs paving the path for ensuring and preserving perfect competition.

There is no reliable alternate to precise observations and accurate data sets that can help reveal patterns, identify gaps, assess how deep the problem has permeated and how the phenomenon is impacting the industrial segment and the overall industry. And it is only fair to assume incidence of events of voluntary reporting will be random due to fear of repercussions. Regulatory bodies are expected to closely monitor and address issues suo moto to regulate the system for ensuring fair operations that promotes and safeguards the interest of all the stakeholders. Therefore, in the absence of complaints to initiate actions, the regulators need to depend on models that helps determine the existence of restrictive practices and take pre-emptive measures to enforce the principles of fair competition.

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