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Expert Group Meeting on the Role and Promotion
of Subcontracting in Industrial Development
Paris, France, 6-11 October 1969

THE SCOPE AND NATURE OF SUB-CONTRACTING
IN THE NETHERLANDS
AS A GENERAL FACTOR OF INDUSTRIALISATION ✓

by

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Due to the rather youthful industry sub-contracting in the Netherlands as an instrument for completing the industrial structure has shown a slow development.

In the early sixties a number of 350 companies in the metal-working and electrotechnical industry took the initiative to come to a foundation for the systematical development of sub-contracting.

After a year of preparation the foundation started to work on the basis of a clearing-house.

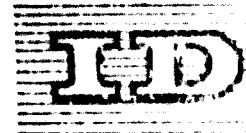
It soon turned out that this approach did not fully meet the needs of industry. The turbulent development of new technologies as well as the growing influence of the increasing mass consumption market forced the foundation to tackle problems as to the investment in specialized machinery and know-how that reached far beyond its original scope.

After five years of experience as an intermediary between companies in the field of sub-contracting the foundation has come to the conclusion that an entirely new approach is necessary to be able to contribute to the further completion of industrial structure in the Netherlands.

Supported by a growing number of industrial firms and by the government deliberation is going on as to the foundation of a new organisation for sub-contracting in connection with up to date technological information.



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Addendum 1

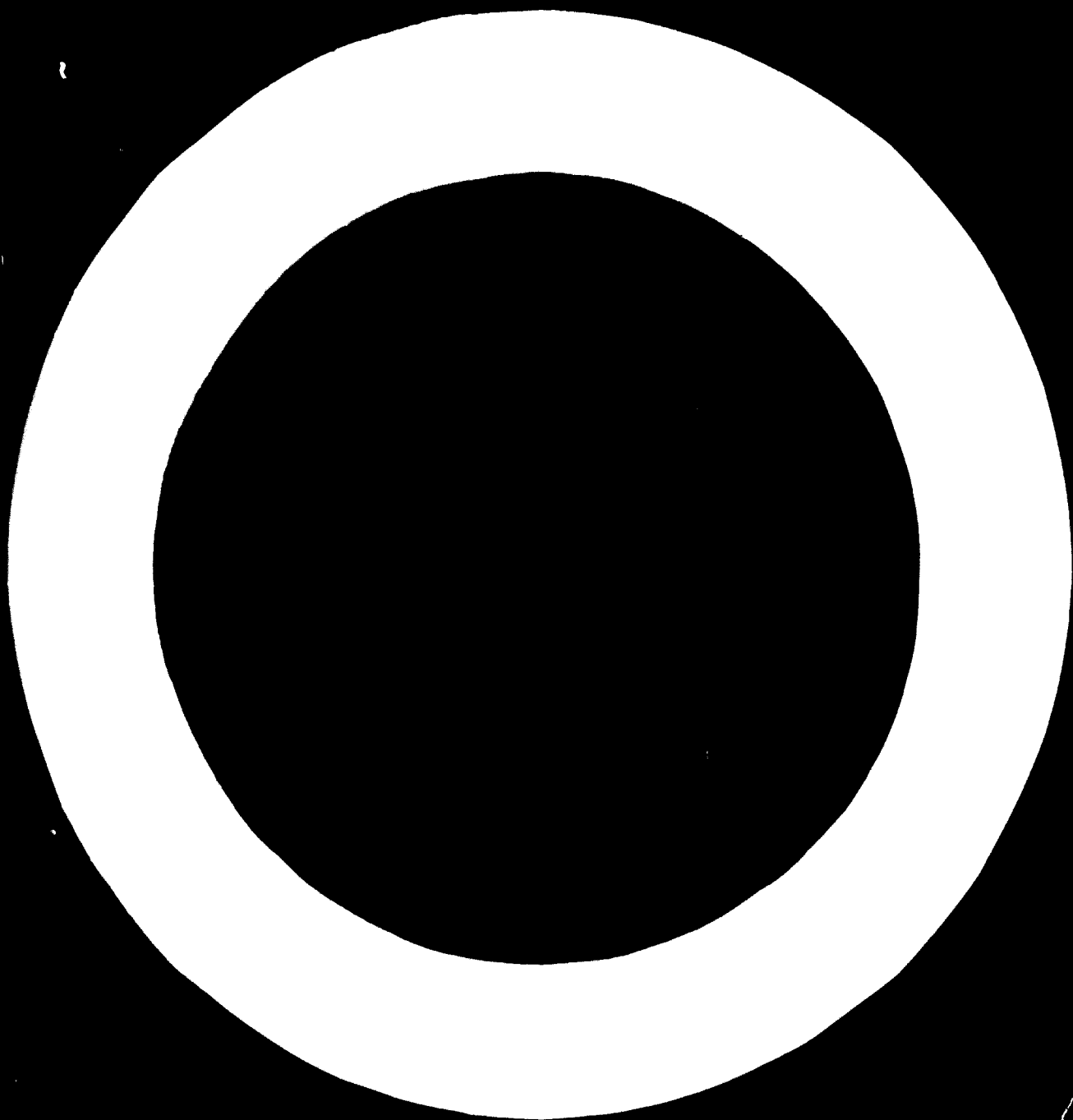
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The Scope and Nature of Sub-Contracting in the Netherlands as a General Factor of Industrialisation

In the totality of the western industry the Netherlands has its own special place. In fact, the change over from a country with an agricultural and commercial structure to one with a predominantly industrial structure only took place in the Netherlands after the second world war.

This does not mean that there were no industrial activities until then. On the contrary, the shipbuilding and textile industries date from far back in the last century, but that the process of industrial completion did not get well under way until much later, namely in the years after 1950.

This process is still in full swing; originally it was started by the public authorities with the aim of creating sufficient jobs for the quickly growing population.

In the present-day phase it is more and more governed by the turbulent technological developments and the demands of the mass-consumption market with its great purchasing power that asserts itself in and outside Europe.

Within this process which is coupled with drastic changes of a structural nature, the supplying of raw materials and semi-finished goods or finished parts plays an important part whose significance is ever-increasing in consequence of the fact that such supplying in itself already acts as a catalyst in the process of industrial completion.

The industrial trade and industry as well as the public authorities have been fully aware of the stimulating effect of a good regulation of supplying materials etc. within the totality of industrial activities.

This too is one of the reasons why the Netherlands made an intensive use of the possibilities of studying the question of subcontracting within the framework of the European Recovery Program in the fifties. Still, it took over ten years before the basis was laid in the Netherlands for setting about this phenomenon in a systematic way.

Too long the Netherlands industrialist considered subcontracting as an inevitable evil, the ideal of "make it all yourself" kept the enterprises from considering such subcontracting as an integral part of industrial management. One made use of it only incidentally, for example, when the deadline for delivery was dangerously near.

As a result of the development of specialised enterprises in the period before the then existing entrepreneurs' autarchy, there was hardly a chance to find employment for specialised industries.

Thus, the industry in the Netherlands shows a number of structural deficiencies which did not show up in the first fifteen years after the second world war because of the relatively low basic wage rates and the strong demand on the world market.

But now that in these last few years the wage rates of the Netherlands industry have all but risen to be on a par with those of other industrial countries and sale is primarily determined by quality, price, time of delivery and, not least, attractive possibilities for acquiring credit, the structural deficiencies in the Netherlands turn up.

The production unities in the Netherlands are, generally, found to be too small and this situation endangers the production on an economical series scale. Moreover, most of the smaller enterprises suffer from the drawbacks of duplication of production so that they are constantly in a state of sharp mutual competition.

In addition there are the obvious gaps in the structure of production itself. So, with a few exceptions, heavy industry is lacking.

The metallurgical industry in the Netherlands is, for example, as far as procuring machine tools is concerned, mainly committed to foreign manufacturers. The electrotechnical industry is lacking experience and know-how in the field of hydro-electrotechnics. And many more examples can be given. When we add that over half of the industrial enterprises in the Netherlands belong to a group of closed partnerships and that their capital is, for the greater part, in the hands of the respective owners-entrepreneurs and their relatives, it is not difficult to come to the conclusion that the structural expansion of the industrial apparatus in the Netherlands occasions much brain-racking.

It appears necessary to us to sketch in this background before going into the part that subcontracting has played, and is still to play, in the industrialisation of the Netherlands. For without this background, the possibility of comparing the situation with developments in other countries drops off, and not least as concerns developments in those countries that are faced with the task of taking up their industrialisation. The experience in the Netherlands is perhaps of much importance to these latter countries.

As stated earlier, the system of subcontracting has developed in the Netherlands willy-nilly. The credo of "make it all yourself" has hardly given subcontracting a chance to form an integral part of management. Since the early sixties this has changed, although this has come about reluctantly and the necessary change of mentality is still not complete.

In the first place, it is the radical developments in the technical-scientific field that have made the industrial enterprises in the Netherlands aware of the inevitability of specialisation. Specialisation without subcontracting is inconceivable, which also means that with the increase in the number of specialised enterprises in the Netherlands, the interest in a good organisation of subcontracting came into being.

An additional factor was that during these last twenty years many foreign enterprises, especially from the United States, have set up business in the Netherlands and have showed their need of well-organised team-work with a circle of specialised suppliers. This has given and is still giving an extra impetus in this direction.

It is these circumstances that led the biggest organisation of enterprises in the metallurgical and electrotechnical industry in the Netherlands, the F.M.E., to explore the possibilities of instituting an organisation for subcontracting and supplying that would be best suited to the Netherlands situation.

In the first instance, and in line with the prevailing appreciation of the function of supplying, it was decided that an organisational form corresponding to a large extent to that of the so-called "subcontracting clearing-houses" would be the most indicated one. This conception found its acknowledgement at a meeting of some 350 entrepreneurs in the relevant sector who, on the basis of the suggestions of the F.M.E., unanimously approved the creation of an organisation in the form of a foundation whose task it would be to act as a kind of exchange for supply and demand of capacities.

In this way, the Stichting tot Bevordering van de Onderlinge Toelivering en Uitbesteding - the Foundation for the Advancement of Mutual Supplying and Subcontracting - the B.O.T.U. by abbreviation, of which I have the honour of having served as its manager since its first day, was established in 1963.

I shall be brief in my description of the way in which the BOTU has been performing its task.

During the first years of its existence, the BOTU mainly busied itself with compiling data regarding the affiliated enterprises, so as to acquire a full insight into their technical capacities. Without these particulars it would, of course, have been an endless task to bring together supply and demand in the field of capacities.

The BOTU only started dealing with the demands for capacity from the subcontracting enterprises in the second year of its existence. In all, in the five years of its existence, the BOTU has been able to cope with almost one thousand demands.

The total number of applications received by the BOTU in that period amount to a multiple of that brought to a satisfactory end. Now, the disparity between the two numbers has led the BOTU to the view that an organisation that limits its activities to only bringing together subcontractors and suppliers can hardly be of any importance to industrial expansion.

Owing to the fact that the enterprises are under the obligation to report on the results of the information supplied by the BOTU, this institute has acquired, in the course of these years, a clear insight into the causes of the lack of success of many attempts to bring together subcontracting enterprises and supplying parties.

It is this insight that, in our opinion, it is of interest to make widely known, as - and this is our firm conviction - therefrom the factors may be distilled that are of fundamental value to the reevaluation of subcontracting as a catalyst for industrial development.

Most of the attempts to find an appropriate supplier for a subcontracting enterprise are frustrated because there are several levels of technical knowledge and know-how.

This phenomenon is perceptibly increasing as it runs synchronously with the technical scientific development that, as all of you know, already before man set foot on the moon for the first time, was of sweeping consequence in width and depth.

Thus, it must be considered out of the question that within one enterprise all the specialised knowledge and know-how needed for manufacturing its products is available.

An additional factor is that modern machinery and other production apparatus, because of their far-reaching integration with the possibilities of cybernetics, have become so costly that their acquisition is restricted to some financially very powerful enterprises only.

Both entities - specialisation and the limited possibilities of acquiring highly sophisticated modern production apparatuses - lead, in practice, more and more to a babel between enterprises. It is this confusion that, in an ever increasing degree, arises between the subcontractor and the supplier.

Another evil of this confusion in the field of technology comes through in an ill-balanced investment policy of the industry. This ill-balance touches upon both the direction chosen for investment and the false notion prevailing as to investing in knowledge and know-how.

One now and then invests millions in costly machines but fails to see that this machinery can be put to a use that is economically accounted for only if one also realises the supplementary investments in knowledge and know-how required for an optimal exploitation of the machinery.

In the circumstances sketched above, subcontracting in the conventional meaning of the word falls short as a stimulator of further industrial expansion. The subcontracting enterprise that keeps its specific technical knowledge and know-how to itself and fails to pass it on to its suppliers, cannot and may not expect the latter to be in a position to fulfil their task properly.

Conversely, the former cannot and may not expect a satisfactory supply if it is unable to bring its specifications in line with the technical requirements of the supplier's specialisations.

Yet this happens. And it is for this reason that it becomes more and more difficult to bring subcontractors and suppliers together by means of the conventional methods.

The possibility of finding new ways is made difficult by the phenomenon already mentioned of ill-balanced investments and by the changing demands of an ever-growing mass-consumption market with great purchasing power.

These two entities are strongly inter-related. The market promotes an enlargement of the scale that, in its turn, increases the need of specialised machinery of high capacity. The struggle to get hold of as large a part of the market as possible is not settled without favouring those enterprises that can offer technically worthy products in large series at relatively low prices.

For the majority of the medium sized and small enterprises this is an impossible task.

But even big industries are confronted by many difficulties here. For they cannot master either all the specialisations going with the production of their articles.

In the Netherlands as well as in Europe and even outside this area, this problem appears to lead to an atmosphere of panic. Most of the enterprises endeavour to free themselves herefrom by proceeding to mergers. The fact that here one often acts precipitately is proved as many mergers afterwards appear not to lead to the goal that was aimed at.

It is not rare for these mergers to be dissolved.

Although more often than not the causes of the failure of these mergers are kept hidden, we may readily take it that the partners in the amalgamation mostly failed to realize that it does not suffice to adapt their production capacities to the horizontal enlargement of the market.

In all probability, they had failed to give thought to the fact that the market also asks for specialisation along a vertical line and for know-how, and found out only after the merger had been effected, that they had nothing to offer each other in these fields.

Five years of experience in the promotion of subcontracting in the Netherlands have taught us that the answer of industry to the tide of new technologies and to the requirements made by the ever-expanding mass-consumption market lies in a far-reaching structural adjustment.

This will have to lead to a mutual division of tasks and work among enterprises that, from a view-point of specialisation, technical-scientific knowledge and know-how are each other's complement.

A merger can, in certain instances, result in such a division of work, but it is a widely spread misconception that herein lies the only possible solution.

It is quite possible, and I refer you to the industrial structure of the U.S.A., that on the basis of close co-operation effectuated along the lines of supplying and subcontracting, large, medium-sized and small enterprises achieve a division of tasks and work that enables them to individually and collectively assert their function as suppliers to the market to the optimum degree.

In such an instance we can speak of a technical-commercial team-work among enterprises of different sizes, financial means and specialisation, which, although highly interdependent, are still able to maintain a reasonable minimum of independence.

Still one step further and their own and mutual interests will bring them to attune their investments to each other and, if need be, co-ordinate them in the sense that they jointly decide to invest in machinery and know-how that neither of them separately is in a position to finance.

Supplying and subcontracting seen in this perspective can, in the circumstances of today, mean an essential incentive to industrial expansion.

In that instance they will be raised from the sphere of incidental commercial action to the highest level of industrial management.

Only along this line can they accomplish the necessary structural change of the industrial production apparatus and bring to an end the mis-investments that repeatedly crop up and are factually a waste of social capital.

This, in general lines, may be considered the conclusion born from the experience gained in five years of subcontracting and supplying.

Let me say this : The justness of this conclusion is not only discerned by an ever-increasing number of enterprises in the Netherlands but by the authorities as well. The latter have given evidence hereof in a report, compiled by a steering group working in this field, that was set up by the Undersecretary of State for Economical Affairs.

In that report recommendations have been made for the replacement of the now existing institute for the regulation of mutual supplying and subcontracting, that is, the BCTU, by one whose task it will be to compass, by means of information, guidance and bringing together interested parties, a renewal of the structure of the Dutch industrial apparatus.

In this connection the group thinks more especially of the possibilities of making the technical-scientific knowledge now lying scattered over various scientific institutes and enterprises, accessible to the industry in the widest sense of the word.

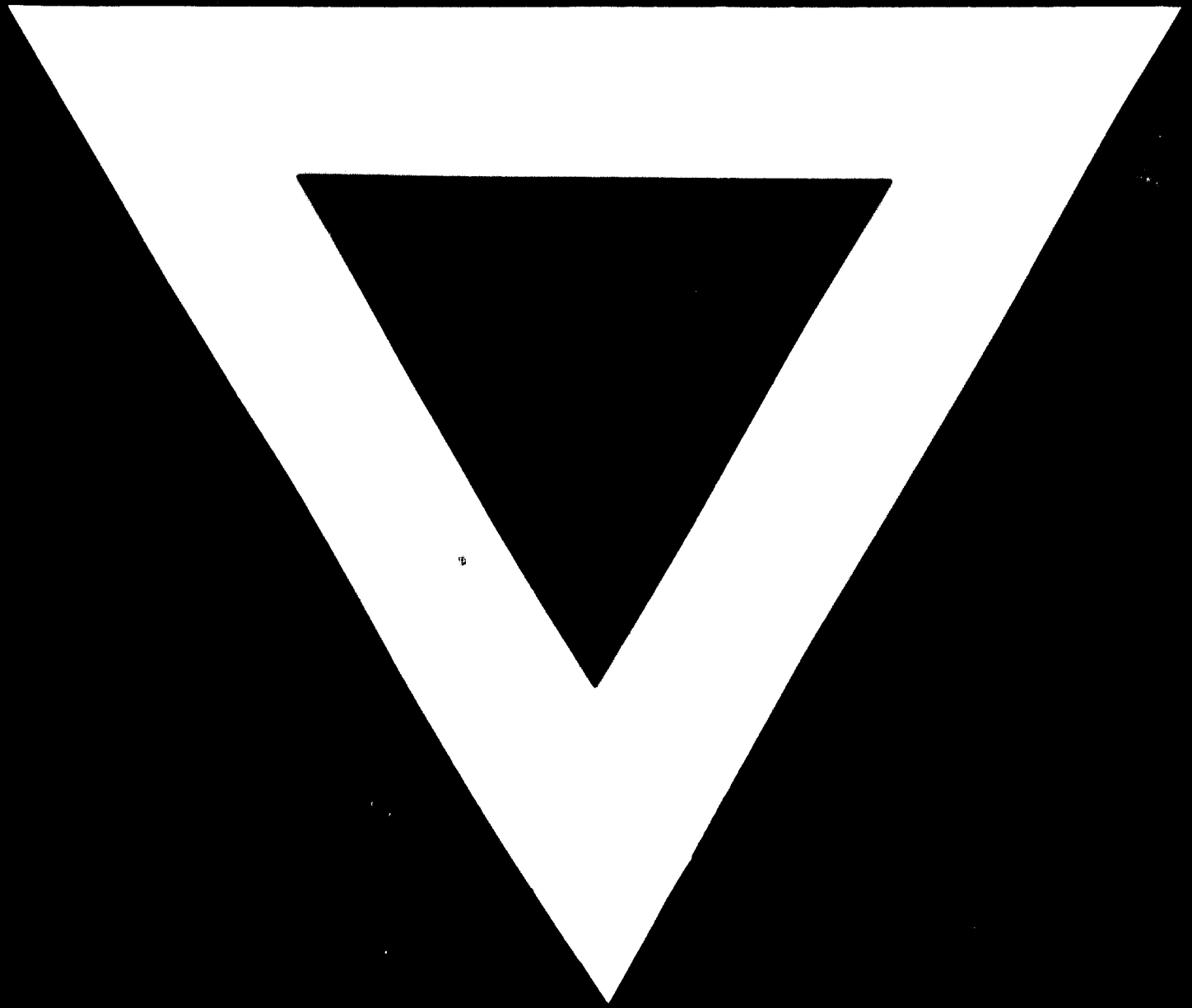
Synchronously herewith, subcontracting will be used as the medium for spreading and applying technical-scientific knowledge conditional to industrial practice, thus, the function of supplying will be to be the vessel by which this knowledge is conveyed.

For this necessary job the BCTU has carried out the preparatory work.

However, the conclusions that have emerged have shown that the BOTU, in its present form, is not able to bring about its own solution.

Only in a deepened and revised functional appreciation will subcontracting be in a position to provide a materially constructive contribution to the intensification and expansion of the industry.





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