

Sub-Contracting Programme of Bangladesh Small and Cottage Industries Corporation (BSCIC)- An Overview

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Abstract: Sub-contracting refers to the arrangement by which small firms enter into contractual relationship with large firms to supply parts, components, spares and sub-assemblies as per specifications. It offers an opportunity to small industries to survive and thrive under the patronization of large industries. BSCIC initially took up the sub-contracting programme in 1982. But actual operation of the programme started from 1986-87. Five Year Plans and Industrial Policies of GOB gave emphasis on the promotion of sub-contracting. In 1989, the GOB promulgated a notification on sub-contracting. The constraints to the development of sub-contracting in Bangladesh are inadequate policy and its implementation, globalization and open market policy, power failure, outdated technology, smuggling and inadequate resource personnel. The suggestions put forward by the sample respondents for the development of sub-contracting are revision of policy, imposition of restriction on the imports, establishment of new power plant, development of technology, steps for stopping smuggling, employment of adequate resource personnel, etc.

Key words: Sub-contracting programme, BSCIC, small firms

INTRODUCTION

Subcontracting system constitutes a typical form of linkage between large and small industries whereby parts and components are made by small sub-contractors in accordance with job orders from large parent firms. In sub-contracting system two parties are involved. One is parent company or contracting firm or principal and the other is sub-contracting firm or sub-contractor. The firm giving the sub-contract is known as parent company and the firm receiving the sub-contract is referred to as sub-contracting firm. Sub-contracting refers to the arrangement by which small firms enter into contractual relationship with large firms to supply parts, components, spares and sub-assemblies as per specifications of the parent company. Sub-contracting is essentially an arrangement between small and large enterprises or factories established through agreement to supply parts, components spares and sub-assemblies by the former to the latter that go into processing of finished goods^[1]. A subcontracting relationship exists when a firm (the principal) places an order with another firm (sub-contractor) for the manufacture of parts, components, sub-assemblies to be incorporated into a product, which the principal will sell. Such orders may include the treatment, processing or finishing of materials or parts by sub-contractor at the principal's request^[2]. The main purpose for the promotion of sub-contracting is to facilitate industrialization and technology development,

particularly in the sector of small and cottage industries. Sub-contracting offers an opportunity to small industries to survive and thrive under the patronization of large industries. Large number of components are required by large industries in original assembly works as well as repair and maintenance jobs. It is uneconomical to manufacture most of these items in the premises of large industries because the varieties of components are too many but volumes of requirements are too low. For a dependable system whereby these components are manufactured by small units and supplied to large ones, a congenial techno-economic infrastructure could be developed in the country by way of sub-contracting between the large and small industries. Sub-contracting may be classified into three types: Economic or cost saving sub-contracting, specialized sub-contracting and capacity sub-contracting. Again sub-contracting may take the following four forms. The first type of sub-contracting is that of manufacturing and supplying parts and components or sub-assemblies by small industries (sub-contracting firms) that go into the finished products of the large industries (parent companies). Examples of this kind of sub-contracting are axles for bicycle and rickshaws, parts for machine tools or capital machineries, piston for diesel engines, etc. The second type of sub-contracting is the manufacture and supply of those products that are not part of the finished product of the large industries, but which are related to the marketing of products. Generally different types of packing materials such as containers,

boxes, drums, jars, cartons, plastic bags etc. are some examples of this type of sub-contracting. The third type of sub-contracting is the manufacture and supply of replacement of maintenance part for production machinery. The fourth type of sub-contracting consists of production processes or operational linkages in which one firm performs one or more processes or operation on the final product. Some examples are washing, calendering and finishing work of cloth of textile mills, sewing work of garment, etc.

OBJECTIVE OF THE STUDY

The Objective of the Study are:

- To study the organizational structure of sub-contracting cell of the BSCIC.
- To study the evolution of sub-contracting in Bangladesh and its current practice.
- To identify the problems of sub-contracting.
- To identify the constraints for the development of sub-contracting.
- To suggest suitable measures for the development of sub-contracting.

MATERIAL AND METHODS

Selection of sample sub-contracting units and parent firms: In Chittagong and Sylhet Divisions there are 172 sub-contracting industrial units enlisted with BSCIC up to march, 1995^[3]. Fifty two (30%) units out of 172 were selected randomly as initial sample sub-contracting units for the study. There are 23 parent firms in these two division^[4]. Seven (30%) parent firms were selected randomly from 23 parent firms for the study.

Forty three sub-contracting units out of the total 52 sample units were interviewed. The remaining 9 units could not be interviewed due to closure of units, change of ownership, change of premises and non-cooperation of owners. Of the sample parent firms, 6 were interviewed. One of the sample parent firms refused to give interview as it was not practicing sub-contracting at present.

Selection of Officials of BSCIC: Five official were selected as sample. Three official from five sample officials were interviewed regarding sub-contracting programme. The remaining two officials could not be interviewed. Because the posts of these two officials were vacant at the time of field investigation.

Collection of Data: Both secondary and primary data were used for the purpose of the study. Secondary data were collected from the following sources:

- Annual reports and MIS reports of BSCIC.
- Plan documents of the GOB.
- Publications relating to sub-contracting.

Primary data were collected from the entrepreneurs of sub-contracting units, official concerned with sub-contracting of the parent firms and the officials of the BSCIC through direct personal interview with the help of four sets of interview schedules prepared in the light of the objectives of the study.

Analysis of Data: Data were analyzed through percentages by using calculator.

HISTORICAL BACKGROUND

Sub contracting practices in some selected countries

Sub-contracting in Japan: Sub-contracting practice in Japan started from 1935^[5]. The Government of Japan encourages sub-contracting through various policy measures. The measures included modernization of small-scale industries, establishment of industrial parks, assistance for upgrading project, etc.

Sub - contracting in India: Sub-contracting system in India (ancillary scheme in Indian terminology) began to appear in the 1960's. The government of India (GOI) has taken various steps for the promotion of sub-contracting between large and small industries. The most important step taken by the GOI is the reservation of some items for manufacture by small industry.

Sub-contracting system has been designated by different names in different countries of the world. The foster father scheme in Indonesia, the industrial complementation programme in Philippines, the sub-contracting exchange programme in the Republic of China, the off-farm employment project in Thailand, the systematization project in Korea, and the export production village programme as well as sub-contracting exchange programme in Srilanka are the alternative names of sub-contracting programme^[6].

Sub-contracting in Bangladesh: BSCIC initially took up sub-contracting programme in 1982. But actual operation of the programme started form 1986-87. The major objective of the programme were as follows:

- To promote and develop sub-contracting linkage between small, medium and large industries with a view to effective utilization of scarce capital and available resources, skill development, product and process development;

- To development and set-up ancillary industrial units in the public and private sectors;
- To identify specific or new products, collection and dissemination in information for diversification of technology;
- To arrange extensive training programme (both local and foreign) for the entrepreneur and technical personnel as well as personnel from different organization working for sub-contracting.⁷

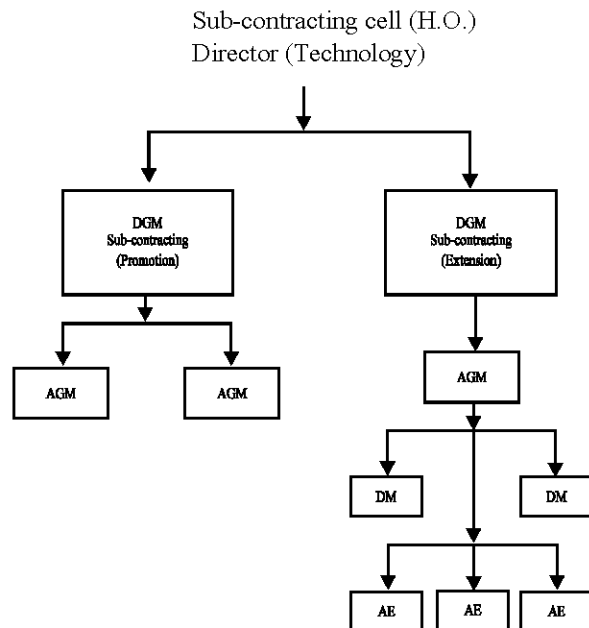
In order to achieve the above objectives BSCIC established sub-contracting cell in 1985. The main functions of the cell are:

- Enlisting small scale manufacturing units capable of producing items to be used by big units.
- Supplying information to the small units and large units.
- Helping large industry to establish ancillary units.
- Establishing contact between small and large units.
- Product development.
- Providing assistance to sign Memorandum of Understanding (MOU).
- Skill development of both entrepreneurs and workers, etc.

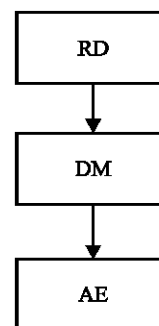
The cell functions under Director (Technology) at HO and four regional cells under Regional Director of Regional Offices.

Sub- contracting According to Plan Documents: The First Five Year Plan (1973-78) only talked about the importance of sub-contracting as a concept of industrial development strategy⁸. The Second Five Year Plan (1980-85) reiterated it and emphasized on its adoption in the industrial development structure⁹. The Third Five Year Plan (1985-90) encouraged sub-contracting as a means of promoting small industry¹⁰. The Fourth Five Year Plan (1990-95) laid special emphasis on the growth of linkage industries and sub-contracting among big, medium, small and cottage industries¹¹. The Fifth Five Year Plan (1997-2002) also put emphasis on the promotion of sub-contracting linkage among the various types of large, medium and small-scale industries¹².

The organizational structure of sub-contracting cell at Head Office is



The organizational structure of sub-contracting cell at the regional level at Dhaka, Chittagong, Rajshahi and Kulna is as follows :



Note : DGM = Deputy General Manager

AGM = Assistant General Manager

- DM = Deputy Manager
- AE = Assistant Engineer
- RD = Regional Director

Source- BSCIC, Head Office, Dhaka.

Policy Support Regarding Sub-contracting: Industrial Policy of 1982 put emphasis on the promotion of sub-contracting and development of ancillary units in the country. In 1982, the Ministry of Industries formed a committee to examine the possibility of introducing sub-contracting. Foreign consultants visited Bangladesh to study its prospect and problems. All the report indicated the prospects of sub-contracting and suggested measures to implement the recommendations. The Government asked the BSCIC to formulate a project for the promotion of sub-contracting in Bangladesh. Accordingly, BSCIC formulate a sub-contracting development project (1985-90). Industrial Policy of 1986 encouraged the growth of linkage industries and sub-contracting. In 1989, the GOB Promulgated a notification of sub-contracting linkage between public corporation, state owned industries enterprises, and small and cottage industries for the procurement of machineries and spares made of metal, plastic and china clay, etc. The Notification applies to seventy enterprises. The notification provides that public corporations and state owned industrial enterprises/factories must give preference to small and cottage industries in procuring machineries, spare parts, etc. in order to encourage the promotion and expansion of small and cottage industries. If necessary, the public corporations/state owned industrial enterprises/factories should bring possible change in the specification of machineries/spare parts. According to provisions of the Notification, BSCIC would enlist the prospective exiting small and cottage industries. No fee would be needed for enlisting and this enlisting would be made at least for three years. If there are more than one manufacturing small and cottage industries, limited tender would be invited among them for the procurement of necessary machineries and spare parts No price and earnest money would be needed for tender schedule. No advertisement in the newspaper would be necessary for the collection of tender schedule. If specifications remain unaltered, work order would be given based on lowest tender price. An agreement has to be signed by the supplying firm (Sub-contractor) with the procuring firm (parent firm) for timely and successful implementation of the work order. The parent firm would provide the small and cottage industries with technical know-how especially detailed specification, drawing, design, standard of raw materials, sample of product, etc. The parent firm shall have three-member committee for quality control, to be headed by its Chief of Quality Control Department or Production Department. The parent firm would issue materials receiving report (MRR) of the supplied machineries/spare parts within seven days of the delivery and pay the entire price within seven days of the issue of materials receiving report. The

parent firm may pay in advanced 50 per cent of agreed price against work order. The parent firm may inspect the production process of the sub-contractors and provide technical assistance when needed. The engineers of BSCIC may take appropriate actions against defaulting sub-contractors. Industrial Policy of 1991 provided that the required machineries/spares of new and existing large and medium industries, and government, semi-government and autonomous organization must be procured from small industries and priority would be given to sub-contracting system in that regard. The policy also provides for the financing of sub-contracting industries by banks and financial institutions. Industrial Policy of 1999 provided that the initiative would be taken for the establishment of linkage between corporate sectors and small and cottage industries through the promotion of sub-contracting system. The policy also provides that the banks and financial institutions would form special fund for providing financial assistance in the development of sub-contracting system.

Financial Progress of Sub-contracting Programme: From 1985 to 1997, Tk. 268 lakh was allocated, Tk. 247.40 lakh was released and Tk. 225 lakh was spent for the programme.

Physical Progress of Sub-contracting Programme: From 1986 to 1997 the sub-contractors received work order amounting to Tk. 13,258 lakh and supplied order of Tk. 12,419 lakh. A total of 990 industrial units enlisted to receive benefit of sub-contracting under BSCIC. Sub-contracting linkage was established between 2165 units. Sub-contracting tools and implements of 3688 units were identified under this system. A total of 434 small industries received work order from big industries. BSCIC organized 87 seminars/ workshops during this period. MOU was signed with 41 big industries. Skill development training was given to 1440 persons.

MODE OF ESTABLISHING SUB-CONTRACTING RELATIONSHIP

In Bangladesh sub-contracting relationship between the parent company and the sub-contractors are usually established by floating tenders in the market. The prices of the contracted products vary from enterprise to enterprise. The sub-contractors are selected on the basis of the lowest price.

Problems of sub-contracting in bangladesh: Both the parent company and the sub-contractors encounter various problems while entering into sub-contracting

Table 1: Distribution of the sample parent companies facing various problems in dealing with the sub-contractors

Sl. No.	Problems	No. of Respondents	(%)
i)	Inability of sub-contractors to supply goods in due time	5	83.30
ii)	Inferior quality of products	4	66.70
iii)	Higher cost of production	2	33.30
iv)	Arbitrary withdrawal of contracts by sub-contractors	1	16.70
	Total number of parent companies	6	100.00

Source: Field Investigation

Table 2: Distribution of sample sub-contractors facing various problems in dealing with the parent companies and other related parties

Sl. No.	Problems	No. of Respondents	(%)
i)	Irregular order	43	100
ii)	Insufficient order	25	58
iii)	Delay in payment	40	93
iv)	Arbitrary withdrawal of contracts by parent firm	10	23.3
v)	Absence of reserve list of products	27	62.8
vi)	Insufficient legislative support	39	90.7
vii)	Faulty enlistment policy of BSCIC	38	88.4
viii)	Shortage of raw materials	12	27.9
ix)	Price fluctuation of raw materials	15	34.9
x)	Lack of sufficient working capital	35	81.4
	Total sample sub-contracting units	43	100

Source: Field Investigation.

relationship with each other. Problems faced by the sample parent companies are shown in Table 1.

Mead¹³ study also found the above mentioned problems.

Problems faced by the sample sub-contractors are presented in Table 2.

According to Mead,¹⁴ the sub-contractors faced two types of problems. One was the variability of orders and the other was the possible dependence on buyers.

CONSTRAINTS TO THE DEVELOPMENT OF SUB-CONTRACTING IN BANGLADESH

Both the parent companies and the sub-contracting firms identified some constraints that hindered the development of sub-contracting in Bangladesh. These constraints are described below.

Inadequate policy and its implementation: It has been found that policy prescription regarding sub-contracting was inadequate in Bangladesh and the implementation of policy was also poor.

Globalisation and open market policy: Due to globalisation and open market policy of the GOB, the Sub-contracting Notification of 1989 could not be applied fully.

Power failure: The sub- contracting firms can not maintain timely delivery schedule due to power failure.

Outdated technology: Outdated technology obstructs the development of sub-contracting practices.

Smuggling: Smuggling is a great impediment for the promotion of sub-contracting.

No programme for the development of ancillary industries: In Bangladesh no programme has been taken for the development of ancillary industries till now.

Inadequate resource personnel of BSCIC: In the sub-contracting cell, there were 11 sanctioned posts of which 3 were lying vacant for a long time. In the Regional Offices, there were 8 sanctioned posts of which 5 were lying vacant. So BSCIC was unable to offer effective services to the sub-contractors due to inadequate resource personnel.

SUGGESTIONS FOR THE DEVELOPMENT OF SUB-CONTRACTING IN BANGLADESH

The sample respondents put forward the following suggestions for the development of sub-contracting in Bangladesh.

Revision of policy: The GOB should revise the policy and oversee that the rules regarding sub-contracting are implemented properly.

Imposition of Restriction on the Imports: The GOB should impose restrictions on the imports of those products which can be produced locally.

Establishment of New Power Plant: The GOB should take initiative to establish new power plant in the public sector and also encourage the private entrepreneurs for setting up of power plants to mitigate the problems arising from shortage in the supply of power.

Development of Technology: The GOB should take the responsibility to develop the technological capability of small sub-contractors.

Steps for stopping smuggling: The GOB must take steps for stopping smuggling of products into the country.

Establishment of ancillary industries: The large public and private organizations should undertake the programme of establishing ancillary industry.

Employment of adequate resource personnel: The GOB should fill-up the vacant posts in the sub-contracting cell

and Regional offices immediately and employ additional personnel so that sub-contracting activities could be performed smoothly.

Extending the scope of sub-contracting: Sub-contracting has been limited to only spares made of iron and steel, plastic, ceramic, etc. The scope may be extended now to all linkage industries.

Organizing training programme: BSCIC should organize more training programme on different areas like cost estimation of product, heat treatment, fabrication, electroplating, etc.

CONCLUSIONS

BSCIC is the pioneer organization in introducing the sub-contracting programme in Bangladesh. It has taken various measures to develop this programme. But the programme has not achieved desired progress in Bangladesh due to various reasons mentioned earlier. Mutual trust, confidence and close cooperation between the parent organizations and the sub-contracting firms are essential for the successful operation of the sub-contracting programme.

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