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ROLE OF THE STATE AND PRIVATE GROUPS
IN SUB-CONTRACTING ^{1/}

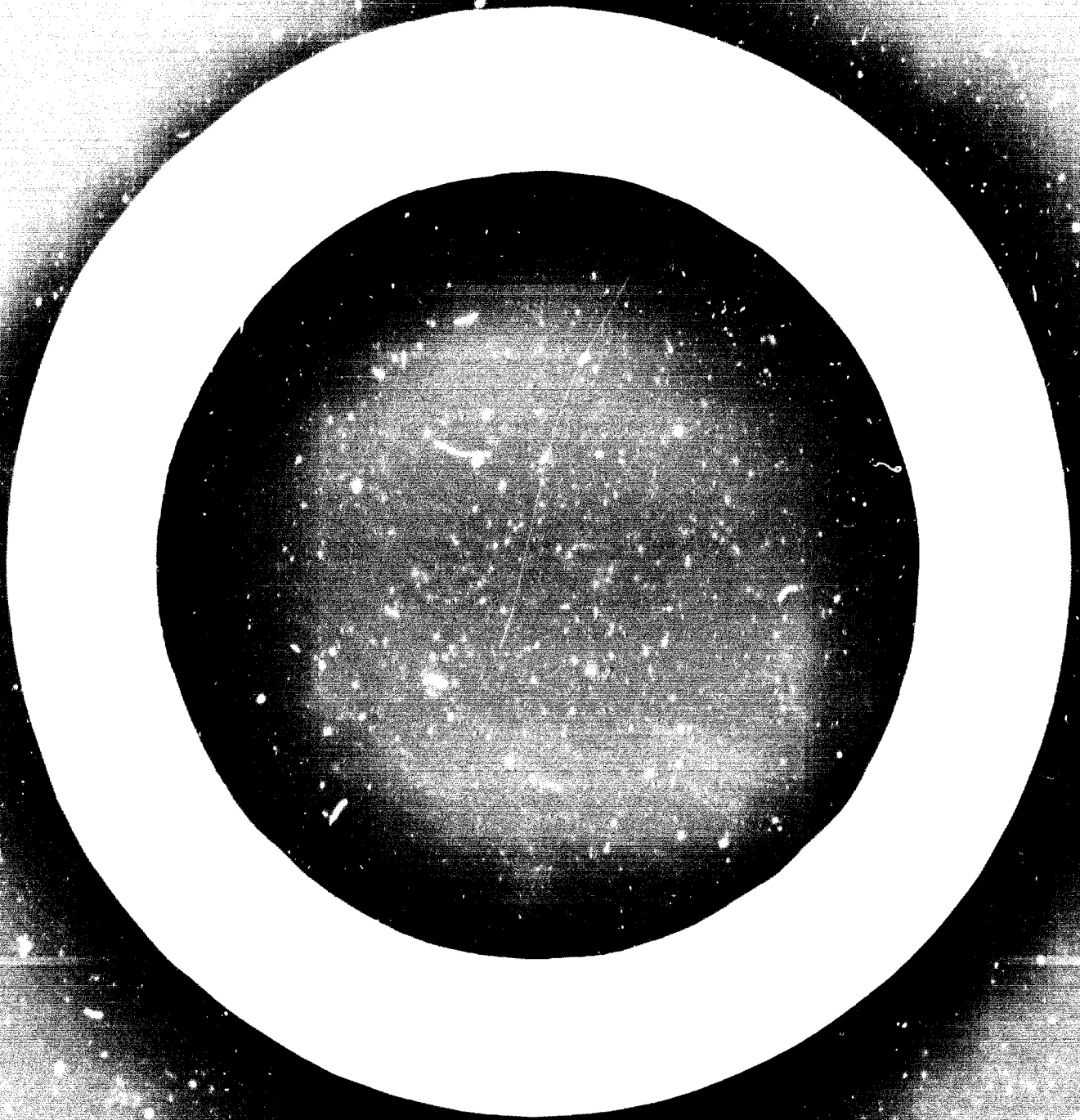
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Medium-sized Industrial Enterprises**

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ROLE OF THE STATE AND PRIVATE GROUPS
IN SUB-CONTRACTING

PRELIMINARY REMARKS

The achievement of a certain degree of production control in the metal-products industry is one of the keys to economic development. It must be remembered that up to a very recent date no attempt had been made either by the State or the private sector to define a policy or provide for rationalisation or joint assistance even in a field as important as capital equipment.

Nevertheless, an appropriate policy on the part of the public authorities or the trade associations to define the field of sub-contracting more precisely and to facilitate and improve its operation could make an effective contribution towards economic growth.

The present study therefore deals in its first two sections with the role which the State and subsequently the trade associations might exercise in this field and proceeds to outline a policy to ensure a joint approach by both parties likely to be particularly conducive to the harmonious development of inter-industrial relations.

ROLE OF THE STATE

At national level

The scope of state intervention in a country's economy will depend on the country's political regime and the extent to which its nationals tend to depend on the State for assistance in various economic activities which are likely to arise.

In the particular case of sub-contracting, state intervention may take various forms. Before dealing with them, however, it is worth considering first a sound sub-contracting organisation which may have a direct bearing on two new forms of intervention by public authorities in the economic field.

New aspects of state intervention

(a) Industrial policies

The realisation of the need to define an industrial policy, to promote the necessary structural adjustments at the level of the enterprise, is a recent development. It has not existed more than three or four years at the most. Incidentally, it is interesting to note that the idea originally arose among the Open Communities. It was subsequently investigated by national policy-makers.

One of the aspects of this future task is to determine the most industrial concentrations to be encouraged in each branch and, at the same time, to evaluate the joint action to be promoted when smaller enterprises. The valuable aid which the existence of facilities for inter-industrial rationalisation may offer in this field is obvious.

(b) Land use planning

The second aspect of a modern policy of state intervention at regional level.

Efforts must be made to redesign the utilisation of the regional territory and avoid the chaotic sprawl of urban areas by rationalising them and attempting to strike a social and economic balance between the country's various regions.

In all areas, however, this process of redefining depends on the metal-products industry. It will be readily appreciated that the maintenance of existing sub-contracting networks or the revision of aims to facilitate new inter-industrial connections will be a major aspect of industrialisation which are transferred to other areas (deconcentration or decentralisation) or for any new industries which local authorities consider it appropriate to create in order to revive a given region.

2. Possible forms of state intervention in sub-contracting

(a) Accompanying procedures

Under these procedures the State should not launch initial schemes but merely facilitate their development when they originate. It may bear the cost of preliminary studies, e.g. on the comparatively undeveloped techniques of "industrial photography" or the more complex "sub-contracting flow", as carried out in several French regions or certain sectors of the Paris area(1).

The State could ensure the normal development of any subsequent schemes by setting up clearing houses to rationalise sub-contracting. Should the need arise the State might grant a certain measure of financial aid if the organisation encountered financial difficulties in the first few years.

(b) Stimulating procedure

This procedure would be used for more pronounced forms of intervention.

Apart from financing studies(2) the public authorities might help to launch the sub-contracting clearing houses by allocating initial subsidies to the organisations responsible.

They might also bear the cost of training the future managers of the sub-contracting clearing houses and their deputies.

(c) Taxation

Another but indirect form of state intervention on which the smooth development of a sound sub-contracting organisation is the indirect taxation system in force in the country concerned.

It is obvious that an added value taxation system is conducive to the development of sub-contracting whereas the "cascade" taxation system penalises it by its cumulative effect.

The indirect taxation system will therefore play an important part in developing a sound sub-contracting organisation.

(1) See the I.A.U.R.P. study on the south-east sector of the Paris area.

(2) Flow studies are likely to be all the more rewarding if they are repeated every two or three years to enable the trends to be compared.

(d) Effects of a more liberal policy in the legislation or regulations designed to encourage industry

A sound sub-contracting organisation is only one of the instruments in a policy to promote industry or improve land use. It is generally accompanied by a series of other measures of assistance to industry. The economic and political situation and these measures must be considered in any approach to the idea of sub-contracting.

If the public authorities are convinced of its utility and are prepared to launch a campaign of sufficient scope to induce small and medium-sized industrial enterprises to engage in all forms of joint action the chances of building up a sound sub-contracting organisation will be all the greater.

(e) Public contracts

The State has a further instrument which enables it to channel sub-contracting work towards the small and medium-sized enterprises. This is to ensure that a certain percentage of its contracts for supplies or equipment are reserved for this sector.

The United States Government requires 20 per cent of its contracts to be directly or indirectly assigned to the small and medium-sized enterprises by the big firms which receive such contracts.

This factor helps to create a favourable situation for sub-contracting and is certainly not unconnected with the excellence of inter-industrial relations in the United States.

(f) Priorities in raw material allocation under conditions of shortage

In certain developed countries which are forced to exercise a strictly selective import policy certain raw materials or articles necessary to local industry cannot be imported except in limited quantities.

In these circumstances the State can prevent the small and medium-sized enterprises from being penalised by presenting any preference in favour of the big firms when import licences are issued. It can also ensure that sub-contractors really receive the raw materials they require from the firms for which they work.

In this way the State can ensure a judicious sub-contracting policy at the summit and can foster the necessary climate by setting an example.

II. ROLE OF PRIVATE GROUPS IN THE ORGANISATION AND PROMOTION OF SUB-CONTRACTING

Under a liberal market economy the initiative in promoting a more effective regional sub-contracting organisation must come from the private sector. As already mentioned in the preceding paragraph, the respective share of the State and the private sector in the action taken will vary according to current circumstances and the political system prevailing.

A. Categories of private groups which might intervene in the promotion of a sound sub-contracting organisation

1. Chambers of Commerce and Industry

It would seem particularly appropriate that these consultative organisations should concern themselves with the tasks involved. They have already launched numerous schemes in this field.

Mention may be made in this connection of:

- The Union of Chambers of Commerce and Industry and Commodity Exchanges of Turkey.
- The Chamber of Industry of Madrid.
- The Chamber of Commerce of Taranto (Southern Italy).

In France, however, local antagonisms between the organisations in Bordeaux, Dijon and Marseilles whose task it is to promote trade and industry have prevented the Chambers of Commerce from participating in the administration of the sub-contracting clearing houses.

In Dijon, administration was left in the hands of the local Centre d'Expansion.

In Bordeaux and Marseilles the sub-contracting clearing house was eventually placed under the control of the local trade associations representing the metal-products industry.

2. Sector or inter-sector groups

In many cases the whole task of establishing, inaugurating and administering the sub-contracting clearing houses is the responsibility of the local offices of the Federation of Metallurgical Industries.

This is the case:

- in Scandinavian countries, e.g. the "Mekanförbund" in Sweden;
- in France:
at Bordeaux, Marseilles, Rouen, St. Etienne, etc.

- in Belgium:
Fabrimétal,
etc....

The inter-sector trade associations of the small and medium-sized enterprises may also be responsible, as in Spain where five sub-contracting clearing houses in Madrid, Oviedo, Saragossa, Seville and Valencia, have been set up and are administered by the local offices of the Sindicato Nacional de Ordenacion Economica.

It should be noted that the special structure of the Spanish employers' associations, which were initiated and are run under State guidance places Spanish sub-contracting clearing houses in a category apart.

3. Private industrial groups

Several schemes to rationalise sub-contracting are of purely private origin.

In France, in particular, several sub-contracting clearing houses have been established under the Act of 1901 as non-profit-making concerns and are supported by between 50 and 150/200 local manufacturers who pay an annual subscription entitling them to use the clearing house services. This is the case in Nancy, Bourges, etc....

Their Board of Directors may well include members delegated by the Trade Association of the Metal-Products Industry but the latter has no preponderant voice on the Board.

These clearing houses are often obliged to extend the range of their services in order to balance their budgets. This is the case at Nancy where in addition to actual sub-contracting work the clearing house advises firms on industrial management techniques, etc....

4. Large-scale enterprises

All large-scale enterprises have a branch responsible for maintaining relations with their sub-contractors. For example, General Motors keeps in contact with an impressive number of sub-contracting businesses (about 40,000) while Volkswagen in Germany has 12,000 and Renault in France 6 to 7,000 sub-contractors.

It will be recalled that N.A.S.A. made use of the services of 20,000 sub-contractors to carry out its Apollo programme.

For a time the French nationalised aircraft industry even set up a kind of sub-contracting clearing house for its own purposes.

This practice is undoubtedly effective financially but entails risks if big firms do not adhere to a strict code of ethics in their policies.

Unfortunately this occurs in most cases in Europe in contrast to the situation in the United States where there are excellent relations between the major corporations and the small and medium-sized enterprises, the former welcoming the achievement of maximum profits by the latter as they see a guarantee of technical progress, innovation and increased productivity resulting in lower costs.

In this respect the action of the sub-contracting clearing houses may foster better ethical standards in Europe. By putting firms which need sub-contractors in touch with more than one they offer all sub-contractors an opportunity of extending the range of their clientele thereby reduce their vulnerability which becomes very great when they rely entirely for one major firm.

In connection with the rules of fair competition which govern the new commodity areas of the Common Market type, sub-contracting clearing houses act as a stimulating factor on the market.

5. Other forms

There might be a case for setting up "sub-contracting co-operatives" which would run a joint market prospecting service and enable their members to keep abreast of technological developments and embody the latest technological improvements in their equipment, etc. For the moment no schemes of this kind have yet been initiated.

One field which seems particularly appropriate for new schemes is international sub-contracting. In this respect we may note that Mr. KAPLAN (1) an American organiser whose activity might well serve as an example had the idea of setting up an agency in the United States which specialises in research and negotiating international sub-contracting orders.

There has been a spectacular expansion in his business.

In the same connection it should be noted that owing to the particular structure of its industry which is largely owned either by the State or by Histadrut, a powerful trade union, Israel is planning to group its technological laboratories in order to offer international sub-contracting services to manufacture not only equipment but also the software available in these important engineering offices.

(1) Manufacturing & Machining Services Corporation,
1284 North Broad Street, HILLSIDE, (NEW JERSEY) 07205.

C. Private individuals

The initiative may be taken by particularly progressive individuals who are interested in the question and are seeking a remunerative activity.

This is the case as regards the C.F.I.R. sub-contracting clearing house at Stoke-on-Trent in England where Mr. BISHOPS, its organiser, with much perseverance and after considerable difficulties has set up a unit to rationalize sub-contracting in the county.

In this unprecedented experiment the Government co-operated with the major firms to launch a policy of industrial promotion using sub-contracting as one of its basic instruments.

This is undoubtedly an ideal setting for the establishment of sub-contracting clearing houses which are likely to enhance general efficiency still further.

B. Special case of the trade unions: Possible role in sub-contracting

The process of industrial production is inseparably associated with three partners, i.e. the State, management and labour.

The role and attitude of trade unions in connection with sub-contracting should therefore be considered.

The attitude of the trade unions to the development of inter-industrial relations ranges from out-and-out denunciation of sub-contracting by the communist-inspired unions to a less hostile approach to certain points by the other federations.

The reasons given are identical not only in the United States of America but also in France, the only two countries where opinions have so far been canvassed. They are based on the working conditions which prevail in this type of enterprise rather than on any assessment of the actual problem of sub-contracting.

The unions complain that sub-contracting facilitates collusion between one firm and another.

In the view of the communist unions the question does not even merit discussion. Inter-industrial relations are essentially a problem for the employers and any question connected therewith is by definition suspect and should be banned.

The other unions put forward the following arguments:

The facility open to big firms to sub-contract part of their production is an obstacle to union action. In extreme cases the dismissal of workers manufacturing a given component will not prevent a big firm from continuing its production as the component concerned can be produced by a third party.

Union action to influence sub-contracting enterprises is difficult as these are in most cases small and in France for example there are no shop stewards in firms with a labour force of under 50. Moreover the unions maintain that working conditions in the small and medium-sized enterprises are frequently bad.

In the United States of America where social benefits are not defined in legislation and are therefore not identical for everybody as in Europe, union action largely consists in affiliating workers employed in sub-contracting firms to special unions which compel the employers concerned to grant their workers the same benefits as those enjoyed by workers in the principal firms.

These few examples confirm that the unions do not consider the problem from its technical aspect and have therefore made no statements which might have a bearing on the subjects studied at the symposium.

III. POSSIBLE JOINT ACTION

A. General presentation

Irrespective of political doctrines of which the two most extreme are the free market economy based on 19th century *laissez faire* concepts and totalitarian socialism which places the entire responsibility for production in the hands of the State, the promotion of a sound sub-contracting organisation may be guided by the following principles:

An efficient sub-contracting service should be primarily designed to promote regional economic development. It should therefore not be pursued for gain in the first instance but organised in the general interest of the metal-products industry and its auxiliary branches.

Accordingly, the primary task is to seek ways and means of achieving concerted action between the public sector or the private groups concerned in order to ensure maximum efficiency in any measures adopted.

B. Outline of suggested joint action

A brief list of the schemes which it would seem desirable to adopt at the various stages is set forth below in chronological order.

1. Preliminary information

It is immaterial whether the initiative of circulating information on this subject to regional firms is taken by the State or the private sector. What is vital is to draw the attention of the industry and any promotional organisations operating in the region to the advantages of the system. In many cases the information will be more effective if it is presented by a private body. In most of the countries concerned allowances may be made for a certain active caution on the part of private industry when dealing with the State.

2. Studies phase - industrial photography - flow studies

It would be better if the expenses incurred in the study phase were borne by a public body.

3. Phase at which the results of the study are circulated and action taken to implement the idea

In this phase it would be better if the private sector appeared to initiate the idea (even if it does not finance it).

4. Phase in which a sub-contracting clearing house is actually established

The State may finance the cost of setting up the organisation and training its executive staff.

5. Subsequent operation - structural costs

At this stage it would seem that private non-profit making groups e.g. chambers of commerce, trade associations spanning one or more sectors, business promotion committees, etc. would be in a better position to finance the operational costs of a sub-contracting clearing house, although there are some exceptions (e.g. Nancy, Stoke-on-Trent, Mr. KAPLAN).

6. Special case of India

As a particularly interesting example of possible joint action mention may be made of India where the author of this study was invited by the Indian commissariat for the development of small and medium-sized enterprises to carry out a mission in December 1965 to assess, amongst other points, the possibility of establishing a sound sub-contracting organisation in India.

He observed in general the remarkable use to which sub-contracting had hitherto been put by the Indian authorities.

In the 20 years since 1947 India has succeeded in creating a small and medium-sized industry from nothing, as a result of the perseverance with which she has carried out a genuine industrial policy. The 120,000 workshops concerned now accounted for 30 per cent of India's total industrial production.

The Indian Government proceeded from the assumption that the industrialisation of India could make no progress unless a succession of programmes was initiated to set up ancillary estates ranging from dozens to hundreds of small and medium-sized workshops in the vicinity of the big industrial units scattered throughout the provinces with their labour force of 10 to 15,000. These small sub-contractors operate under the stimulated and technical control of the major unit until they achieve their industrial maturity.

This result was obtained with the initial aid of the Government which:

- formulated the policy;
- promoted a campaign of information and popularisation designed to find and train sub-contractors;
- encouraged the big firms to sponsor(1) and assist sub-contractors settling in the ancillary estates;
- provided intending sub-contractors with the necessary funds and management assistance (often in the form of leasing contracts: institution of hire-purchase).



(1) With a range of schemes which cannot be described here.



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