CHAPTER - 8

SUGGESTIONS AND SCOPE FOR FURTHER RESEARCH.
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Suggestions and Scope for Further Research.

This chapter gives valuable suggestions for the development of ancillarisation and ancillary units. Based on the study conducted, specific strategies are developed and given for ancillary units, Parent units and for Policy making organisations. This chapter also gives directions for development and scope for further research in this area.
8.1. Specific Strategies for ancillaries

♦ **Focus on Improving Manufacturing Practices:** Ancillaries will not survive unless they follow good manufacturing practices. They need to focus on issues of quality (product & process), cost and delivery by changing shop floor practices. Once the ancillaries have implemented these practices, TQM initiatives can also be undertaken.

♦ **Obtain Quality Certification:** Ancillaries should pay special attention to follow standard quality systems and must seek ISO Certification. Even those firms that cannot afford ISO certification can make efforts to follow ISO guidelines and improve their quality standards.

♦ **Establish Common Facilities:** Ancillaries should cooperate to create institutional mechanism for testing facilities by creating clusters and need to come together to create training facilities.

♦ **Redefine Managerial Training Inputs:** These should include quality measurement and improvement on the shop floor, lead time reduction methods, housekeeping (5S), total productive maintenance, variance reduction, value engineering, inventory management, accounting, packing methods, packing methods, worker motivation, wages and incentive systems etc.
♦ **Redefine Technical Training Inputs:** These should include training on CNC machines, automation and process control, numerical part programming, design issues, CAD/CAM, scheduling and production planning.

8.2. **Specific Strategies for Parent firms:**

♦ **Invest in Developing Capabilities of ancillaries:** Parent firms must help in upgrading technological capabilities of their ancillaries through various kinds of support including training, technology transfer, Systems and procedures etc. This calls for more intensive interaction between parent firms and their ancillaries. *The case of Superb Industries is instructive in this regard.*

♦ **Introduce a System for Payment:** Hard bargaining for lower prices, often through encouraging competition among the suppliers may provide short-term gains. Delay in payments to the supplies made by the ancillaries deprives them of working capital, for which they have to go for more expensive resources. Squeezing of ancillaries is usually counter-productive in the long run. Parent firms should view ancillaries, as their long-term partners who can potentially help them become competitive.

♦ **Reduce Uncertainties for ancillaries:** Typically, in situations of fluctuating demand, parent firms tend to stabilize their positions by shifting most of the burden of
adjustment to its suppliers. Such a strategy may not be very useful in the long run.
Ancillaries perform better when their demand profile is stable.

- **Large/Parent firms can provide Consultancy and training Services to ancillaries:**
  This could include Technology upgradation, Modern Manufacturing Systems, House Keeping, Quality Systems, Machine maintenance, Professionalism etc. It is in the interest of the parent firms to help ancillaries to achieve these standards.

### 8.3. Strategies for Policy Initiatives:

#### 8.3.1. Industrial Policy on Ancillarisation:

There should be a separate Industrial policy on ancillarisation. The Government Policy should aim at **Nurse the child** (Primitive model), **protect the adolescent** (Protective model) and **liberate the adult** (Progressive model).

In order to nurse the child, it is necessary to set up incubation centers at the small-scale industry associations/ sub-contract exchanges.

**What is an Incubation center?**

*Incubation is the concept, which is borrowed from the medical science. A child if born premature, does not have the strength to face the open natural environment.*
Such a pre-mature baby is kept in incubation in an artificially controlled environment till the time it becomes strong enough to be a part of open natural environment.

On the similar line, an ancillary in the initial stages is normally not capable of competing in open market in the initial stages of his enterprise. In order to succeed, the enterprise has to survive first, especially in the initial phases of its life. Incubation center should provide the protective environment to such ancillary units till the time they reach the adolescent age and become an adult.

The incubation center should provide following services to ancillary units.

❖ Infrastructure facilities- Computer and Internet services, material testing facilities.
❖ Consultancy services
❖ Networking and linkages with units in India and abroad.

8.3.2. Development of Industry Cluster

Some initiatives have been taken for the development product clusters at the macro level but the impact of cluster level intervention has been rather limited. Worldwide experience suggests that for the regional development policies to succeed there is a need for government intervention in terms of a comprehensive program complementary in nature
to entrepreneurial efforts on the lines of the Italian model (Bologna) of area clusters. In this context, following suggestions are given.

❖ Attention may be focused on the natural clusters of ancillaries already in existence, by extending required institutional support and modernization facilities, so that the units in these clusters do not stagnate at their later stages of development.

❖ Provision of adequate infrastructure in the existing as well as prospective clusters to ensure their sustainability.

❖ Need for carrying out assessment studies for each/select clusters for planned intervention.

❖ Promotion of clusters in the form of joint ventures between the state governments or local authorities and industry/business associations. These ventures should, interalia, have facilities like training, pollution control and other common facilities carrying external economies.
8.3.3 Restructuring of the existing Sub-Contract Exchanges, for promoting inter-firm linkages

One appropriate instrument for promoting ancillarisation is strengthening existing Sub-contracting exchanges by appointing a management consultant and for inducing professionalism. It is necessary the Government should set up Sub-contracting Exchanges at each district headquarters.

A comprehensive data of industrial units, their products, capacities, purchase requirements should be prepared. OUTSOURCING 2000, software that would enable online registration should be installed so that buyers from anywhere in the world can simply feed their requirements and that should be forwarded to ancillary units. The SCE should provide wide range of services such as information services, promotional services and advisory services.

Information Service - This include, computerized data bank of ancillarv and parent unit, Identification, search and match making of enquiries from parent and ancillary. Potential ancillary location and assessment of ancillary and help them to improve their rating.

♦ Assessment/rating/Accreditation of ancillaries and parent units: The assessment of ancillary units should be based on supplier action attributes. The assessed ancillary units can be rated as A/B/C. This rating will help the ancillary units to
understand their status in the market places and also gives them an opportunity to improve in the areas needed. This rating also will help the prospective parent units and acts as an assurance to develop relationship with the ancillary units. In the similar way the assessment of Parent-firms can be undertaken for Buyer action attributes.

**Promotional Services:** This includes, networking with other regional, national and international SCEs. Creation of virtual exhibition centre, which showcases the products demanded and supplied by the members of SCE, allowing access to detailed information and search facilities for specific products and machinery with particular characteristics. Publish SCE directory, a document in which all the members are alphabetically listed with relevant contact details. Facilitate ancillaries' participation in international trades and exhibitions, mediate to receive foreign missions.

**Advisory Services:** Provide training, technical support, legal aspects of operations, product development and adaptation, quality systems and certification, marketing, access to credit, financial facilities and incentives.

Sub-contracting exchanges should act as e-market place for industrial goods and services. The Sub-contracting exchange should act as a computer clearing house, linking ancillary units with parent units. There should be proper follow up and an effective monitoring
system. The Sub-Contracting Exchanges should have online registration facilities, monitoring system and a system for assessment of ancillary units.

♦ e-Market Place for Industrial goods and services: The figure 8.1 gives the e-market mechanism for promoting ancillarisation. This e-market mechanism will lead to transparency in transactions between parent and ancillary units and avoid problems like delay in payment, delay in receiving the goods etc. It can be installed at SCEs. The mechanism is suggested in figure 8.1. This is to initiate ancillarisation at subcontracting exchanges. It is also required to have further follow up to promote ancillarisation. The modalities for the institutional set-up of the SCEs are given in the next section (8.4).
START

Buyer Registers

Buyer completes online request for Quotations

Matchmaker engine with artificial intelligence identifies qualified Supplier

Matrix received from supplier is generated By matchmaker engine & send to buyers giving a comparative statement of different parameters received from Suppliers.

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Fig. 8.1 e-market place for industrial goods and services.
8.4. The modalities for the institutional set-up of Sub-Contract Exchanges (SCEs):

**Advisory Committee:** Experience has shown that SCEs incorporated in ministries of industry and public organisations are monopolised by the state, cut-off from their industrial basis and bound to disappear. The formula of hosting the SCE in a ministry or public organisation should be considered only as a transitory start-up stage before being transferred to the private sector, preferably on an autonomous basis.

SCEs incorporated in private sector institutions such as Chamber of Commerce and Industry, Federations of Industry, Professional or Manufacturers’ associations can survive, when accorded the necessary recognition and operational autonomy. They are then considered as a specialised service provided by the Chamber or Federation to its affiliated/member companies. The full autonomous status managed by a board of directors, is the most sustainable form of institutional set-up.

**Financing of SCEs:** Here also, experience has shown that when the funds are provided exclusively by one source of financing, the SCE dies. A SCE financed exclusively by the Government becomes a Government department and is quickly isolate from its industry basis. The same applies for SCEs fully subsidised by international aid programs.
On the other hand, a SCE financed exclusively by the affiliated enterprises, under the false assumption that it is a profit making organisation, will soon be superseded by other activities, which generate profit and will abandon the specific activities related to promoting ancillarisation. Therefore, in accordance with the tripartite participation proposed for the Board of Directors and with the legal statutes proposed by UNIDO for autonomous SCEs, the financing proposed should include:

- State or public institutions, in recognition of the contribution to the national economy (at least 10% of the budget, ideally not more than 50%);
- Professional Associations / Industrial Federations, in recognition of the contribution to the development of the private sub-sectors of the industry (at least 10% of the budget);
- The affiliated enterprises themselves, in recognition of the contribution to their own productivity, competitiveness and growth (affiliation or registration fee should amount to at least 10% of the budget);

In addition, SCE should provide various services for generating fund to non-members as well as members such as:

- Participation in industrial sub-contracting / supply fairs and business forum/meetings.
- Training seminars and conferences.
• Marketing surveys and missions (national and international)
• Sector specific studies on investment requirements and incentives
• Technology and quality (ISO 9000) audits and assistance
• Legal assistance in relation to contracts and fiscal matters.

But SCE should not receive commission on contracts awarded.

Types of services: SCEs should provide information services, promotional services and advisory services as mentioned earlier.

Staff pattern: The SCE staff should be able to respond with precision and rapidly to requests from industry, provide reliable solutions, propose new alternatives and practical innovations. Accordingly, the SCE staff should receive remuneration and career development prospects, which are confirm to their professional qualifications and experience.

Infrastructural facilities: The SCE should have furnished office, with one meeting room within host institutions, at least two personal computers, internet and e-mail connection, photocopy machine, two or three telephone and fax lines. Use of appropriate software viz., UNIDO Subcontracting System (UNIDOSS) and OUTSOURCING 2000. In addition, at least one vehicle should be made available to the SCE for plant visits.
8.5. Scope for further Research:
This study is carried out in engineering and allied industries. It is suggested that similar studies may be conducted in other sectors of the Industry. Further research may be taken in the area of developing rating system for the parent units and in the area of Joint Buyer-supplier action attributes. The joint Buyer-Supplier action attributes are the actions to be jointly taken by buyer and supplier for further reinforcing the relationship by interfacing various attributes and these are given in fig 8.2
Fig 8.2. Joint Buyer-Supplier action attributes

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Description</th>
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<tbody>
<tr>
<td>Mutual trust and co-operative relationship.</td>
<td>Buyer and supplier have to trust and cooperate with each other in routine as well as during crisis.</td>
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<tr>
<td>Increased Information sharing</td>
<td>Excellent communication and information sharing is required in order to achieve targets.</td>
</tr>
<tr>
<td>Supplier involvement in design</td>
<td>Supplier has to be involved during early stage of design to minimize manufacturing problems.</td>
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<tr>
<td>Continuous improvement</td>
<td>Both buyer and supplier should work together to seek continuous improvement in all areas.</td>
</tr>
<tr>
<td>Joint value analysis programme</td>
<td>The value analysis programme should be jointly carried out in order to strive for cost reduction.</td>
</tr>
<tr>
<td>Standardized packaging</td>
<td>Standardized packaging of deliveries avoids any damage to materials.</td>
</tr>
</tbody>
</table>

Source: Field Survey