INTRODUCTION

This thesis is concerned with the development of sub-contracting (or ancillarisation) in Indian manufacturing industries. Barring some passing references this important dimension of the organisation of production, it appears to have not receive adequate attention in the studies on India's industrial development. The need to focus attention on this relationship between large and small firms in the manufacturing sector was perceived in the context of the relative "stagnation" of the organised sector since the mid-sixties and the supposedly rapid growth of the 'modern' small scale sector since then. It has been argued that a considerable proportion of the reportedly rapid growth of this sector is perhaps attributable to the increasing farming out of production by large firms.

While such a proposition may have some intuitive appeal as also theoretical soundness, its empirical validation posed a number of problems. The meaning and definition of the term 'sub-contracting' is not free from ambiguities as it is used to suggest a variety of relationships between firms in varying contexts; and it appears to assume different forms in different industries. Moreover the characteristics of sub-contracting which distinguish it from the more general concept of inter-firm relationship are also not too obvious.

Though our tentative working hypothesis could be a valid and meaningful one, a number of other factors could also have influenced the development of sub-contracting relationship in India. The wide wage differentials across size class of firms (and factories) and the greater exploitability of labour in the small scale sector could by themselves be important factors in facilitating the growth in farming out of production. Moreover, changes in the policies for promoting industrial development, especially those relating to the small scale sector, could have had a considerable bearing on sub-contracting. The nature of technology and its level of sophistication (or relative backwardness) could also be another reason. Consider-
ing these complexities we have attempted, before getting down to an empirical
amination of the problem, to sort out some of the conceptual and analytical issu

The significance of studying the development of sub-contracting in India
also be appreciated from the perspective of development economics. The role of
small scale sector and the linkages between the large and small firms in the pro
of industrialisation have been widely recognised as important elements in the
development process. In a labour surplus economy, sub-contracting is widely advoc
as a means of promoting better utilisation of scarce resources leading to crea
domestic linkages for initiating an ‘organic’ growth process.

A similar reasoning is also evident in the Indian development planning. Wi
rapid development of the capital and intermediate goods sector have been consid
necessary to reduce import dependence and for maximising the growth of output ove
long period of time, promoting labour-intensive traditional industries in
consumer goods sector and small scale ancillary industry in machinery manufactur
were simultaneously advocated to minimise capital requirement and, more important
to create greater employment opportunities.

Sub-contracting has also been recognised as an effective organisational mech
ism of achieving the development of suitable (or appropriate) industrial technolog
in developing countries. The linkages between large and small firms are a
considered to be a potentially useful vehicle for diffusion of industrial skill
Further, a sustained experience in manufacturing could, it is argued, give rise
indigenous technical capabilities.

These ‘analytical’ arguments in favour of promoting sub-contracting are provi
with a measure of historical ‘content’ by citing the Japanese experience of rap
industrialisation and her success in efficient assimilation of modern technologie
As the institutional features of life-time employment and seniority-based wa
payment in large firms had brought in rigidity in the Japanese labour market, lar
firms effectively circumvented these constraints by fostering a very extensive sub
contracting network to take advantage of lower wages in the unprotected segment of
the labour market. Voluminous evidence is available to show how this ‘unique’
aspect, among others, of Japan’s industrial organisation enabled the economy to
efficiently utilise the surplus labour and develop a flexible and internationally
competitive manufacturing sector. However, the extent to which the experience of
Japan can be transplanted in other socio-historical contexts is open to question.
What is important for us here is to appreciate the significance that has been
attached to it in the literature.

Considering the serious implications of the issue under study the available
evidence on this aspect of the manufacturing sector in India appears to be very
meagre. Though the government has made conscious attempts to promote sub-contract-
ing by explicitly bringing in the ancillary development policy, little effort ap-
ppears to have been made to subject it to a critical examination. We have, in this
study, undertaken a detailed investigation of the sub-contracting behaviour of
three large firms located in Bangalore - one of the rapidly growing manufacturing
centres in the country in the recent past. Therefore, as the sub-title of the
thesis suggests, we have called it the "The Bangalore experience" without claiming
broader generalisations. However, to the extent factors affecting the sub-contract-
ing behaviour of the firms in Bangalore are same as in other locations (and in-
dustries) in the economy, one could plausibly expect similar tendencies follow el-
sewhere too. Hence, we would like the findings reported in this study to be con-
sidered as tentative hypotheses for further verification.

This thesis, excluding the brief introduction, consists of nine chapters. As
mentioned earlier, the conceptual and analytical issues relating to sub-contracting
are discussed in the first chapter. To facilitate an informed appreciation of the
empirical details contained in the rest of the thesis a brief sketch of the relevant
policies and changes in them is included in the appendix to the chapter.

Documentation of the available secondary evidence on the growth of sub-contracting
in Indian industry is presented in chapter 2, which, though indicative of the broad
trend, enables us realise the lack of adequate data in India and thus prepares a case
for undertaking detailed enquiries of individual firms. The methodology followed for
conducting the case studies in Bangalore is also discussed in this chapter.

As a background to the studies, chapter 3 contains an outline of the industrial
development of Bangalore. We have not only provided a statistical account of in-
dustrialisation but also attempted to identify the distinct phases in its growth
and the probable factors underlying them. Chapters 4 to 6 contain the results of the
case studies of three firms - more appropriately three plants belonging to three different firms. Chapter 4 deals with B.E.Ltd. (pseudonym) an electrical machinery manufacturer in the private sector, Chapter 5 with Indian Telephone Industries Ltd. (Bangalore complex), and Chapter 6 with HMT Ltd. (the machine tools plant).

A comparison of the sub-contracting behaviour of the three firms seems to provide some insights into the factors influencing it. Such an exercise, as presented in Chapter 7, appears to be meaningful since all the plants are located in the same city facing more or less similar labour markets, infrastructure facilities and government regulations and yet operate in different market and technological conditions.

The sample surveys of sub-contractors and ancillaries have provided some valuable information on a number of aspects of the development of the small scale sector in Bangalore, the growth process of these small firms, characteristics of the emerging entrepreneurial class and the diffusion of technology and engineering skills. These observations, also reported in Chapter 7, appear to be significant as they seem to contest some of the widely held views on the recent industrial change in India.

As greater exploitability of labour forms an essential basis for the growth of sub-contracting we considered it appropriate to capture various aspects of wages and working conditions in small firms by a separate enquiry, the results of which are reported in Chapter 8.

The concluding chapter attempts to put together all our results to provide an overall picture that emerges out of the various enquiries and raises a number of issues which could have bearing on policy as well as for further research.