

Impact of Global Ancillarisation of Small & Medium Enterprises on Development of Ancillary Industries

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Abstract

Globalisation can help to reconcile the right, basic and constitutional, of both the developed and the underdeveloped countries, for its philosophy is found on a value-system that promotes learning not merely of academia. All the players are initiated into a humanist world-view. A progressive society is nurtured not only by the emergent independent thinking people; there is also need for right thinking people. One who knows the values of interdependence, co-operation, sincerity and justice in the context of self-development.

Keywords: Globalisation, ancillarization, subcontracting,

Introduction:

In the current phase of industrial life small and medium enterprises (SMEs) play an important role in the recovery, restructuring and improvement of an economy. SMEs in symbiosis with large firms are usually regarded as activities with high investment potential. Would it not be apt to suggest that ancillarization is the answer for an integrated national as well as regional policy. Moreover, this hypothesis when extended might indeed determine the new economic order; smaller nation; larger nation nexus.

Major corporation in the United States and Western Europe have been experimenting with “strategic alliances” in the high-tech field. It involves acquiring part ownership of a foreign company by buying a small percentage of a MLT (Mezzanine floor levels of technology) or HT foreign company. There is sharing of the equity ownership, management research and development, technology, manufacturing, marketing

and indeed, the markets themselves. The critical needs of additional working capital and inexpensive manufacturing facilities have demonstrated the potential for establishing strategic alliances between SMEs at the MLT level in the USA and Asia. Transactional Corporations only indicate that alliances are crucial and will possibly determine tomorrow's economic order.

Rationale & Evolution of Subcontracting

'Small Industry' as an integral part of our national economy has its own place in industrial development. Our planners appreciated that the national resources can best be put to optimum use only through the mechanism of a balanced distribution of capital and resources between small and large scale industrial sectors. Any lopsided growth of the organized sector will only unduly limit the prospect of larger employment generation, for which the scope is far wider in the small scale sector as the latter enjoys amongst other advantages, a very favourable capital employment ratio. Promotion of sub-contracting ancillary units in the small sector is therefore, required to be given due priority as much in the interest of the small scale sector as in the interest of the national economy.

Sub-contracting

Sub-contracting refers to a type of inter firm relationship where large firms procure manufactured components, sub-assemblies and products from a number of small firms. In some cases sub-contracting is associated with 'job-work' where a 'parent' firm provides the necessary raw materials to small firms which return these materials after turning them into the required form (as per the technical specification), at a pre-determined rate. These transactions between firms of differing sizes are often collaborative relationships.

In more general terms, sub-contracting refers to specific aspect of the organization of industrial production where large and small firms coexist (with a high degree of specialization) with informal cooperation in production and sometimes in investment decisions as well. In the national context such co-operation is usually achieved by concentration of factories in

small geographic regions minimizing costs of transport and information flows, for reasons of economy, large industrial enterprises tend to shift the bulk of their work load to feeder industries.

Studies in Japan

(a) Japan is an outstanding example of a country which has involved a very effective ancillary development programme (nearly 50 percent to 90 percent of inputs in Mitsubishi and Nissan are supplied by ancillaries). (b) Several studies indicate that larger firms provide raw materials and financial assistance to small firms in return for an assured supply of manufactured products and components. Such assistance was probably an effective method of 'typing' small entrepreneurs to exercise control over them. (c) Hence, unlike in West European economies and the United States where larger sized plants predominate the industry wise distribution of factories in Japan is quite even across different employment-size classes (Ishikawa 1968).

Indian Example

Early studies on industrial development showed that sole-proprietorship large firms produced their requirements within own firms, preferring integrated plants in spite of under utilized capacities and so did small metal units had unutilized metal units. In 1959, the Engineering Association of India, found "the level of sub-contracting is very low and the progress made so far in this direction barring some notable exceptions, has been negligible. In another survey it was found that sub-contracting was not developed till around the early sixties.

Trends during the last two decades

Very significantly the average size of factories has declined in all the major industry groups with the exception of beverages, chemicals and chemical products and electrical machinery. This trends continued in the seventies as well. In factories employing less than fifty workers this has gone up from 75 percent in 1953 to 82 percent in 1972. Correspondingly the percentage of factories employing 50 to 499 workers has gone

down from 22 to 15. The decline in factory concentration and in the light of the steady decline in the observed vertically integrated nature of Indian manufacturing plants since the fifties, would strongly suggest an increase in sub-contracting and more general forms of inter-firm linkages as well. This is because from the available evidence on the concentration of output among large firms and large monopoly houses do not show any increasing trend. Therefore, the proposition that the decline in factory concentration could mean growth of multi-plant operation and inter-firm transactions is difficult to sustain. Thus one can infer somewhat more safely the growth of inter-firm transactions and vertical disintegration of factories.

Ancillary Categories

Depending on the type of end products, small scale units may be divided into two distinct categories; (i) small units producing finished goods for catering consumer needs and directly marketing such goods through their distribution channels; (ii) small units producing parts and components for catering to the input needs and requirements of other industries. Industries falling under category (iii) mentioned above are called 'ancillary' units since such units rely for marketing of the products on some other industry or group of industries. Ancillary status also depends on the proportion of supply to industrial units. When an industrial establishment manufactures and supplies more than 50 percent of its production to any one or more parent units or units, the former unit is termed as an ancillary provided its investment in plant and machinery does not exceed Rs.45 lakhs and it is not a subsidiary to or is controlled by any large scale units.

Classification of Ancillary Industries

Depending on the needs of marketing, small scale ancillary industry may be classified into the three types and these are; (i) Monotype: The production capacity of such types of units is normally tied to the needs of one unit and producing units normally cater to the requirements of the parent unit only. (ii) Poly type: such unit normally cater to the needs of a number of parent units procure their inputs from the ancillaries falling

under this type. (iii) Indirect operation: conducting supplies through the organisation, often operating as commission agents or dealers.

Forms of Sub-contracting

However, the nature of manufacturing technology mainly determines the form of sub-contracting and as such this can provide yet another form of classification viz. (i) Component sub-contracting : This is the most commonly observed form of sub-contracting in metal working industries which we have discussed in the previous section. (2) Activity sub-contracting : Another type of sub-contracting could develop where the original firm having an integrated plant could get one or more activities done by sub-contractors and then sell the final products under its brand name. (3) Assembly sub-contracting : They are seen in the electronics industry when the economies of scale in production could be very substantial and the rate of technological obsolescence could also be very high. But on the other hand, assembling of these components to produce the final products is highly labour and skill intensive. Therefore this operation can be framed out to small and even household enterprises. (4) Product sub-contracting: There could be yet another form of this relationship where sub-contractors produce the complete product and the parent firm essentially performs the marketing functions. In some sense the categories outlined above represent the ideal types. One may come across a number of combinations and variants of these basic forms of subcontracting in different industries.

Growth and Development of Ancillarisation

The growth and the development of the small and ancillary industry depends upon the following parameters: (i) items of production, i.e. what to produce; (ii) technology i.e. how to produce; (iii) land, i.e. location of production activity; (iv) power, i.e. energy; (v) water, i.e. servicing; (vi) transport, i.e. means of movement of material and personnel; (vii) labour, i.e. working force; (viii) machine, i.e. means of production; (ix) cash, i.e. fixed and working capital; (x) management, i.e. organisation to control the activities rationally; (xi) market, i.e. consuming and the production. The Government assists the

small scale industrial units in achieving the input objectives through different promotional agencies. It provides assistance in marketing the products and as such Ancillary units may (1) establish a direct bridge between the small units and the Public Sector Enterprise, (2) eliminate the middle man, i.e. traders who take away the lion's share of the profit.

Several beneficial inter firm linkages have been observed in relation to the following industries; in auto ancillary industries the wages were found to be considerably lower than those prevailing in larger (parent) units; in engineering units sub-contracting arise owing to lack of required machinery, seasonal excess demand, and in order to avoid labour regulations. Even in Textile industries sub-contracting has been found to be beneficial for reducing labour costs, whereas it is observed that in old established industrial centers small units often manufacture against orders and not the market as such. In west Bengal these industries are well established as is some other industrial centers.

Incidentally, it would not be out of context if as an illustrative table and matrix computing the impact of implementation of the programme, is enclosed as a ready reference.

A - Ancillarised capacity of SSI units by the Public Sector Enterprises in lakhs.

B - % of the requirement of the Public Sector Enterprises satisfied by the SSI units.

C - % of the capacity by the SSI units satisfied by the Public Sector Enterprise.

PSE	1			2			3			4			5			TOTAL
SSI	A	A		A	A		A	A		A	A		A	A		A
	B	C		B	C		B	C		B	C		B	C		B C
1	50			40			60			50			50			250
	6.7	10.0		6.7	8.0		6.7	12.0		7.1	10.0		6.3	10.0		6.7 50
2	60			50			75			50			65			300
	8.0	10.0		8.3	8.3		8.3	12.5		7.1	8.3		8.1	10.9		8.0 50
3	80			60			100			75			85			400
	10.0	10.0		10.0	7.5		11.1	12.5		10.7	9.4		10.6	10.6		10.7 50
4	90			75			100			80			110			450
	12.0	10.0		12.5	8.3		11.1	11.1		11.1	8.9		13.1	11.7		12.0 50
5	100			80			120			90			110			500
	13.3	10.0		13.3	8.0		13.3	12.0		12.9	9.0		13.7	11.0		13.5 50
6	120			100			150			110			120			600
	16.0	10.0		16.7	8.3		16.7	12.5		15.7	9.2		15.0	10.0		16.0 50
7	110			90			130			100			120			550
	14.7	10.0		15.7	8.2		14.5	11.8		14.3	9.0		15.0	11.0		14.7 50
8	40			30			50			35			45			200
	5.3	10.0		5.0	7.5		5.5	12.5		5.0	8.8		5.0	11.2		5.3 50
9	70			50			80			65			85			350
	9.3	10.0		8.3	7.1		8.9	11.4		9.3	9.3		10.0	12.2		9.3 50
10	30			25			35			45			15			150
	4.0	10.0		4.2	8.3		3.9	11.7		6.6	15.0		2.0	5.0		4.5 50
TOTAL	750			600			900			700			800			3750
	100	10.0		100	8.0		100	12.0		100	8.0		100	10.7		100 50

The above illustration gives an idea of the effect of implementation of the ancillarisation programme in the small sector units as well as in the Public Sector Enterprises. Let us assume that (satisfying the condition for ancillary status) 50 percent of the respective assessed annual capacity of 10 small scale units are Rs.250, 300, 400, 450, 500, 600, 550, 200, 350 and 150 thousand i.e. Rs.37.5 lakhs. Let us also assume that the average annual demand of the ancillary items from Public Sector Enterprises is Rs.750, 600, 900, 700 and 800 thousand respectively. The total demand of the Public Sector Enterprises is Rs.37.5 lakhs. Hence, the 5 Public Sector Enterprises can conveniently award ancillary status to 10 Small Scale Industries units.

It may be seen that both the Small Scale Industries units and the Public Sector Enterprises are dependent on each other to a limited extent. As a result, if a particular Small Scale Unit is unable to supply, a Public Sector Enterprise would be affected only to the extent of its proportionate share of the purchase from the small unit. In the illustrative case, it would be a maximum of 16.7 percent for second and third Public Sector Enterprise with respect to sixth Small Scale unit and a minimum 2 percent for the fifth Public Sector Enterprise with respect to the tenth Small Scale unit. Similarly, if Public Sector Enterprise is closed, the effect on the Small Scale Unit would be a maximum of 12.5 percent with respect to the second, third, sixth and eighth Small Scale Units with third Public Sector Enterprise and a minimum of 5 percent for the tenth unit with the fifth Public Sector Enterprise.

Analogous to the contention that it is advisable not to put all eggs in one basket both the large and small units can benefit through progress of ancillarisation, provided the number of parent units served by ancillaries increase (assuming that the number of the Small Scale units remain constant over a period) and the extent of mutual inter-dependence is enhanced.

How Does Small Business Internationalize?

The concept of internationalization of culture underlines the development of worldwide small business. The newly developing Asian nations are employing methods drawn

from more mature economies. The combination of ideas, technology, and systematic business practices “prove” in thoroughly modern cultures is a late 1980s–1990s phenomenon linking markets in expanding Asian countries with those of more developed countries. The factors that built prosperity in the West—industrialization, organization, innovation, efficient management practices, customization—are spreading to the point that “progressive homogenization” aptly describes an entirely new among nations.. progressive homogenization refers to the natural convergence of attitudes and behaviours of urbanized members of industrial society of all ages. Largely due to common media and business and living conditions. This essay explores the internationalization of business in the context of progressive homogenization, with core questions posed and answered.

A geometric effect is postulated, one in which the sheer volume of transactions give rise to large number of opportunities as a consequence of a multiplier effect among business transactions. Progressive homogenization is facilitated in location where financial barriers are low and innovation is high and in countries where rapid high. Very rapid innovation in international business is connected to geometric-rise in transactions as well as to the internationalization manufacturing, lead the way, with speed and flexibility associated with smaller enterprises.

Reasons For Internationalization

Reasons why small business should or would decide to internationalize include: 1) Diversification, 2) Opportunity and leverage for growth, 3) Network expansion, 4) Prosperity and an optimistic attitude towards the future, 5) Family security in an era of economic and political risk, and 6) compressed time frames (Hong Kong is the best example)

Role of small industry in globalization

Globalization is a complex process of transaction across national boundaries with geographical, culture, social, political, economic, technological, and competitive dimensions. Small firms, especially new enterprises bring fresh idea and inject vitality into markets with new products,

additional supply of goods, and techniques. Of particular significance is the generation of new technology through innovation. Small firms must be competent in innovations in order to penetrate markets and to sustain growth and continuity. To some extent, they serve as competitive ballast to the power of large firms. They must be the niche property developed which serves to propel the firm into wider markets. From the initial experience gained, such firms can upgrade their products, broaden their market, focus, extend their distribution channels and locations of production, and penetrate successive segments of markets. The role of a market niche as espoused by Kotler include the specialist in : end – use, customer specificity, product or product line, job shop, serving a particular class or size of customers, and offering products and services at a designated quality over certain price ranges to various segments of a market. On this score, two points are noteworthy; first, many manufactured products today are elements of a higher integrated product. Others are components of assembled final products. Yet others constitute subassemblies of more sophisticated or complex systems. Second, borrowing from Mennes et al, notion of regional and international goods, the distinction between regional and international goods is becoming blurred mainly due to the convergence of technology in production, marketing, and distribution.

Smes Going International

“Going international” used to be the domain of large companies. This is no longer so today, SMEs – the firms that make up the small industry sector – are also beginning to penetrate the international market. Although the Definition of SMEs varies from one country to another, these firms have the following characteristics: 1) They are more often than not managed by family members. Their decision-making system is highly flexible and informal. 2) They are usually restricted to a narrow range of activities (product and services) because of very limited resources and specialized know-how. 3) They have a simple and relatively unsophisticated management structure and apply a very limited range of administrative procedures. Their product knowledge is often embodied in

managers and technicians rather than being formalized in blueprints, manual and designs. 4) They have a low tolerance for risk and are particularly sensitive to changes in the socioeconomic environment as well as to the impact of barriers and incentives from economic and institutional systems 5) They are not the general market leaders, although they may enjoy a dominant position in a very specialized segment of a particular market, especially in the subcontracting market. The significance of such firms is visible in their number. In almost every industrialized country these firms account more than 90% of the total number of establishments. In terms of employment their contributions range from 30% to more than 60% of the total number employed. In Singapore, SMEs account for 81% of the total number of establishments, 40% of employment, 22% of output and 15% of direct exports. These firms play an equally important role in other Asian newly industrializing economies (NIEs) (Table 2)

Table 2 Importance of SMEs in Asian NIEs

Country	% of total value added	% of total No. of firms Direct	% of total workforce
		Exports	
Taiwan	97		70
55	66		
Hong Kong	98		62
57	17		
S. Korea		98	66
38		32	
Singapore	81		40
22	15		

Source: Dr. Philip Regnier, Small and Medium Enterprises in the four Asian NIEs, Modern Asian Research Centre Oct 1988 Geneva

Note: Definition of SMEs :

Taiwan : Capital less than NT \$ 40 million and assets less than NT 120 Million

Hong Kong : 1 to 200 employees

South Korea : 1 to 1000 employees for manufacturing, 1 to 20 employees for services

Singapore : At least 30% local equity and not less than \$ 8 million in net fixed investment

if in manufacturing, or employing not more than 50 employees, if in commerce or services

Conclusion

It is observed that the course of change that has overtaken the concept of small and ancillary industries in India and for the matter, of that in West Bengal, over the period 1972 to 1985 appears to be lazy and somewhat bewildering. Moreover, in spite of the fact that small-scale industries have developed simultaneously with large industries in West Bengal the movement of ancillarisation has not gained appreciable momentum to the state. The small sector provides a wider scope for employment generation when dove-tailed to larger units as ancillaries and as such by infusing a sense of mutual dependence, the competitive strength of the ancillary sector may be improved along with extending protective or promotional support. The supply link to ought to be improved. The first step towards the implementation of ancillarisation programme is the identification of item (which must have high consumption both in value as well as in quantity) required by the parent unit. The growth and development of ancillarisation will depend on planned decentralization of industries in district; its logic must embrace large units in both public and private sector enterprise, and the programme must be monitored through a centralized administration. Keeping in mind the technological financial constraints, uncertainty of cash flow arising from delayed payments and problems of raw materials availability, the economic viability of the small sector will ultimately depend on a time bound action plan and voluntary evolution of a code of ethics among the parent

and the ancillaries. The ancillary unit must sincerely strive towards attainment of goals set for quality, quantity and productivity. It should be guided by the criteria of greater total factor productivity and net profitability.

Defining the composite of industrial activities of small firms as small industry, the strategic problems of internationalization are delineated through a balance of organizational and external factors. To mitigate the global impact of changes in market structures and technology, four strategic responses are proposed. These are; the design of productivity and technological policies to compete internationally; the establishment of international linkages and partnerships, the sourcing and allocation of resources; and the nurturing of innovative capabilities. Together they pose important implications for public for international cooperation. There is no doubt that more SMEs will venture into foreign markets and find niches for themselves. Because these firms are the mainstay of the economy, it pays for the government and trade and industry associations to assist them in going international. In the final analysis, internationalization of small industry will become a necessity.

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