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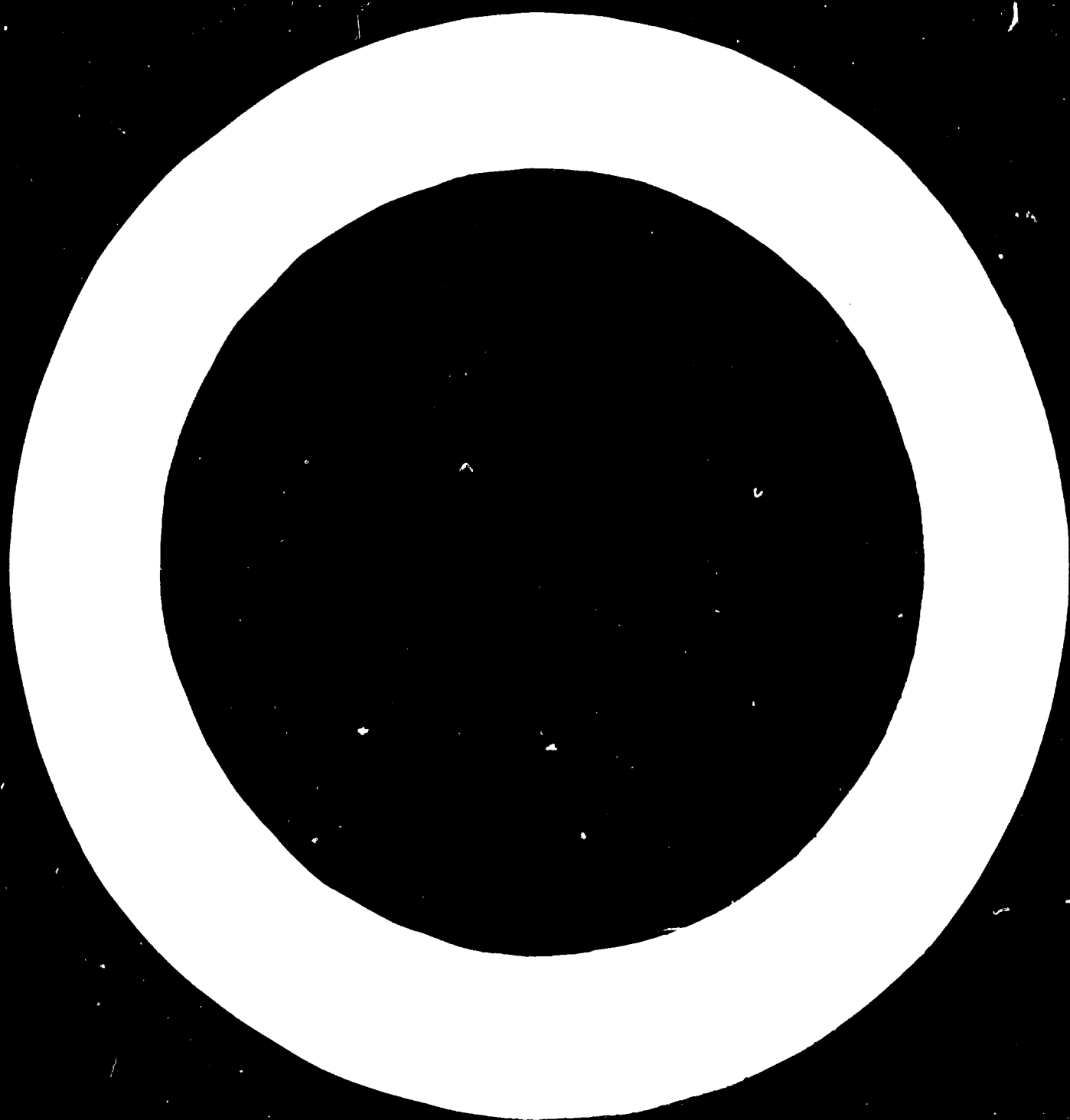
SUB-CONTRACTING IN ITALY ^{1/}

by

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SUB-CONTRACTING IN ITALY

CHAPTER I

Definition and classification of sub-contracting

This report has been prepared on the basis of a survey carried out among the largest industrial firms, and a representative cross-section of small sub-contracting firms. In drafting it, we have concentrated mainly, out of the whole vast subject of sub-contracting, on those problems which appeared to us to offer the greatest interest in relation to the theme of this C.E.C.O./U.N.I.D.O. Seminar, without binding ourselves to over-rigid definitions or classifications. Although we have considered relationships which, in the strict sense, did not fall within the scope of sub-contracting, on the other hand we have examined only those relationships arising between large firms placing orders and small sub-contractors, leaving aside those between firms of similar size or those where the relationship between large and small firms is inverted in regard to the above. This we have done in the conviction that, as far as industrial development is concerned, sub-contracting is mainly important as an instrument for bringing into being a series of small complementary enterprises around the existing large complexes, with consequent capillary expansion of industrialisation.

Among the various types of sub-contracting it appears necessary to make a distinction between two basic categories:

(1) "Cyclical sub-contracting" which occurs where market demand exceeds the production capacity of an enterprise. The latter finds it desirable to farm out that part of its production it cannot handle directly, but it lays down the production criteria and technical specifications for the product and controls the result.

(2) "Structural sub-contracting", which is based on application of a general rule of economics, under which optimal size varies not only for different types of production, but also for a given type as regards the various factors which make up the finished product. Thus it may occur that even an enterprise of moderate size may incorporate in its products something which is made by a large enterprise and, conversely, a large enterprise may use the products of complementary enterprises smaller in size which it incorporates in its own. The motivation underlying this second type of relationship rests on an improved organisation of the factors of production which affects both the size of enterprises and the types of production in which they engage.

In "structural" sub-contracting it is noticeable that subordination in the technical sphere is a distinctive mark of the sub-contracting role, with the consequence that production so delegated must be carried out according to the methods and under the control of the principal.

Having thus defined the framework of our study, we may now turn to evaluating the importance of sub-contracting in Italy. It is first of all desirable to stress the profound difference between the developed and the underdeveloped areas of our country. This difference has marked a clear territorial dividing line between the two economic situations: the developed area is in the center and the north (with exceptions in the form of "islands" of retarded development), and the strikingly less-developed area is in the south (with exceptions in the form of "islands" of advanced development which are in certain cases comparable to the northern developed areas).

Sub-contracting and the problems to which it gives rise appear in a very different light in the two areas and therefore require to be considered apart.

(a) In the developed area and in particular in the industrial triangle formed by the towns of Milan, Turin and Genoa, a phenomenon may be observed which is common to all developed economies. The need to employ the most advanced production methods, the extension of consumer markets, the growth of international competition and the ever-increasing specialisation of production have led in many sectors to an increase in minimum size of firms.

In spite of this, small firms continue to operate in these sectors as sub-contractors for the large ones. Every major industry is surrounded by auxiliary enterprises working exclusively or principally for the larger firms. It is impossible to ignore the importance of this feature; it helps to highlight the fact that this division of tasks between enterprises of different sizes has been achieved in Italy without any anti-trust legislation and in spite of the obstacle of a multi-stage tax, thus confirming that the system is mainly based on general considerations of productivity rather than on accidental situations specific to the enterprises concerned.

It should also be added that the present trend towards mergers between large firms is devoid of any tendency to concentrate the whole range of production in the industrial complexes thus created. On the contrary, many firms, in spite of having become larger, sub-contract a proportionately larger share to outside enterprises.

One of the main advantages derived by small firms from sub-contracting is the opportunity it gives them of keeping in touch with technological progress, which might otherwise pass them by. Fulfilling orders, or contracts obtained by tender, from the big firms involves close contact with more sophisticated production methods and, in many cases, the need to adopt certain production techniques.

The introduction of innovations in the production process and the acquisition of new technology not only improve the service the sub-contractor is able to offer his principal, but

also indirectly tend to make the former less dependent on the latter, since improved product quality and increased productivity on the part of the sub-contracting firm give it a better chance of disposing of its products, or part thereof, on the market.

Generally speaking, a division of work based on the criterion of optimal size increases the productivity of the firms concerned, each of which can devote its efforts to the type of production for which it is best suited in view of its size. The high degree of productivity achieved in the northern areas is due to a large extent to the presence of "external economies" i.e. conditions which are external to the individual enterprises but enable them to increase their own internal productivity.

Among these "external economies", sub-contracting plays a pre-eminent role, both from the point of view of the sub-contractor and from that of the firm placing the work. From the standpoint of the sub-contractor, the possibility of disposing of the whole, or the greater part, of its own output to a single customer or to a small number of customers reduces distribution costs and eliminates or diminishes the commercial risks involved in a search for outlets. On the other hand, the firm placing the orders is relieved of the need to carry out certain phases of the production process, to which the structure of its enterprise is ill-adapted, and can thus hand over to sub-contractors the responsibility attaching to those phases.

The truth of these statements has been established, at least as regards the sub-contractors, by a sample survey carried out not long ago on the economic performance of firms whose output is disposed of to other firms of considerable size, and of those firms which, on the contrary, sell directly on the market.

The survey concluded "that those enterprises which are in direct contact with large firms, and which are chosen in practice for the same economic reasons which determine the placing of large orders, achieve an economic performance which is at least double that of firms not so selected".

(b) As regards the Mezzogiorno, the importance of sub-contracting as an aid to industrialisation is in direct ratio to the extent to which a network of local small and medium-sized enterprises is created.

Those responsible for policy regarding the Mezzogiorno are aware of the need to trigger off a genuinely autonomous process of development, based on better utilisation of the physical and intellectual resources of the area concerned. This awareness has given rise to extensive action in support of small and medium-sized enterprises in the south, a primary aim of such action being to foster initiative, lack of which, combined with other factors, had been the underlying cause of the inadequacy of economic development, and which finds most direct scope for its expression in the subsidiary industries.

This action is being developed along a number of different ways, from favourable credit terms to favourable fiscal treatment, and from equipment of the general infrastructure to creation of "industrial areas" fully equipped to receive suitable industrial investment. The fragile nature of a production system based on smaller enterprises has also been realised and an attempt has therefore been made to foster the establishment, in addition to these, of enterprises of larger size.

Nevertheless, despite these efforts, it is not difficult to see that the major industrial complexes, whether public or private, established in the Mezzogiorno stand to some extent in isolation. This has been greatly to their disadvantage since they do not enjoy the benefit of the "external economies" which, as we have previously seen, are one of the determining factors of productivity in advanced economic systems.

In order to maximize the expansion of industrialisation and, above all, of active participation by local economic forces in economic development, it also appeared necessary to lay stress on developing the system of sub-contracting. In backward regions, this system is a direct stimulant to investment, in that one of the characteristic features of such regions is precisely the difficulty experienced by investors, because of settling in the area concerned, in recognising opportunities for such investment and in making a sound evaluation of the chances of success that attend any such initiative.

On the other hand, the difficulties are less severe for larger enterprises, which generally come from other regions, and of which are able, through their appropriate departments, to evaluate fully the present and future chances of establishment in the area proving profitable.

Thus, smaller enterprises may be brought into being mainly by a major investment which provides an opportunity for secondary investments complementary to it.

In conclusion to this section dealing with the importance of promoting sub-contracting in under-developed areas, it is possible to draw attention to the fact that proliferation of small and medium-sized enterprises leads to a spread of the general outlook among workers

The training of workers by small and medium-sized enterprises will contribute to produce one of the conditions for development (from which the big firms will draw an immediate advantage), normally described as "training of the human factor".

CHAPTER III

Disadvantages and obstacles

Attention will be drawn in the following paragraphs to the effects of the mutual dependence engendered by sub-contracting, to the obstacles to its development and to its disadvantages.

The institution of sub-contracting relationships involves mutual adaptation of the activities of the firm placing the orders and of the sub-contractor.

As regards the principal placing orders, the fact of entrusting part of his production to other enterprises means that the success of the final product depends upon how far the sub-contractor observes the technical requirements and the time limits laid down by the principal, on whom in the last resort fall both the responsibility for the product and the commercial risks attendant upon marketing it.

If sub-contracting be carried to its extreme limits, a type of organisation of production will be achieved which will be based on financially independent entrepreneur-units operating as divisions of the main undertaking. In such circumstances non-observance of the terms of performance attached to an order may have repercussions not only on the principal entrepreneur but also on the other sub-contracting firms. Indeed the work of each is intimately linked with that of the others.

This tends to highlight one of the factors which we regard as particularly decisive in promotion and rationalisation of sub-contracting relationships: the technological and administrative efficiency of the sub-contracting firms.

The big firms we have approached are most exacting in this matter, while recognising that the technological level of the sub-contracting firms is also a direct function of the policy adopted by the firms placing the orders. The tendency of certain big firms to treat the price factor as the sole criterion for choosing sub-contractors, and to retain total liberty of decision as to the duration of the relationship, tends to prevent development of the technological capability of sub-contractors and this, over a period, also has disadvantages for the principals themselves. Most of the latter confessed to being aware of the need to bear a "promotion cost" in regard to the sub-contracting firms in order to be able to place total reliance in them later on. One of the main disadvantages suffered by sub-contractors, namely their weakness vis-à-vis firms placing orders with them, is thus a consequence of the sub-contractual relationship itself; the technological upgrading of sub-contracting enterprises (carried out by the big firms) plays a determining role in eliminating or attenuating their dependence on their principals and their restricted powers of bargaining.

Another major disadvantage for sub-contractors may arise from the fact that enterprises are subject to qualitative and quantitative fluctuations in demand. In many cases the position is similar to that of countries which produce only one commodity or to only one country or to a small number of countries, whose fluctuations in consumer demand for that commodity puts their economy in jeopardy.

As a corollary, on the other hand, awaits those firms which, as a principal, as sub-contractors, do not reserve the whole of their production for a single customer or for customers in a single sector, but sell on the market.

As regards the problem of cyclical variations, it has been observed that any fall in production affects in the first place the sub-contracting firms, which are the first to lose their work. The principals may find it more advantageous to carry out in their own works the operations usually entrusted to a sub-contractor, in order to take up the spare production capacity left free by the fall in demand. It should be stressed that the sub-contracting liability to be eliminated in case of a slump is previously described as 'cyclical', whereas on the other hand it is much more difficult, at least over a short period, to discontinue sub-contracting of the type we have called "structural", in proportion to the size of the two respective enterprises.

The problem of the expansion of sub-contracting firms in times of boom in the economic situation should not, however, be confined to a study of the behavior of the enterprises which are the contractors and a condemnation of their attitude towards the sub-contractors. On the contrary, it is necessary to consider the arguments which militate against the growth of the type of sub-contracting known as "structural" which, as we have already seen, must be added to the reasons accounting for the low level of output of sub-contracting firms. When such firms reach a satisfactory level of output, they are exposed to the effects of the economic situation, in proportion to the effect of the latter on those enterprises in the same branch of economic activity which place orders with them. In times of depression economic reasons which, at a time of economic buoyancy, had led them to the practice of sub-contracting, continue to be of considerable weight.

Accordingly, technological progress on the part of sub-contracting firms leads to a gradual change-over from "cyclical" sub-contracting to "structural" sub-contracting, with a consequent strengthening of the position of the sub-contractors vis-à-vis the firms placing orders with them, with regard to the economic situation in general. If such a development did not occur it would be only natural for the firms placing orders to seek to protect themselves against the effect of a worsening of the economic situation; from this standpoint it would be understandable if they endeavored to absorb their own production capacity by holding themselves those stages of production previously entrusted to outside firms.

Among the obstacles to the development of sub-contracting must also be counted Trade Union action which, as the situation moves towards one of full employment, falls more heavily on small enterprises. Of course, discrimination in treatment of workers according to the size of the enterprise in which they work is socially inadmissible; nor is it desirable that the productivity of small firms should be forced to lower manpower costs. But in practical terms it is not possible to deny the negative effects on small enterprises of the tendency of unions to extend to them institutions and forms of discipline which are disproportionate to their size. This is translated not only into an increase in the cost of labour (and the more noticeable in small firms because labour costs are a major item in their production costs), but also by a whitewashing down of those very characteristics of flexibility and adaptability which are among the main "assets" of small firms.

Any move towards complete equality between the terms of employment of workers engaged in the two types of firms might, by causing sub-contracting to become unprofitable, lead to a process of concentration of enterprises which the Unions themselves claim they do not wish to bring about.

An example of this tendency is provided by the agreement entered into between the State Electromechanical Organisation (E.N.E.L.) and the workers' unions. The latter demanded that E.N.E.L. should take over the supplies and services previously obtained from ancillary enterprises and should engage the workers previously employed by the latter.

Another obstacle to the expansion of sub-contracting in Italy consists in the tax legislation in regard to indirect taxation, based on a "multi-stage" tax - the general tax on business receipts (I.C.E.). However, this obstacle should be modified within two or three years by the introduction, in Italy as well, of the value-added tax, since Italy is moving in this direction as a result of the agreements entered into between member countries of the E.E.C. Every transfer of finished or semi-finished products from one enterprise to another leads, under this legislation, to an increase in costs for any enterprise not having a vertical structure, and to tax advantages for enterprises having such a structure.

It is not considered necessary to enter into a detailed analysis of the other negative aspects, but will suffice to note that they all resolve themselves into the same phenomenon of the contractual weakness of the sub-contracting, made more striking by the exceptional degree of competition between them and the disinclination of small enterprises to cooperate with each other.

Thus cases have been observed where large enterprises having to fulfill orders which exceeded the individual capacity of the various sub-contractors in the area, had to use the services of firms situated a long way off, finding agreement by the local sub-contractors to handle such orders by combining together.

In the Mezzogiorno, in addition to the obstacles of a general nature to which we have referred, there is a further series of obstacles to the establishment of sub-contractual relationships, due to the peculiar characteristics of the economy of the area.

It is first of all necessary to stress that nearly all the large industrial complexes set up in the Mezzogiorno are branches of enterprises established in the north which already have a long-standing relationship with northern sub-contractors; there is consequently a natural tendency to maintain such a relationship and to bear the cost of transport, rather than to establish a new relationship with local firms.

Such a tendency is encouraged by both objective and subjective factors. Among the objective ones are the absence of an industrial tradition in the under-developed area, and the low technological level of the firms operating there; these factors make it difficult for them to carry out orders of a certain size and to cope with particular specifications, and to a considerable extent by the firm placing the order. Among the subjective factors it is necessary to recall that for some types of work or services, not requiring an extensive technical organization, a certain conservatism is observable among the management of the firms concerned as to the industrial capabilities of local entrepreneurs. The possible reason involves, mostly in the initial stages, frequent inducement to incur the additional expenditure entailed in manufacturing products or performing services for which they are not structurally adapted, or to have recourse to other firms situated a great distance from the area in which they themselves operate.

Furthermore, the owners of small firms in the Mezzogiorno declare the reluctance of the partially State-owned enterprises in the Mezzogiorno to farm out work under sub-contracts, as well as their propensity to exhaust all the production possibilities of the firms belonging to the same public group which, as is well known, cover an infinite diversity of activities. This tendency is entirely contrary, among others, to the declared aims of State intervention in the Mezzogiorno, among which is stated to be the development of local enterprise.

CHAPTER III

A specific experiment: the Apulian engineering development pole

In connection with the southern experiment, the project for creating a "development pole" in the Bari, Foggia and Brindisi area is deserving of special attention; this project was worked out in 1965 by the Ivalconsult company for the E.E.C. and execution was entrusted by the latter to the Italian Government.

The principle of concentrating intervention within limited areas was already one of those adopted by official policy for industrialisation of the south, although in practice this principle has often been overlooked and action by the public authorities has ended up by being somewhat piecemeal, as a result of local pressures and interests becoming super-imposed upon the initial project worked out at national level.

The novelty of the E.E.C. scheme was thus to be found less in the fact that it provided for a considerable amount of infra-structural and industrial investment in a given area, than in the fact that such investments were to be closely linked to each other and inter-dependent, so as to constitute a self-sustaining system capable of triggering off a chain reaction process in the surrounding economy.

The project stemmed from the conviction that in the 20th century, the determining factor in the location of industry was no longer the proximity of supplies of raw materials, as was the case in the 19th century, but the ability to take advantage of "external economies" deriving from:

- (a) a complete system of technical and social infra-structures;
- (b) a wide product market, both for the industries producing end-products and for those producing intermediate products;
- (c) an integrated and diversified labour market;
- (d) a complete system of interconnected industrial relationships, due to interdependence between the major industries manufacturing for the final market and the subsidiary and auxiliary industries (which supply the former with a whole series of intermediate products such as semi-finished items, components, spares, etc.) and industrial services (special applications, overhauls, maintenance, etc.).

Mainly on the basis of this last factor, the project aimed to eliminate, particularly in the area selected, the increase in costs due to lack of "interconnected industrial relationships" (the anticipated saving in production costs had been estimated

on average at approximately 5 per cent) which was greater than the reduction in production costs resulting from the benefits provided for under the legislation in favour of factories situated in the south. This target was to be attained by simultaneous creation of a "complex" of major industrial units using similar technology, supplemented by intermediate, subsidiary and auxiliary units.

This "complex" was to belong to a single homogeneous sector and to consist of a limited number of major units selected so that the overall demand would support a co-productive economy of such dimensions as to include at least one example of each of the essential intermediate and auxiliary units of the sector.

In determining the choice of sector to which this "complex" should belong, the project took a number of circumstances into account, such as the state of the market, the degree of saturation of the various sectors, the needs of certain sectors for skilled manpower, etc. On the basis of these criteria, six major units were decided upon, together with a certain number of subsidiary and auxiliary units, in the engineering sector, the breakdown being as follows:

Major Units

- Heavy structural steelwork
- Cookers, baths, and central heating radiators of sheet metal, metal hollow ware
- Centrifugal pumps and burners for liquid fuels
- Agricultural machinery
- Machine tools operating by chip removal
- Excavators, mechanical shovels and self-propelled cranes
- Cranes and conveyors
- Lift trucks.

Subsidiary Units

- Malleable iron and steel foundry and pattern shop
- Iron foundry and pattern shop
- Non-ferrous foundry and pattern shop
- Forgings and stampings
- Sub-contracting unit operating by chip removal - large and medium

- Sub-contracting unit operating by chip removal - medium
- Sub-contracting unit operating by chip removal - small I
- Sub-contracting unit operating by chip removal - small II
- Sub-contracting unit operating by chip removal - small III
- Gear cutting I
- Gear cutting II
- Sub-contracting unit operating by sheet metal forming - large and medium
- Sub-contracting unit operating by sheet metal forming - small
- Heat treatment I
- Heat treatment II
- Electro-plating
- Fasteners

Auxiliary Units

- Toolmaking for chip removal operations - large and medium
- Toolmaking for chip removal operations - small, and assembly including gauges and inspection equipment-I
- Toolmaking for chip removal operations - small, and assembly including gauges and inspection equipment-II
- Toolmaking for metal forming operations - medium and small
- Maintenance and overhaul of machines and equipment-I
- Maintenance and overhaul of machines and equipment-II.

As regards each unit, forecasts were made of the investment required, the utilisation, the turnover and the value-added. The creation of this development pole was geared to the following tentative timetable:

- 1966-67: promotion activities;
- 1967-68: design projects;
- 1968-69: instruction and erection of the units;
- 1970-71: initial phase and production start-up;
- 1972: normal production.

If we now proceed to verify the extent to which the project has been implemented in practice, we will immediately observe that it has only been partly successful and that this is mainly attributable to the following causes:

- (a) between the time when the project was prepared and the time when it was put into practical effect the market conditions had changed by reason, for instance, of the fact that new industrial units of the sectors concerned had been set up in other parts of the country, and consequently objective appraisal of the situation made it undesirable to set up other enterprises in the same sectors in the south;
- (b) towards 1964-65, an economic recession had set in throughout the country and particularly in the south, which induced management to invest in renovating and rationalising existing enterprises rather than in creating new units;
- (c) the prior provision of the infrastructure was not complete and this constituted an additional obstacle to development in regard to investments.

In the face of these negative circumstances, it should, nevertheless, be noted that, in the area of the development pole, units differing from those of the initial project have been set up or planned and these may constitute (as they already do in part) "surprise growth" in the sense that they are in a position to sustain an advanced degree of industrialisation through subcontracting.

As regards the objective conditions for implementation of the project, mention should be made of some comments made by the I.A.S.M. (Institute for Fostering Development in the South), the public body responsible for promotion of the development pole:

- (a) the project was too abstract, not taking sufficient account, over and above the technical, economic and commercial possibilities of carrying it out, of the practical ability and willingness of entrepreneurs to do so;
- (b) as regards the interdependence of productive activities and the time relations in the process of actually setting up the "complex", it was clearly impossible and undesirable to subordinate the commencement of construction operations for the various units comprised in the whole to the reaching of agreement and the giving of simultaneous undertakings by all the entrepreneurs who were in a position to create the various major and subsidiary activities. Insistence on completely simultaneous decisions by entrepreneurs, with a view to setting the development pole in operation within time limits strictly identical with those laid down in the original project, was an obstacle to the achievement of the project's objectives.

In conclusion it may be said that, in a market economy system, a project such as that of the E.E.C. cannot provide more than a pointer for entrepreneurs and the public authorities, and cannot claim to be a rigid plan to be carried out at all costs or, necessarily, in a complete manner. The very fact that this project was not completely carried out and that activities different from those planned were undertaken, or, indeed, have guaranteed efficiency since investments were freely decided by entrepreneurs are better adapted to the true market situation. If on the contrary, the authorities had intervened to ensure strict adherence to the project, the system set up would probably have proved obsolete from the very moment of its creation.

This does not of course mean that the E.E.C. project was of no use, since it has most certainly contributed to implementation of decisions in both the public and the private sectors in regard to the development of a certain area, and to the confirmation of a basic principle in regard to industrial development of under-developed areas, namely, that it is useless to hope to industrialise too large an area all at once and that action should be concentrated upon smaller areas, so that within such areas there may be created "snowballing economies" which are one of the principle means of attracting investment from more highly industrialised areas.

In the light of the experience gained in the south, compared with that of countries with a collectivist-type economy, it may be stated that the role of the State in the development of under-developed areas should not take the form of assuming entrepreneurial responsibilities or of imposing excessive taxes on private enterprise, but should consist in advance creation of the necessary conditions for industrialisation and in inducing private firms to undertake such responsibilities.

In the special case of sub-contracting, it does not appear that the problem can be solved either by the public authorities setting up the major and auxiliary enterprises, or by determining in advance which are to be the sub-contracting enterprises (and how many there are to be) surrounding the large investments, or by obliging enterprises to supply a flow of work to sub-contractors. In all such cases the inevitable result would be to separate sub-contracting from its true economic causes, with the risk of artificially maintaining an unproductive and therefore anti-economic system.

The first aim of the State in under-developed areas should on the contrary be to create those conditions which will lead to spontaneous relations from industry to industry as between the various units of different size. To this end, in addition to the measures mentioned above, great importance should be attached to technical assistance activities in favour of small and medium-sized enterprises so as to put them in a position to meet demands from large firms. Sub-contracting, when all is said and done, is indeed an instrument for spreading and multiplying the process of development; but it is also, above all, the result of the previous fulfilment of certain conditions.

CHAPTER IV

Possibilities of promoting sub-contracting from the standpoint of:

- The public authorities.
- Trade associations.

In the light of what we have just said, it appears clear, in our opinion, that the promotion of sub-contracting leads to obvious advantages, not only for the economy of the various enterprises, but also for the productivity of the whole industrial sector. However, this promotion of sub-contracting should be achieved on the basis of successive sub-division of production operations, rather than under the pressure of fortuitous market situations. The action of Government, trade associations and enterprises should aim at eliminating the precarious nature of these relationships; such action should foster the creation of general conditions likely to encourage continuous collaboration between principals and sub-contractors, thus improving production.

(a) The public authorities

First and foremost the public authorities should remove the fiscal obstacles which hinder the expansion of sub-contracting. This applies, for instance, to the 'multi-stage' tax which paralyzes sub-contracting and encourages concentration beyond the latter's economic limits. The second aspect of public action concerns technical assistance. Bodies should be set up operating genuinely at the level of small enterprises, speaking the language of the small entrepreneur and able to solve the practical problems which arise in regard to such enterprises. These needs of a general character assume special importance where small sub-contracting enterprises are concerned. The technological upgrading of such firms should make it possible to restore to sub-contracting its strongest economic justification, and to avoid the use of sub-contractors for exploiting certain situations, particularly their own contractual weakness. It is only through such technological upgrading that sub-contracting enterprises will increase their productivity. This development will in turn enable the workers employed in such enterprises to enjoy the same terms of employment as the workers employed in the firms placing the orders.

(b) Trade associations

The role of trade associations should consist above all in facilitating the settlement of disputes arising between principals and sub-contractors, and in considering what instruments may be of use in expanding and rationalising sub-contracting. As regards the first aspect, the creation of organisations containing representatives of the principals and of the sub-contractors, meeting at regular intervals and not merely when disputes occur, could provide a very valuable instrument for creating a dialogue

between these two industrial categories with opposing interests; it might be hoped that this would lead not only to the settlement of actual disputes, but also to a study of solutions to more general problems corresponding to the needs of one or other of the parties concerned.

The task of these bodies might for instance be to study a "model contract", lay down criteria for the award of orders, work out methods for establishing the qualitative characteristics of the product, and so forth.

The Confederation of Italian Industry, on the proposal of the Commission for small enterprises, is at present implementing a programme of this type, through direct contacts between the large firms and representatives of small industrial firms, which aims at examining the problems of sub-contracting and studying in agreement with the parties the solutions best suited to them both.

Trade associations could in addition foster, within the categories represented, action in the form of co-operation between enterprises with a view to obtaining certain orders jointly, forming joint agencies for the purchase of raw materials or, again, setting up sub-contracting Exchanges or any other bodies with the task of achieving maximum expansion of the system of sub-contracting.





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