

SUB-CONTRACTING IN THE FOOTWEAR INDUSTRY
A CASE STUDY OF BATA

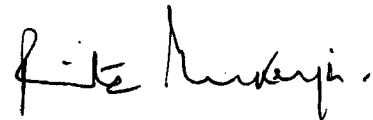
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Centre For Development Studies
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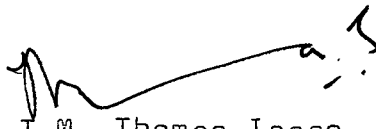
I hereby affirm that the research for this dissertation titled "Sub-contracting in the Footwear Industry: A Case Study of Bata" being submitted to the Jawaharlal Nehru University for the award of the Degree of Master of Philosophy was carried out entirely by me at the Centre for Development Studies, Trivandrum.



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Certified that this dissertation is the bonafide work of Ms. Rita Mukerjee and has not been considered for the award of any other degree by any other University. This dissertation may be forwarded for evaluation.

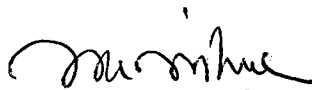


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Contents

				<u>Page</u>
	List of Tables	v
	List of Figures	viii
Chapter I	Introduction	1
Chapter II	Growth, Decline and Plans for Recovery in Bata	..	..	63
Chapter III	Sub-contracting in Bata India			108
Chapter IV	Some Aspects of Sub-contracting			149
Chapter V	Summary and Conclusions	..	..	192
	Appendix I	..	..	199
	Appendix II	..	..	209
	Appendix III	..	..	210
	Bibliography	..	..	211

List of Tables in the Text

<u>No.</u>	<u>Title</u>	<u>Page</u>
1.1	Inter-State Distribution of the Workforce Employed in the Footwear Industry in 1971	5
1.2	Production of Leather Footwear in India Between 1973 and 1978	7
1.3	Production of Rubber Footwear Between 1968 and 1983, Averaged Over Three Years	8
1.4	Classification of Factories and Workshops in the Leather Footwear Industry by Power and No Power Used and Size of Employment	12
1.5	Classification of Factories and Workshops in the Rubber Footwear Industry by Power and No Power Used and Size of Employment	13
2.1	Production Capacity of Footwear in Bata Factories	68
2.2	Five-Yearly Averages of Domestic Sales, Exports and Total Sales of Bata India, 1948-84	75
2.3	Average (Five-Yearly) Share of Bata's Domestic Sales in PFCE on Footwear in the Domestic Market, 1960/61-1979/80	77
2.4	Three-Yearly Averages of Profitability Ratios of Bata India, 1968-82	79
3.1	Category Sale (Domestic) and Their Relative Importance in Total Domestic Sales of Bata India	127
3.2	Percentage Breakdown of Retail Price of Articles and Their ODV for Contract Department	132

<u>No.</u>	<u>Title</u>	<u>Page</u>
4.1	Cost of Production (Per Pair) of a Leather Article Produced in Types, I, II and III	177
4.2	Nature of Shift in Production Organisation by Agents Between Their Year of Entry and The Year of Field Survey (1983-84)	183
4.3	Classification of Agents by Organisation Type and Nature of Product Supplied	184

List of Tables in Notes and References

<u>No.</u>	<u>Title</u>	<u>Page</u>
2(i)	Bata's Share in the Total Organised Sector Production of Rubber Footwear	97
2(ii)	Share of Bata in the Total Organised Sector Production of Leather Footwear	98
2(iii)	Bata's Share in the Organised Sector Production of Leather Footwear	99
2(iv)	Bata's Share in the Domestic Market for Leather Footwear	100
2(v)	Return on Total Capital Employed of Bata and Carona	102
2(vi)	Prices of Select Raw Materials Between 1973 and 1974	103
2(vii)	Manhours Lost in Batanagar Factory Due to Power Cuts	103
2(viii)	Share of Wages and Salaries in Value Added in Bata India	104
2(ix)	Number of Manhours Lost in Batanagar Factory Due to Strikes etc.	104
2(x)	Staff Position in Bata Units	106
4(i)	Classification of Agents According to Their Status of Autonomy and Time of Entry	189

Appendix Tables

A2	(Average) Piece-Rates Paid to Upper, Sole and Fitting Workers in Types I, II and III for Manufacturing Leather Footwear
A3	Price Paid at Various Levels for Articles Sub-contracted by Department of Contract and Ancillary Development

List of Figures

<u>No.</u>	<u>Title</u>	<u>Page</u>
1.1	Trend (3-Year Moving Average) in the Private Final Consumption Expenditure on Footwear in the Domestic Market at 1970-71 Price	10
2.1	Total and Domestic Sales of Bata India	76
2.2	Employment in Bata India and Batanagar Factory	89
4.1	Spatial Organisation of Work Inside the Workshop in Type I	159
4.2	Spatial Organisation of Work Inside the Workshop in Type II	171
4.3	Spatial Organisation of Work Inside the Workshop in Type III	171

Chapter I

Introduction

Sub-contracting implies a type of inter-firm relationship between large and small firms whereby the large firms delegate partially or completely, production of components, parts and even complete products, as well as certain operations such as sub-assembly to a number of small firms according to mutually agreed terms and conditions.

The widespread incidence of sub-contracting in the Indian manufacturing sector is well known by now¹. However the number of studies in the Indian context still remains few. The existing literature on sub-contracting in India has studied this aspect mostly in the context of engineering industry. Hence there is a need to study this phenomenon in other industries as well as at a greater level of disaggregation like product, firm, region etc. The literature also, in its understanding of the phenomenon, confines itself essentially to the study of the large firms who sub-contract, without exploring in detail its operation at the sub-contractors' level. In our view this is another lacuna in the existing literature which needs to be looked at in any future studies on sub-contracting in the Indian

industries.

Industries like clothing, leather products and footwear which belong to the category of non-durable consumer goods are generally characterised by a highly decentralised production base consisting of small scale firms or production units. Even though the bulk of the production comes from the decentralised sector, the markets are traditionally controlled by merchants and a few large firms. This is especially true of the footwear industry in India where Bata is the single largest firm and virtually the only one to enjoy an all-India market. The putting-out system of production and sub-contracting is very dominant and is an important form of inter-linkage between the decentralised sector and the large firms. Government policy, in order to promote such inter-linkages has also been encouraging sub-contracting by Bata and other firms in the organised sector.

The following thesis is an attempt to study sub-contracting in the footwear industry in India. More specifically it is a study of Bata India and its sub-contractors in Calcutta. The thesis tries to answer basically two types of questions. On the one hand these are questions asked from the standpoint of the parent

firm (in this case, Bata) like what is the rationale for sub-contracting by Bata, factors encouraging it and so on. On the other hand it looks at the sub-contractor's workshop, the conditions and the forms in which production is organised here—in order to understand the objective basis sustaining the process of sub-contracting.

In this Chapter we begin by looking at the nature of the industry in whose context we are going to study the phenomenon. This is followed by a review of the literature, wherein we try to explain our point of departure from the existing studies. The chapter ends with a discussion of the research approach followed by the study. We therefore have the following sections:

- 1.1 Footwear industry in India
- 1.2 Review of literature
- 1.3 Research approach

1.1 Footwear Industry in India

The footwear industry is a traditional form of handicraft industry in India. The industry is a significant source of employment to a large number of people. According to 1971 census, it employed 4.29 lakh workers² which accounted for 2.51 percent of the total employment in the manufacturing sector as a whole.

The products of the industry can be broadly classified into western and indigenous types. While the former mainly include covered shoe types, the indigenous variety consists of chappals and sandals. The variety of materials used in making footwear has increased overtime. Thus, while production of leather footwear has been an ancient craft in India, rubber and canvas footwear was introduced only in the 1930s followed by plastic footwear in the mid 1960s. Production of leather footwear provides the largest employment in the industry. It is highly labour-intensive in character. Thus in 1980-81, in the registered factory sector (Annual Survey of Industries), production of leather footwear accounted for a total employment of 0.25 lakh workers as against 0.12 lakh persons employed in the manufacture of rubber footwear.

The industry is found to exist in almost all parts of India, although it is more heavily concentrated in certain regions. The spread of the industry as well as its relative importance in various states can be had from the inter-state distribution of employment in the industry (See Table 1.1).

Table 1.1 : Inter-State Distribution of the Workforce
Employed in the Footwear Industry in 1971

Name of state	Total population	Total no. of workers in the footwear industry	% share of each state
1	2	3	4
All-India	54,79,49,309	4,29,720	100.00
A.P.	4,35,02,708	44,518	10.36
Assam	1,49,57,542	160	0.04
Bihar	5,63,53,369	14,549	3.39
Gujarat	2,66,97,475	19,966	4.65
Haryana	1,00,36,808	21,289	4.95
H P	34,60,434	4,012	0.93
J & K	46,16,632	3,131	0.73
Kerala	2,13,47,375	3,665	0.85
M P	4,16,54,119	46,554	10.83
Maharashtra	5,04,12,235	40,795	9.49
Mysore (Karnataka)	2,92,99,014	19,420	4.52
Orissa	2,19,44,615	2,238	0.52
Punjab	1,35,51,060	24,251	5.64
Rajasthan	2,57,65,806	53,277	12.40
Tamil Nadu	4,11,99,168	11,439	2.66
U P	8,83,41,144	72,713	16.92
West Bengal	4,43,12,011	38,449	8.95
Chandigarh	2,57,251	152	0.04
Delhi	40,65,690	8,020	1.87

Source : Figures of Workers: Census of India, 1971, Part II - B (iii), General Economic Tables, Table B-IV, Part A.

: Population figures: Census of India, 1971, Part II - A (ii), Union Primary Census Abstracts.

1.11 Structure of the Industry : Dominance of the Decentralised Sector

The structure of the industry consist of a highly decentralised production base comprising very small production units, dominated by three or four large firms at the top controlling the major share of the market. The decentralised sector is a heterogenous group and includes manufacturers of civilian footwear, ammunition boots, readymade shoe-uppers and other components, job-service as well as footwear repair units.

Of the few big firms, Bata is the largest. Other than Bata, the firms having an all-India market, are Carona Sahu and Flex. These firms along with Bata, form part of what is known as the organised sector. Most of the other organised manufacturers feed either localised markets and/or export a limited range of products.

Even though the organised sector accounts for the major share of the market, bulk of the production which is largely bought by the organised sector, is generated in the unorganised sector. This can be seen from the individual cases of leather, rubber and plastic footwear.

In the organised sector of the leather footwear industry, there are ten units manufacturing leather

footwear. In 1975-76, out of a total estimated production of 245 million pairs of leather footwear, village artisans and the small scale units in the unorganised sector accounted for over 90 percent, while about 6 percent was contributed by the organised sector³. The growing importance of the unorganised sector in the overall production of leather footwear in the country can be better understood if we compare the almost stagnant volume of production in the organised sector with total national production⁴ (see Table 1.2).

Table 1.2 : Production of Leather Footwear in India
Between 1973 and 1978

Year	Production in the organised sector	All-India production	(2) / (3)
	(in million pairs)		(in percentage)
1	2	3	4
1973	14.6	232.3	6.28
1974	13.8	241.0	5.73
1975	15.4	249.1*	6.18
1976	15.7	258.5	6.07
1977	13.1	258.0	5.08
1978 (estimated)	13.0	260.0	5.00

Source : 1) For production in the Organised sector: Kothari's Economic and Industrial Guide of India, 1980-81.

2) All-India figures: Table 37, Food and Agricultural Organisation, 1983.

Note : *This figure differs slightly from the estimate mentioned above. The latter was prepared by Central Leather Research Institute, Madras. Estimates of leather footwear production are few and far between and are also often contradictory. For a fuller discussion, see Chapter II.

In the case of rubber footwear, neither the figures of total production nor that of the unorganised sector are available. In the organised sector, there are 15 units⁵. Here too, the production shows a declining trend (see Table 1.3).

Table 1.3 : Production of Rubber Footwear
Between 1968 and 1983, Averaged
Over Three Years

(in million pairs)

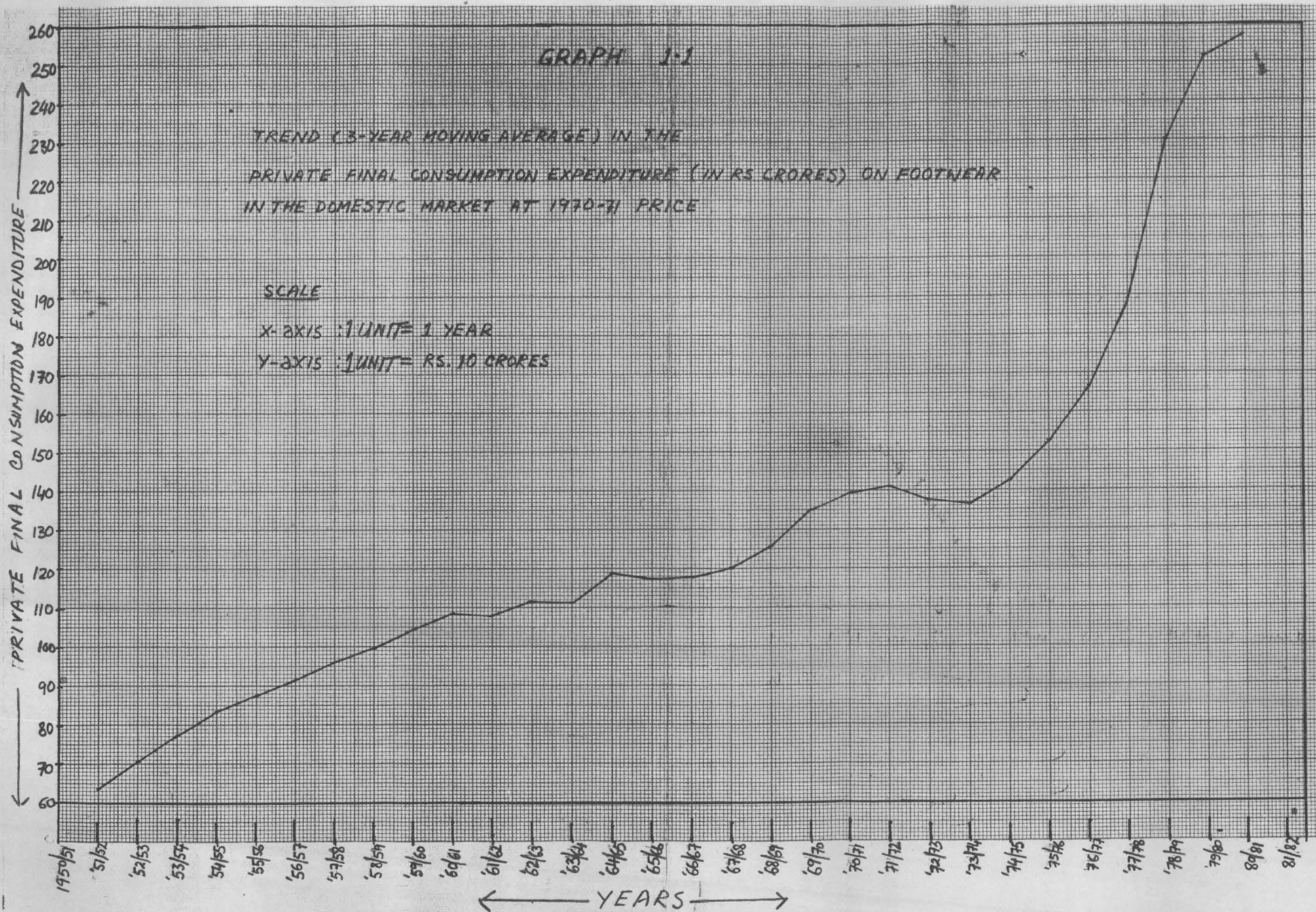
Year	Production
1	2
1968-70	50.44
1971-73	42.02
1974-76	39.12
1977-79	40.68
1980-83	38.66
(Four-year average)	

Source: Computed from Indian Rubber
Statistics, vol. xvi, 1980

In the case of PVC or plastic footwear, ever since their introduction by government decree, the entire production has been reserved for the 'decentralised' sector.

Although there exists no aggregate data on either production or sales of all types of footwear in the domestic market, it can be shown that the organised sector's share in the overall market for footwear has been declining over time. Thus while the organised sector's production of leather and rubber footwear individually appears as either stagnant or falling, estimates of aggregate Private Final Consumption Expenditure on footwear in the domestic market show a rising trend from the beginning of the 1970s (see graph 1.1). This implies that while the domestic market for footwear has grown, the share of the organised sector has been declining.

The importance of the decentralised/unorganised sector can be explained partly by the government policies which have sought to support and encourage the cottage and small scale sector in the post-independence period. However more importantly, the industry also enjoys certain advantages which has encouraged easy entry by new and small entrepreneurs. The main advantages are low capital intensive nature of production (this is especially true of leather footwear), the relatively simple technology, slow pace of technological change and its fairly widespread diffusion. Two other factors which



also perhaps explain the continued dominance of small scale units in the footwear industry are (i) the segmented nature of the market providing a demand for the products of cottage and small scale units which differ in quality, price etc from that of the large scale firms, and (ii) the bulk of the cottage and small scale units especially in leather footwear, is in the hands of the Chamar community which has traditionally been and continues to be the dominant community engaged in the footwear industry. In this case it is possible that both skill as well as the business being passed down from one generation to another have tended to perpetuate the small nature of the production.

The importance of the share of production in the decentralised sector is also reflected in the size-structure of the footwear manufacturing units in the industry. In the case of leather footwear, according to the 1961 census (see Table 1.4) 25,571 out of the total 26,629 factories and workshops engaged in the manufacture of shoes and other leather footwear in the urban areas, employed less than ten persons and 26,249 of them did not use power. This indicates the existence of a substantial non-mechanised small scale sector in the leather footwear industry. If this is the

Table 1.4 : Classification of Factories and Workshops in the Leather Footwear Industry
By Power and No Power Used and Size of Employment

INDIA - URBAN

Kind of fuel or power used	No. of factories and workshops by size of employment								
	Total	1 person	2-5 persons	6-9 persons	10-19 persons	20-49 persons	50-99 persons	100 persons & above	Persons not stated
1	2	3	4	5	6	7	8	9	10
Total	26,629	11,154	13,162	1,255	606	90	23	9	330
I. All Fuels	380	138	177	32	16	8	3	6	..
Electricity	101	27	30	16	12	7	3	6	..
Other Power	279	111	147	16	4	1	..	..	..
II. No Power	26,249	11,016	12,985	1,223	590	82	20	3	330

Source : Census of India, 1961, vol. I, Part (iv) B, Housing and Establishment Tables, Table E-III

Table 1.5 : Classification of Factories and Workshops in the Rubber Footwear Industry by Power and No Power Used and Size of Employment

INDIA - URBAN

Kind of fuel or power used	No. of factories and workshops by size of employment								
	Total	1 person	2-5 persons	6-9 persons	10-19 persons	20-49 persons	50-99 persons	100 persons & above	persons not stated
1	2	3	4	5	6	7	8	9	10
Total	106	14	43	21	16	4	2	5	1
I. All Fuels	56	..	14	15	16	4	2	5	..
Electricity	54	..	13	14	16	4	2	5	..
Other Power	2	..	1	1	..	..	..	..	..
II.No Power	50	14	29	6	..	..	..	..	1

Source: Census of India, 1961, vol. 1, Part (IV) B, Housing and Establishment Tables, Table E-III

size pattern in the urban areas, we can expect the size of the units to be even smaller in the rural areas⁶.

Similarly in the case of rubber footwear (Table 1.5) also, 78 out of 106 factories and workshops in the urban areas employed less than ten persons. However so far as power-use is concerned, the number of units using power is almost the same as that not using it, implying an equally dominant mechanised and non-mechanised sector.

1.12 Problems of the Decentralised Sector

Even though the decentralised sector is quite significant in size, it suffers from the problem of access to raw material and necessary inputs, availability of credit and most important of all, marketing of products. While the large firms do their own marketing, most of the small scale units market their products through large firms and through the merchants. Historically, a significant part of the industry has remained under the control of merchant capital. The bulk of the units in the cottage and small scale sector manufacture on order from the local wholesalers and retailers, some of whom have well-established brand names of their own like the big firms. Production takes the form of the classic

putting-out system. The supply-order placed with the individual small scale producer is very low since a wholesaler/retailer generally spreads his supply base over a large number of suppliers.

A wholesaler has a wide market base. Thus a wholesaler from a city like Calcutta would market his products to retailers in rural and semi-urban areas around Calcutta, other districts of West Bengal, as well as to those in other states. In contrast, a retailer, generally implying a shopowner, is much more localised.

Between a wholesaler and a retailer, a small scale supplier generally prefers the former since he caters to a wider market across states and can therefore purchase more from him.

However, in both cases the price is usually very low and marketing is fraught with unscrupulous practices by the wholesalers and the retailers. The low price is made possible mainly because of the low cost at which a small unit is able to manufacture his products. But it is also because of limited availability of working capital and a consequent low holding capacity of the small scale producers which force them to sell at the

available price. Apart from this, a small scale producer may also receive a lower price than what is due because of his dependence on the merchant (a wholesaler or a retailer) for credit, raw materials etc which reduces his bargaining strength. In such cases the small scale producer is often forced to purchase raw materials even at a higher price, from the particular shop mentioned by the merchant, face forfeiture of payment due etc. Even though a manufacturer may try to escape this by selling to wholesalers from another state, his attempt is generally unsuccessful because of a strong unity among the local wholesalers.

A third channel is where the small manufacturers themselves or their commission agents try to form a direct link with retail shops in important outstation markets. However the manufacturers are faced with certain problems here. Thus 'physical distance' between the manufacturers and the market make both placement of orders as well as payment difficult. Secondly, since in this case the necessary trading capital belongs to the manufacturer, for a small producer working with low capital base, this implies blocking of capital as well as bureaucratic costs in the nature of payment to Railway officials etc.

A number of small manufacturers may also jointly employ a commission agent who contacts and does the booking of orders for them in outstation markets. The difference between a wholesaler and a commission agent is that the latter is merely an agent of the manufacturers and does not invest any capital of his own.

Finally there are petty producers who work in their domestic workshop throughout the day and bring the merchandise in the evening to the local market and sell directly by bidding. Generally known as 'hawkers', these producers can also be called a type of retailer.

In view of the marketing problems faced by the small scale manufacturers⁷, the government attempted to provide them with marketing assistance. The marketing assistance provided by the government to the cottage and small scale sector, commonly takes three forms: one, undertaking actual marketing of products on behalf of the small scale units. This is undertaken by the National Small Industries Corporation (NSIC) by setting up a network of wholesale depots in areas where small units are concentrated. Second, helping the small scale enterprises to market their products through market intelligence and surveys. This is generally done by the

State Small Industries Development Corporations, State level Development Corporations for particular industries, Khadi and Village Industries Commission, Handicraft Board etc. Finally, the most important marketing assistance is provided through the government's Stores Purchase policy which identifies and reserves a number of products of the small scale sector for exclusive purchase by the Director General of Supplies and Disposals (DGS & D). The purchases made by the DGS & D are based on the requirements of various government bodies, agencies etc. NSIC generally acts as the intermediary between the DGS & D and the small scale units for this purpose.

In the case of leather footwear, the individual state governments like West Bengal, Tamil Nadu set up Leather Development Corporations in their respective states. Most of these corporations came up around the mid 1970s and thereafter. Apart from providing raw materials on concessional terms, common facility centres and the like, these corporations are supposed to procure, as part of the Stores Purchase programme, the entire state government requirements (police, army etc) from the small manufacturers⁸.

In West Bengal it was found that their coverage in terms of number of units assisted is still very small. A possible reason for inadequate coverage could be that the officials involved in this work are often guilty of favouring few suppliers and therefore place all orders only with these suppliers. As a result the very objective of Stores Purchase programme becomes self-defeating. Another corporation called Bharat Leather Corporation set up by the ^{central} government in 1974 has also failed to provide adequate marketing assistance to the small scale manufacturers.

An alternative way in which the government has sought to solve the marketing problem of the small scale sector is by encouraging a sub-contracting relationship between the latter and the large scale sector. Sub-contracting of production by the big firms has been traditionally widespread in the industry and constitutes an important market channel for the small scale producers. On the other hand, this enables the firms in the large scale sector to reap certain benefits in the form of lowering cost of production, better absorption of market fluctuations etc.

Nearly every manufacturing firm with an established

brand name like Carona, Flex, Trot, Baluja, Lakhani farms out part of its requirements to the small scale manufacturers and sells them using its own brand name. This is also true of Bata, which as already noted, is the largest unit in the industry and alone accounts for the single largest share of the market. Although it has a large vertically-integrated structure (with its three factories and extensive market network together employing more than 20,000 persons in 1975) the company has been sub-contracting production for long like other firms in the industry.

However, in the post-independence period, government policy has been instrumental in encouraging sub-contracting in order to strengthen the inter-linkages between the two sectors. In the following we try to look at this role of government policy.

1.13 Government Policy and the Decentralised Sector

The policy of the government to encourage inter-linkages between the large and the small scale sector follows from its larger development plan to promote cottage and small enterprises⁹. Ever since the beginning of planned development, promotion of small scale, khadi and village industries and preservation of traditional

handicrafts was envisaged as an important development objective of the government. The underlying concerns of such an objective were clearly spelt out in the 1956 Industrial Policy Resolution and the draft frame of Second five year plan. The development of cottage and small scale industries was intended to generate immediate employment opportunities on a large scale, facilitate effective mobilisation of resources which might remain idle otherwise, spread the entrepreneurial base and ensure a more equitable distribution of national income.

In the pursuit of such an objective, the major initiative was taken in the First and more importantly Second five year plan by way of accepting the principles of a Common Production Programme for large and small scale industries. The Common Production Programme (or CPP) was looked upon as a way of determining the respective contributions which the large scale, small scale and cottage sectors could make towards meeting the total requirements of a community.

While the CPP demarcated the role of small scale industries in the overall economic development, this role was clearly enhanced in the Second five year plan. Along with its heavy industrial bias, the latter

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repeatedly emphasised that increased demand in the Second plan period for consumer goods, precision parts and components etc would have to be met in a phased manner through increased production in the cottage and small scale sector¹⁰.

The elements of a common production programme as conceived in the First and Second five year plan essentially embodies all the major policy measures that were adopted by the government over the successive plan periods. These were not only meant to promote cottage and small scale industries but also encourage closer integration between the large and small scale sector.

These elements included on the one hand, protective measures such as reservation of certain spheres of production in the small scale sector, limiting the expansion of capacity in the large scale sector in these spheres. On the other hand, they included more positive measures of assistance like liberal credit facilities, assured supply of raw materials, machinery, provision of technical assistance, fiscal incentives and most importantly, differential excise policy. These were meant to improve the competitive strength of the small producers vis-a-vis the large scale firms.

These two sets of measures together were intended to create the conditions for inter-linkages between the large and small scale sector. This becomes evident if we look at the impact of some of the individual policy measures.

Although the implementation of the Common Production Programme actually intensified from the Third five year plan, steps had already been taken for some of the industries during the First and Second plan period. Thus, for industries like cotton textiles, bicycles, sewing machines, storage batteries, cottage match etc, the respective spheres of production for the large scale and small scale were clearly demarcated and separate targets of production were drawn up.

In the case of leather footwear, based on an estimated domestic requirement (by Planning Commission) of 90 million pairs by 1955-56, the total production of leather footwear in the draft Second plan was estimated at 90-91 million pairs. Out of this total, 6 million pairs was marked out as factory production, while 85 million pairs was to come from the cottage and small scale sector¹¹.

The institutional support necessary for implementing

such a policy was already being laid out from the early 1950s. At the central level, two important institutions that were set up are Small Scale Industries Development Organisation or SSIDO (1954) and National Small Industries Corporation or NSIC (1955). While the former assumed an advisory role, trying to co-ordinate the assistance programmes and lay down broad policies for development, the latter carried out a wide range of functions like supply of machinery on hire-purchase basis, operation of training centres, distribution of scarce items and assistance in the Stores Purchase programme of the government. At the state level, some of the important institutions, set up to carry out similar functions were Director of Industries, State Small Industries Development Corporations and State Financial Corporations. In addition, for the development of major traditional industries like handloom, coir, handicraft etc, separate statutory boards and commissions were set up like All-India Handloom Board (1952), All-India Handicraft Board, Coir Board, Khadi and Village Industries Commission (1966).

Among the various positive measures of assistance, the most important policy that encouraged sub-contracting by the large to the small scale enterprises, is the

policy of differential excise duty. The policy was essentially meant to improve the competitive strength of the small scale producers vis-a-vis the large, as a possible counterweight to the economies of scale in production enjoyed by the latter. Given that the small scale units generally enjoy low labour and overhead cost of production, an excise subsidy further reduces the cost of production for these units. Thus for products where largely similar techniques of production are employed by both large and small scale units, an excise subsidy provides the latter with a price advantage over the large. It is precisely for this reason that large scale units often find sub-contracting of complete products to small scale enterprises (rather than produce in-house) an attractive proposition.

In leather footwear an excise duty was imposed for the first time in 1954 on large scale factories at the rate of 10 percent ad valorem, while units employing less than 50 workers and using less than 2 HP were exempted from such a tax. The policy of differential excise in this case was intended to protect the production and employment of the non-mechanised sector from competition of the large scale mechanised sector. This

preferential treatment has lowered the manufacturing cost of the small enterprises whose power use is insignificant. For reasons mentioned above, the policy of differential excise has prompted Bata and other big manufacturers to take advantage of the benefit of exemption intended for small units, by farming out production of labour-intensive nature like handmade leather footwear. This was clearly indicated by the Dandekar Committee (1980)¹² which observed that the policy enabled the large firms to make considerable profit simply by lending their brand names to products actually manufactured by the small scale units. An attempt was therefore made in 1977 to introduce an amendment whereby exemption was to be granted to a 'manufacturer' instead of a 'factory' so that footwears manufactured by small producers and bearing the brand name of another would be considered as that manufactured by the latter. This was however opposed by the small manufacturers themselves for and on behalf of the large firms mainly because of marketing problems¹³.

Another major assistance is in the form of providing concessional finance. The availability of liberal finance to the small scale enterprises enhance their prospect of becoming sub-contractors since it

enables the small units to sell their merchandise on credit to the large firms. That this is of clear advantage and preferred by the latter is obvious from the fact that credit sale by the sub-contractor is found to be a common arrangement in sub-contracting relationship¹⁴.

Among the protective measures, the most important policy encouraging sub-contracting has been the reservation policy of the government. The policy essentially implies protecting the cottage and small scale sector, by reserving certain spheres of production for exclusive development in this sector while restricting further growth of the large scale sector in those spheres. The beginning of a reservation policy, as we saw, already existed in principle from the First five year plan in the idea of a Common Production Programme. However it was only from the Third five year plan onwards that the policy of reservation was actually intensified. Thereafter the list of reserved items was progressively expanded, bringing the total to 834 items by the time of Sixth plan.

The reservation policy has encouraged sub-contracting practices in the footwear industry. This

is because, while the policy has encouraged more and more small units to take up production by protecting them from competition from the large scale sector, it has not been able to solve the problem of marketing their products. Thus, given inadequate marketing assistance from the government and the fact that the small producers are left to the mercy of the merchants who effectively control the market network, reservation policy has implied increased dependence of the small enterprises on the large in the form of sub-contracting relationship¹⁵.

In the case of leather footwear, long before actual reservation took place, the preconditions were built up right from the First five year plan¹⁶. Thus no application either for establishment of new large units or substantial expansion of existing ones was approved by the government during the First plan period. As part of the Common Production Programme, the volume of production in the large scale factories was kept under control and any new proposal for increasing capacity was considered only in the light of its effect on the cottage and small scale sector. The policy of non-expansion of capacity in the large scale sector continued even in the Second plan period.

The leather and PVC footwear was finally reserved with effect from April 1st, 1967, for exclusive development in the cottage and small scale sector. As part of this policy, further entry of new large firms in the industry and expansion of the existing ones like Bata was restricted. Expansion and/or entry was permitted only subject to a heavy (75-100 percent of production) export obligation. With increasing concern of the government for balanced regional development especially from Fifth plan onwards, liberalisation came to be tied with new conditions in the form of locating the additional plant capacity in notified backward areas.

Similar impact as in the case of footwear, is also observed in the cotton textile industry. In the case of cotton textile, the policy of reservation applied as early as 1950 whereby statutory restriction was placed on the cotton mill industry for manufacturing certain types of dhoties and sarees that were reserved exclusively for production in the handloom sector. This was further supported by a special cess that was levied on mill cloth in 1953. In order to enable the handloom sector to expand production to 3,200 million yards by 1960-61, it was recommended by the Karve Committee that production by mills and power looms should be limited

to the level already reached by them. However, the existence of an intermediate sector like powerloom encouraged the organised mill sector to sub-contract production in order to overcome the freeze on its loomage capacity.

Finally, a more direct attempt^{made} by the government to encourage sub-contracting has been through its Ancillary development policy. Ancillaries are a separate identity within the small scale industries. Development of small enterprises as ancillaries to public and private sector undertakings is intended to develop closer integration between the large and small scale sector.

Apart from ancillary development, the government also set up sub-contracting exchanges for facilitating greater inter-relationship between small and large scale units.

From the discussion above it follows therefore that government policy has helped create an atmosphere conducive to sub-contracting. However as we shall see in Chapter II in the case of Bata, apart from government policy, an emerging internal crisis in the 1970s also

forced the company to generally encourage inter-linkages with the small scale units in the industry.

1.2 Review of Literature

Sub-contracting forms an important aspect of organisation of industrial production. The main distinction between sub-contracting and purchase of ready made parts and components by firms (or what is known as buying off-the-shelf) is that in the latter, the firm has no contractual relationship with the suppliers, nor does production take place according to the specifications of the individual buying firm. The importance of sub-contracting as an industrial phenomenon in India grew mainly from the early seventies onwards. It came ~~about mainly due to~~ (a) growth of small scale industries which were consciously promoted by government policy and (b) growing militancy of organised labour and the crisis of slower growth and declining profitability faced by the industrial sector in the latter half of 1960s. The response to which was a reorganisation of industrial capital and output¹⁷.

In India, sub-contracting exists in a wide range of industries from automobiles, metal engineering and electronics to consumer goods industries like electric appliances, clothing, leather products and the like.

With the growing importance of this phenomenon, there appeared a number of studies in India, mostly between late 1970s and early 1980s, that dealt specifically and in a fairly detailed manner, with the issue of sub-contracting. These studies in order of their year of publication, include those by Papola & Mathur (1979), S Lall (1980), NSIC (undated) and of a slightly different genre, study by Nagaraj (1986). All these studies are based mainly on the engineering industry. This repeated choice of various branches of the engineering industry for studying sub-contracting may be explained partly by the fact that this particular industry was worst hit by the recession and partly because the commonly divisible nature of the production process here makes for a higher incidence of sub-contracting.

While we do not attempt to do an exhaustive review of literature here¹⁸, we examine a few studies to elaborate our point.

To begin with, in the studies by Lall, Papola and Mathur, the understanding of sub-contracting rests on the central concept of 'linkage' either in the inter-firm or inter-sectoral sense. The concept of inter-firm linkage arose mainly as a critical offshoot

of the orthodox theory of the firm and the market¹⁹. Sub-contracting as a form of inter-firm linkage explains inter-organisational behaviour in the context of vertically related markets. These markets, as a result of their commonly imperfect nature, entail a transaction cost for the necessary co-ordination of investment decisions. Sub-contracting in such a case serves to minimise this transaction cost. However, the actual make-buy choice made by a firm is determined by the nature of technology involved and the relative cost of sub-contracting vis-a-vis vertical-integration²⁰.

Set in the above framework, the study by Lall is a firm-specific study of AL and TELCO, the two leading truck manufacturers in India. In an attempt to explore the backward linkages of these two firms, the author finds that sub-contracting of components/parts by the firms was determined mainly (as stated before) by the technological nature of the components. Government policy also played a major role in inducing the firms to sub-contract. However, the extent of linkage creation varied between the two firms, depending on the size and location of their existing plants, the nature of organisational structure (whether more vertically-integrated or not) and the tradition of their parent

firms.

Among the ten type of linkages created by AL & TELCO, as listed by the author, the most important is technological. So far as the actual benefit of such linkages to the suppliers is concerned, it depends mainly on their size and type of technology involved. Although unable to support his arguments quantitatively, Lall draws an impressionistic conclusion that suppliers on the whole have benefited rather than lost through the linkage relationship.

Compared to the above approach, the study by Papola and Mathur of the Metal engineering industry is set within the broader formal-informal sectors framework. According to this, the mutually exclusive character of the two sectors make for strong linkages in terms of inputs, technology and market as a means of developing symbiotic bonds between the two and thereby mitigating the structural inequality. The study considers both sub-contracting of intermediate products as also complete products. Unlike the study by Lall, the discussion here is mainly at the level of the industry and hence does not contain firm-specific details.

The Metal engineering industry is divided into small and large sectors (substitutes for 'formal' and 'informal') on the basis of size of employment, type of organisation and technology used. The authors try to explore the extent and pattern of linkage and their impact on the linked enterprises. The most predominant form of linkage was found to be market linkage, while technological linkages appeared to be weaker. The dominance of market linkage was mainly because of a 'spurt in demand' which the large enterprises were not equipped to meet.

The authors finally make an attempt to evaluate the impact of linkage on enterprises in terms of growth of their output, employment, capital and labour productivity. According to the authors, insignificant productivity gains made by small enterprises through linkage is mainly because of the simple technical nature of the product group in which linkage takes place. However, we feel that without going into the details of the nature and conditions of employment, organisation of production etc in the small scale sector, an evaluation of the impact of sub-contracting in terms of the above indicators alone is inadequate.

The study by Nagaraj in this context, make an interesting departure from the others in as much as it attempts to integrate the rationale of sub-contracting with the growth process of individual firms in the context of wider industrial changes. Nagaraj's study also attempts to provide details about workers, wages and conditions of employment in the small scale suppliers' units, thereby trying to bring out the logic of sub-contracting in its totality.

Of the three firms considered by Nagaraj, two are in the public sector, manufacturing telecommunication equipments (ITI) and machine tools (HMT) and one in the private sector (pseudonym, XYZ) manufacturing machines. Except for ITI, which is a public sector monopoly, in the other two cases, the study shows how growing competitive forces together with government policy compel the firms intending to grow, to be more cost conscious and therefore encouraging among other things, sub-contracting/ancillarisation. Thus, in the case of private sector firm XYZ, the nature of machine manufacturing allowed for decentralisation and the cost differential between large and small being quite big, the firm found it useful to farm out. Apart from reducing labour cost, sub-contracting also enabled the

firm to better absorb the market fluctuations and reduce its inventory carrying cost. Similarly in the case of ITI and HMT, ancillarisation was useful in bringing about more specialisation, economies of scale and greater flexibility.

Sub-contracting is mostly in terms of technologically simple components, machining and assembly work. In all three cases, the extent to which sub-contracting/ ancillarisation is developed, the type of sub-contractors/ ancillaries promoted and the manner in which they are selected and promoted, depend on the nature of organisation of the parent firm (whether public sector or private; whether more or less vertically-integrated), their location and relative urge for cost efficiency. Thus both ITI and HMT being Public Sector Enterprises (PSEs), their ancillarisation programmes had to consciously keep in mind (a) spread of entrepreneurial base (b) diffusion of technology and (c) creation of employment. The constraints posed by the nature of organisation is brought out well in the case of HMT which had to restrain from farming out to outside small scale units in order to avoid labour retrenchment in its own plant.

Secondly, differences were also shown to exist between PSEs. Hence, while ITI developed ancillaries in a manner that bred inefficiency right at the root, in the case of HMT (or even XYZ) this was not so. In the case of ITI, from the selection of ancillaries to the nature of work to be sub-contracted, political and bureaucratic interference rather than economic consideration seem to be the guiding factors. In contrast, HMT (another PSE operating in a much more competitive environment) made conscious efforts right from the start to control inefficiency. This is evident from its effective prevention of political interference in the decision making of the firm, allocation of ancillaries on rental basis and encouragement of competition among ancillaries for better efficiency.

In all cases technical assistance was commonly provided while other forms of assistance like provision of raw material or credit were limited. This is especially true of the private sector firm XYZ where the sub-contracting relationship is essentially business-oriented.

Finally, the reasons for sub-contracting on grounds of greater cost efficiency is explained by the conditions of employment and production at the sub-contractors' /

ancillaries' level. Thus in the case of private sector firm XYZ, the cost differential between the large and the small units is mainly due to the wage differential. Abundant supply of unskilled labourers in Bangalore from neighbouring states, lack of unionisation among them and employment of contract labour enables the suppliers to pay low wages, extract long stretches of working hours and avoid overtime payments. While this makes it possible for the small scale units to keep their labour cost low, control over the workers is maintained through paternalistic management, which unfortunately is not discussed in detail.

Thus it is with the help of cheap labour, low overheads and paternalistic control over the labourers that the sub-contractors of XYZ are able to effectively subsidise a part of the cost of their parent firms.

Without going into further details of individual case studies, it may be pointed out here that first of all, studies concerned directly with sub-contracting remain few. Secondly, those which do consider sub-contracting as the main focus of their study (a few of which we have discussed) do not really go into the conditions of production in the sub-contractors' workshop or small scale enterprises in general.

However, we feel that for understanding sub-contracting in its totality, it is important to go beyond the parent firm(s) and look at the sub-contractors as well. A major rationale for the parent firm(s) to sub-contract, as we saw, is that it enables the firm to reduce its cost of production. But questions arise as to how this is actually brought about when looked at from the point of view of the sub-contractors. In other words, what enables the sub-contractor, even after 'subsidising' the cost of production for the parent firm, to profitably survive. We would also like to see where this 'subsidisation' takes place and how.

To answer such questions it is necessary to delve into the conditions of the labour market, nature of the work force, their activities, working conditions and forms of organisation of production in the sub-contractors' workshop. An understanding of these aspects therefore is essential to complete our understanding of the sub-contracting process.

Nagaraj's study which looks into the question of the workers has been a limited attempt in this direction. However, there exists a separate set of studies which explore these aspects in considerable detail. These

studies generally form part of the vast literature that exists on the urban informal sector.

The term 'informal sector' was first used by Keith Hart in his study on urban Ghana²¹. However it became immensely popular only after the ILO employment mission to Kenya in 1972 used it to analyse the employment situation there. The report was able to direct intellectual attention from the ongoing employment debate and focus on "the more important issue of what people actually do if they are not directly employed in the formal sector, what potential their activities have and what income they can derive from them"²².

These studies are not concerned so much with sub-contracting by whom (i.e., who is the parent firm) and why. They are more interested in analysing the growth potential of inter-sectoral linkages for small enterprises, in the light of the conditions of employment and income generated in this sector, segmented nature of its labour market, constraints faced by the enterprises in the form of blocked access to raw materials, finance, technology, marketing and the extent of sub-ordination of the 'informal' to large scale activities. While we are not interested in the growth potential per se, the

studies throw light on our understanding of small scale production.

Some of these studies are highly critical of the assumption that there exists considerable development potential for small scale enterprises through linkage. According to their view, sub-contracting or a putting-out system creates a more direct relationship of dependence and exploitation of the small scale enterprises by the modern capitalist sector. Thus, it is argued that 'linkage' not only exploits the unorganised, segmented nature of the workforce, poor pay and working conditions in the small scale sector but helps to reproduce and perpetuate these conditions of dependency and exploitation²³.

In the Indian context, studies which are more in agreement with the exploitative aspect of linkage relationship are those by Harris (1982), Streefkerk (1981) and Breman (1977). Their portrayal of the labour market in the unorganised sector explains why and how labour becomes the main object of exploitation²⁴.

Harris' study of the industrial centre in Coimbatore is an extensive examination of the characteristics of small scale production and labour market there. He

distinguishes between 'workshop industry' as opposed to the 'large scale factory sector'. From his observation it follows that large scale factories by splitting up their 'formerly more integrated' production units through sub-contracting are able to economise on their cost. Thus a high proportion of the workshops (40 to 50 percent) were found to have linkages with the factories, directly producing for them parts and finished goods, doing minor job-work or indirectly producing for workshops that are directly linked with the large scale factories.

The workshops and the petty commodity producers having direct and indirect linkage with the factory sector, engage in both 'new' (e.g., welding, electroplating, sheet metal work, repair of two wheelers etc) as well as 'old' activities (e.g., shoe making, pottery, basket weaving, tinkering etc). While sub-contracting is mostly in the former, the producers engaged in traditional activities serve as suppliers of cheap wage goods for the workers of the factory sector.

In the context of the labour market, Harris' research shows that even in a small city like Coimbatore, 60-65 percent of the work force is employed outside the registered manufacturing sector. People from this part

of the population earn their livelihood from petty commodity production, small scale commerce, casual work etc.

A strongly segmented workforce underlines the importance of 'caste' as a source of differentiation between the workers. Thus caste identities become another 'resource' to be exploited. Using caste as a means of discrimination, the large scale factories are also able to keep the segmented nature of the labour market intact. Apart from caste, Harris finds significant difference in terms of education, landownership and wage rates. When looked at this way, there seems to exist no link between casual workers, permanent wage workers, small producers and the traders.

Streefkerk's study of the small industries and labour conditions in Bulsar, Gujarat shows close association of a number of industrial units with the large industrial concerns. An association that enabled the large concerns to ensure supply of relatively cheap parts and also to contract out certain phases of the production process. The study clearly shows how conspicuously low wages, long stretches of working hours, poor working conditions and a gross neglect of all labour legislation in the small scale units together force the

cost of labour down.

Like Harris, Streefkerk focuses attention on conditions of labour and labour relations. He observes that while divisions within the working population prevent collective action, it also builds up "extra-economic" solidarities in the form of caste associations among the workers. He finds that segmentation is also caused by other factors like religion, community, ethnic group, language, landownership, educational and skill levels in the pattern of recruitment and formation of the labour force.

The hypothesis of a fragmented labour market is also confirmed by Breman's study of the Valsad district in South Gujarat. He raises similar questions as that raised by Harris and Streefkerk and reiterates the role of the above mentioned factors in labour market segmentation. However both Streefkerk and Breman argue that the root of segmentation lies in the scarcity of employment opportunities in the local economy that actually enhances the importance of these factors.

In this context, we may point out two more studies which highlight specifically the exploitation of female labour in the footwear and clothing industry through

extensive use of putting-out system of production. These are studies by Hussain & Rao (1984) and Mies (1982).

The completely divisible nature of the production process and the relatively simple technology in these industries commonly give rise to 'activity, component as well as product form' of sub-contracting²⁵. The study by Hussain & Rao of the Garment export industry in Delhi²⁶ shows how the industry is able to thrive mainly on the basis of a fragmented nature of production, paternalistic management and exploitation of women workers²⁷. A more detailed study of a similar type by Mies on the lace making industry of Narsapur in Andhra Pradesh in fact questions the intention of various development programmes that aim to integrate poor rural women into export-oriented commodity production. Her analysis of this highly export-oriented household industry points to similar conclusions as that reached by Hussain & Rao. It shows that the process of capital accumulation in the industry is sustained by perpetuating a specific form of organisation of production (putting-out system) and exploiting a labour force comprising mainly poor women.

We have already noted that the economic rationale of sub-contracting lies in its ability to exploit the

labour force. To this end, an unorganised and fragmented workforce (and the factors that create it) only helps to strengthen and maintain the capitalist's control over the workers and undermines the possibilities of a collective resistance. Our review of the three case studies only corroborate this theory.

Another aspect so far neglected in the sub-contracting literature is the organisation of small scale production and the possible dynamics within various forms of organisation.

In the process of industrial development, various forms of small scale production seem to persist despite competition among themselves as well as from the large scale units. The prevalence of sub-contracting practices in the manufacturing sector indicate one important way that they can survive.

However, the resilience of these various forms of small scale production, it is argued, depends on the preservation of certain conditions of labour, capital and technology. Thus it is a change in any of these conditions that explains the dynamics of the various forms. There are two studies, on the traditional industries of Kerala which bring out this dynamics clearly.

In his study of the structural transformation of Coir Weaving industry, Thomas Isaac (1983) identifies three distinct phases. The distinction between the three phases is on the basis of forms of organisation of production. The movement from the first to the third phase involves shifting of production by the capitalist from large scale factories to domestic weaving establishments and finally to introduction of powerlooms in the weaving industry.

According to the author, the form of organisation resorted to by the capitalist in a particular phase is determined by the level of class struggle in the industry at that point. Thus between the first two phases, the trade union activity being restricted to large scale establishments, the capitalist shifts production to the decentralised, small scale units. However, as the trade union activity spreads more evenly, covering the decentralised workforce, accompanied by small producers' movement in that sector, the capitalist is forced to shift the technical basis of production by introducing powerlooms. Thus the introduction of powerloom in the Coir Weaving industry is marked by class struggle reaching its peak.

The study by Pyralal Raghavan (1986) of the Beedi industry, another traditional industry of Kerala, arrives at similar conclusions. He analyses the evolution of the Beedi industry in four phases, covering a period of more than sixty years. Here too, the movement from the first to the fourth phase observes production being transferred from one form of organisation to another.

While the first two phases are marked by shift in production from large scale factories to small scale establishments, in both cases the capitalist recruits workers directly. However, between the second and the third phase, an important transition take place from direct to indirect production by the capitalist who now employs middlemen. In the last two phases we find the middlemen shift production from small scale establishments to household production units, employing unorganised women workers. Each shift is marked by the emergence of trade union activity in different sections of the industry and growing interventionist policy of the government which forces the capitalist to continually search for new areas of exploitation.

In the final stage, the emergence of co-operatives in the Beedi industry in Cannanore and the locational

shift of the industry to new low wage areas, not only indicate a rising militancy among the workforce in the industry and restrictive nature of government policy but also speaks of the method of resistance adopted by the capitalists.

So far our discussion covered three sets of studies which can be broadly divided into two types. One belongs to the literature that exists on sub-contracting per se while the other is generally about small scale production and deals with a wider canvas. The issues raised in the sub-contracting literature, although complementary to those in the realm of small scale production, have generally been looked at in an individualistic manner, isolated from each other. In this context, the purpose of our enquiry has not only been an attempt to go beyond the limits of the existing sub-contracting literature but also to integrate these complementary-yet-isolated issues so as to enrich our understanding of sub-contracting.

In the first set of studies by Lall et al., we saw that the attempt was essentially to look at sub-contracting from the standpoint of the parent firm(s). Hence the questions that these studies seek to answer are primarily why do firms sub-contract, what are the forms of

sub-contracting, the nature of inter-relationship entailed by sub-contracting and so on. Following this approach, in Chapters II and III of our thesis, we try to raise similar questions with respect to Bata. The growth of Bata as a dominant firm in the pre-independence period, the subsequent decline of its pre-eminence towards the end of 1960s and the series of measures employed in response to this crisis constitute the main subject matter of Chapter II. It is in the course of outlining these three stages in the process of Bata's development that we try to examine why and how sub-contracting assumed an important role.

In Chapter III we look at the various forms in which sub-contracting take place in Bata, that is, the nature of product(s)/process(es) sub-contracted by the company. The government policy in the post-independence period has generally been indulgent towards sub-contracting by big firms. By looking at the rationale behind each form of sub-contracting, we try to analyse the role of government policy and see how far this has been instrumental vis-a-vis Bata's own internal crisis in encouraging sub-contracting in Bata. We also try to examine in this Chapter, the nature of inter-relationship between Bata and its sub-contractors.

However as we have argued, it is not enough to analyse sub-contracting from the standpoint of the parent firm(s) alone. Since the sustenance of such a process requires it to be mutually beneficial to both the parent firm(s) as well as the sub-contractors, it is necessary to examine how is it beneficial for the latter. It is to explore generally the conditions of production, forms in which production is organised in the sub-contractors' workshop and the dynamics within these forms, that brought us to the informal sector literature as well as that on organisation of production. It is precisely in the attempt to explore these aspects of sub-contracted production that our study hopes to go beyond the boundaries of the existing literature on sub-contracting.

In the informal sector literature, the studies by Harris and others bring to light the conditions of the labour market which is an important basis of cost reduction in sub-contracting. The importance of the two studies on organisation of production lie in their attempt to explain the dynamics within small scale production, between alternative forms. In both these sets of studies, we find that sub-contracting is not

the major theme. However within their different focus, we feel they raise questions that are essentially complementary to the questions usually raised in the sub-contracting literature.

Hence in an attempt to bring together these complementary aspects, in Chapter IV of our thesis, we turn to the sub-contractors of Bata. The Chapter is important, because by looking at the forms in which production is organised in the sub-contractors' workshop, its workers, working conditions, the dynamics within the forms, it tries to understand how the logic of sub-contracting actually operates at the level of the sub-contractors. In this sense it enables us to have a more complete understanding of sub-contracting.

The present study also looks for the first time at a industry other than engineering which has been the traditional domain of research on sub-contracting. So far there has been no systematic study of sub-contracting in the context of footwear industry in India. The only studies where some reference has been made to this aspect of the industry, has been in the context of a larger discussion on small scale industry and the urban informal sector²⁸.

Unlike most of the earlier studies which concentrate mainly on the component form, this study considers other forms like activity and product sub-contracting as well. The study mainly focuses on Bata and its sub-contractors in Calcutta and is therefore product, firm as well as area specific in nature.

We try to briefly outline once more the chapter schema of our thesis and the line of enquiry therein.

To begin with, in Chapter II we try to examine the factors that were mainly responsible for Bata's consolidation and pre-eminence in pre-independence India. The end of 1960s however was marked by a period of declining prosperity in Bata and the company responded with a series of measures. By looking at these, the Chapter tries to examine how sub-contracting came to play an important role in Bata. Chapter III essentially analyses the role of government policy in the context of Bata and attempts to see how it compares with Bata's own internal crisis in encouraging sub-contracting in the company. Thus the Chapter looks at the various departments that are entrusted with the charge of sub-contracting in Bata, the nature of products sub-contracted by them and their rationale. It concludes by examining the nature of

inter-relationship between Bata and its sub-contractors.

In Chapter IV, the shift towards sub-contractors is finally completed. Here we confine ourselves to the sub-contractors of only one department in Bata. We attempt to answer here the implicit but crucial question in the thesis, that is, what is the basis of sustaining this entire process of sub-contracting; alternatively how is sub-contracting profitable for the sub-contractors. The answer to this question sets the discussion on the forms in which production is organised by the sub-contractors. This entails further related questions like why different forms tend to co-exist, sub-contractors' preference for particular forms, the relative advantages of different forms and so on.

Conclusions are set out in Chapter V where we try to sum up the answers to questions raised above.

1.3 Research Approach

The study of Bata and its sub-contractors is primarily based on a field survey conducted in Calcutta between November, 1983 and January, 1984. The survey was conducted broadly at three levels.

First, Bata's office in Calcutta and its main

factory at Batanagar. Second, the sub-contractors of Bata in Calcutta. Survey of the latter was done in two stages. First we covered all direct suppliers of hand-made footwear to Bata from Calcutta, on the basis of the official list of suppliers provided by Bata. In the next stage, it covered some of the second-level sub-contractors, who supplied to the first group.

In the case of direct suppliers to Bata, the total number being only seventeen, our coverage was exhaustive and no sampling was necessary. Apart from these seventeen we also covered 2 more suppliers of Hawai and Sandak footwear. The number of second-level sub-contractors was much larger. The selection of five sub-contractors at this level was based purely on informal contract of the corresponding direct suppliers and most importantly, on the willingness of the unit owners to answer our queries. This was in fact largely true of sub-contractors at both levels.

The survey at the third level was meant to give us an intimate knowledge of the structure and working of the industry and to facilitate our understanding of Bata's operations, its sub-contractors, impact of government policy on the industry etc. This level consisted of a heterogenous group of people comprising

5/6 petty producers, 2 wholesale traders of footwear, 2 wholesalers dealing in raw materials, proprietor of an unit specialising in machine operations and 2 technocrats who held important positions in concerned government bodies in the industry.

The form of investigation in all cases was mainly in the nature of discussion, although a checklist of questions (See Appendix I) was prepared to steer the discussion in the desired direction. Data collection from the company entailed certain problems. One, reservation was expressed by officials especially at the top level, in divulging information of a quantitative nature, other than what was already published in the form of Annual Reports etc. The 'discussion' form of interaction helped in such cases, since this way certain information flowed more easily.

Secondly, even though the company is fairly old, surprisingly appeared to have an extremely poor historical record (less than 2 decades old) of its own development as well as the development of the industry in India in the earlier period.

For data collection from the direct suppliers and their sub-contractors, all visits were generally made

to the workshops to enable direct observation of activities²⁹.

The secondary sources that are used in this study are Census (1961, 1971), National Accounts Statistics, Annual Survey of Industries, Rubber Board and Food and Agricultural Organisation.

Notes and References

- 1 Although there exists no quantitative estimate of the exact extent of sub-contracting in the Indian manufacturing sector, attempt has been made to put together evidences that suggest sub-contracting has been widespread in the Indian industries. See Nagaraj (1984).
- 2 Compared to the 1961 Census, this figure: show a decline. Thus in 1961, the industry employed 5.4 lakh workers which accounted for 3.02 percent of the total employment in the entire manufacturing sector. While it is difficult to say what led to such a decline, a possible reason could be the change in the definition of workers between the two censuses.
- 3 See State Bank of India (1981) mimeo on leather industry. Also see DCSSI (1967, 1973), section on leather footwear. Although the terms 'organised' and 'unorganised' sector have been liberally used by these sources, none of them clearly distinguishes between the two. In the absence of a definition, we have considered unorganised sector as one which covers all unincorporated enterprises and household industries which are not regulated by any Acts and which do not maintain annual accounts and balance sheets. Consequently the regulated sector has been considered as organised.
- 4 The estimates of total national production of leather footwear referred to here are from 2 sources. One is Central Leather Research Institute, Madras and the other is Food and Agricultural Organisation (FAO) of the United Nations. The bulk of the production being from unorganised sector (which according to our definition is the unregulated sector), it can be expected that production is not always officially accounted for. In that case the reliability of these estimates may be under question. However in the absence of other alternatives, we have used these.

- 5 This figure was actually quoted unofficially by a Bata employee. There is no published source which provides this information. By organised sector it means those units whose investment in plant and machinery exceed Rs 7.5 lakhs. Recently however this investment limit has been revised upwards.
- 6 The size-structure of the leather and rubber footwear industry in the rural areas could not be obtained because the 1961 Census figures for the rural areas are given only for Major Groups and not for Minor Groups at 3-digit level of classification.
- 7 The discussion on the various types of market channels used by the small scale producers and their problems is based on our conversation with some of the independent manufacturers who have no linkage with Bata. Our ideas are also gathered from the DCSSI Reports (1956, 1958) on leather footwear.
- 8 The Stores Purchase programme applies to both central as well as state governments. In the latter case all state government departments/corporations/directorate/offices/organisations are directed to purchase a list of their requirements from registered small scale units. In West Bengal, from 1982, following the recommendations of Dr. Bhabatosh Dutta committee report on purchase of stores, West Bengal State Leather Development Corporation, along with West Bengal Small Industries Corporation, West Bengal KVIB and others, were asked to make purchases from the small scale units on behalf of the state government.
- 9 The discussion on government policy is primarily based on the Five Year Plan documents (Second to Sixth); Also Nagaraj (1984); Vepa (1971); Karve Committee Report (1955).
- 10 See Second five year plan (1955-60); see also Karve Committee Report (1955).
- 11 See Karve Committee Report (1955), p.52.

- 12 The Dandekar Committee appointed in 1980 was meant to look into the impact of tax concessions on the techniques of production used in the industry and thereby the scope for increasing the employment opportunities. In this context, the committee looked into the impact of differential excise policy in different industries like leather footwear, textile, sugar, match etc.
- 13 Another impact of differential excise in the case of leather footwear has been 'assembly' sub-contracting, whereby the big units in order to escape excise payment, manufactured 'components' in their factory for 'assembly' into footwear in the exempted sector. In order to avoid the resultant loss of revenue, the government extended the excise duty in 1960 to even component parts of footwear (made of wood and leather) produced with the aid of power.
- 14 The effect of concessional finance in enabling the small manufacturer to provide 'trade credit' to his bigger partner has been pointed out in Nagaraj (1984).
- 15 The impact of reservation policy on sub-contracting has been pointed out in Nagaraj (1984).
- 16 See Karve Committee Report (1955).
- 17 This was pointed out by Mundle (1981) and Nagaraj (1980).
- 18 { For a detailed review of literature, see ✓ Nagaraj, Centre For Development Studies working paper no. 192, 1984. For a slightly abridged version by the same author, see Economic and Political Weekly, 1984.
- 19 For a detailed exposition, see Richardson (1972).
- 20 See Richardson (1972), Blois (1972).
- 21 See Hart (1973).
- 22 See Schmitz (1982), p.10.

- 23 Similar argument about the exploitative role of the putting-out system was also made by Lenin in his classic criticism of the 1894-95 census of handicraft industries in Perm Gubernia. See Lenin (1964), The Development of Capitalism in Russia, pp.443-446.
- 24 A more generalised discussion on the exploitation and overall domination by the organised sector of the informal sector's activities has been made by Bose in the context of various slum industries in Calcutta. See Bose (1978), pp.98-121.
- 25 For different 'forms' of sub-contracting, see Nagaraj (1984).
- 26 This paper was presented by the authors in the All-India Women's conference held in Trivandrum, 1984. The paper is based on the findings of a larger study titled, 'Invisible hands: Women workers in the Garment export industry in New Delhi,' sponsored by the ICSSR.
- 27 The garment export industry is generally staffed by female workers. In this context, mention may also be made of Kalpagam's study (1981) of the industry in Madras which examines the diversity of the forms of production organisation, working conditions and characteristics of the workforce employed in the industry.
- 28 See Bannerjee (1981). Also Bose (1978), pp.98-121.
- 29 Both in the case of direct suppliers (with few exceptions) as well as second level sub-contractors we were faced with certain problems. In the latter case a major problem was that most of the manufacturers were not in the habit of maintaining systematic record of sales or maintain accounts. As a result we often had to accept what they could say off-hand. In the case of direct suppliers, an element of bias was observed in their response to questions regarding wages, profits, cost of production etc. Finally any attempt to evoke a discussion with the workers at both levels of sub-contracting was generally very difficult.

Chapter II

Growth, Decline and Plans for Recovery in Bata

In this chapter we first discuss Bata's entry into India, the establishment of manufacturing facilities in the 1930s, the three decades of growth and the decline in performance in the 1970s. This is followed by an attempt to see how the company sought to recover from this decline, and to understand the importance of sub-contracting in that context.

The chapter takes up these issues in the following order:

- 2.1 Entry and growth of Bata in India
- 2.2 Factors responsible for Bata's pre-eminence
- 2.3 Performance of Bata in the post-independence period
- 2.4 Reasons for the declining performance
- 2.5 Strategies for recovery and
- 2.6 Conclusion

2.1 Entry and Growth of Bata in India

Bata India Limited is a member company of the international Bata Shoe Organisation (Canada), which is a federation of similar member companies located in more than

ninety countries all over the world. Before 1973 Bata India had been a closely held company with 100% of its shareholding being held by BSO, Canada. In 1973 however, the company became a Public Limited Company, with a majority of the shareholding held by Indians. In 1977 the non-resident shareholding was further reduced according to FERA regulations, increasing the Indian share to more than 66%.

The international network takes its name after the founder, Thomas Bata, who formed the company in 1894 in the town of Zlin in the province of Moravia in Czechoslovakia. While the first thirty years of its existence (which began as a family enterprise) were mostly restricted to Zlin, Bata's major attempt towards expansion beyond Zlin (and Czechoslovakia) into Europe, and later, far Eastern countries began in the early 1920s, assuming greater importance in the period following the great depression.¹

The entry of the Czech organisation into India in the middle of the 1920s was to ensure supply of raw materials² and not to capture the market as such. The sale of Zlin-made shoes through agents in Calcutta and Bombay at this time was really meant as a way of paying for the raw materials imported from India. This was

part of an overall strategy of vertical integration, whereby the company could exercise considerable hold over sources of raw materials at a global level.

Even though by 1931 Bata had made considerable inroads into the Indian market and Bata Shoe Company Private Limited was set up in Calcutta, Bata in India continued to remain a mere retail network, selling shoes imported from Zlin. The plan to manufacture footwear in India came a few years later when it was clear that India provided considerable untapped market opportunities. Further, the imported Zlin-made shoes with their relatively higher production and transport cost faced overwhelming competition from the cheaper Japanese products³. Hence, it was decided that the only way to exploit the untapped domestic market opportunities and outdo Japanese price competition was to set up manufacturing facilities in India and produce cheap footwear using indigenous materials⁴.

This plan was followed by the setting up of the first factory in 1933 at Konnagar, near Calcutta. The significance of the Konnagar factory may be seen in its being the first factory in India to undertake production of footwear for mass consumption. The only other large scale shoe factory that then existed, M/s. Cooper

Allen & Company, located in Kanpur, UP catered mainly to the military⁵. According to company records, the Konnagar factory in 1934 employed 900 persons and turned out 4.2 million pairs of footwear. By the end of 1936, the factory was shifted entirely to Batanagar, a place 12 miles south of Calcutta. In 1936-37 the new factory at Batanagar was producing 40,000 pairs a day, which included rubber, canvas and also leather footwear.

Henceforth, the expansion of Bata in India followed a pattern similar to that of its Western counterparts. This implied developing Batanagar as a vertically-integrated production complex⁶ which included every aspect of shoe manufacturing. We therefore find a list of additions being made to the Batanagar complex in the form of a tannery unit (1937), a chemical section (by 1938), a modern laboratory, an engineering department (1942) to manufacture shoe-making machines, spares and metal shoe-casts and later, even a section for printing labels and making plywood boxes for transportation of goods. As a result, by the early 1940s Batanagar had become almost self contained in its production activities.

Given a comfortable market situation, further

expansion in the form of additional branch factories was made in other regions. In 1942 therefore, a leather footwear factory (Bataganj) was started in Digha, Patna. This factory in 1942 employed a daily average of 565 workers which went upto nearly 1000 workers within three years. By 1951 another factory was set up in Faridabad which engaged in the production of rubber and canvas footwear. Subsequently, a tannery unit and hide purchasing centre were set up at Mokameghat (Bihar) and a rubber purchasing centre at Kottayam (Kerala)⁷. The total employment in Bata in the middle of the 1950s was around 11,000 persons. Within the next two decades it had increased to an all time high of 22,117 employees in 1975, with Batanagar alone employing over 12,000 people.

Presently the licensed capacities of the Bata factories are given as follows:

Table 2.1 : Production Capacity of Footwear in Bata
Factories

Name of the factory	Licensed capacity in million pairs		
	Leather footwear	Rubber & Canvas footwear	Total licensed capacity
1	2	3	4
1. Batanagar	8.337	30	38.337
2. Bataganj	6.3	-	6.3
3. Faridabad	-	12.5	12.5
Total licensed capacity	14.637	42.5	57.137
Total installed capacity (in million pairs)	19.256	42.5	61.756

Source : The Stock Exchange Official Directory,
vol.18, section 36 (iii), 1983.

As we have already noted in Chapter I accurate estimates of footwear, category-wise, industry-wise are not available. However using various sources we are able to arrive at a order of magnitude of Bata's importance.

The two main categories are rubber and leather. In the late 1970s, the organised sector's production of rubber footwear was around 40 million pairs. On the other hand, organised sector's production of leather footwear in the same period was only about 14 million pairs. The

total production of leather footwear (organised and unorganised sectors together) at this time in the industry was over 250 million pairs according to sources⁸. However there is absolutely no estimate from any official or unofficial body, of the total rubber footwear production in India.

In the organised sector of the domestic footwear industry, Bata enjoys an almost monopoly position. Thus, in the total production of rubber footwear (in million pairs) by this sector, Bata alone accounts for 66 percent between 1968 and 1979⁹. In leather footwear, Bata's share in the organised sector production is even higher, fluctuating around 90 percent between 1973 and 1978¹⁰. However Bata's share in total domestic sales (in million pairs) of leather footwear is as low as 6 percent (approximately) indicating overwhelming importance of the unorganised sector in the leather footwear market¹¹.

However it is clearly understood that Bata occupies a monopoly position in the organised sector and in the overall market, it is the single largest company.

We have also tried to estimate Bata's share in the total footwear market, taking into account both organised and unorganised sector as well as all categories of

footwear. Using the National Accounts Statistics estimate of aggregate Private Final Consumption Expenditure (PFCE) on footwear (at current price) in the domestic market and Bata's own domestic sales, we find that Bata's share in the total market in value terms was as high as 35 percent in 1970-71. However in the light of the data we have presented on footwear (in terms of millions of pairs) this seems unlikely.

Inadequate data on footwear does not permit a resolution of this inconsistency between different data sources. Yet, our inference that Bata is the single largest company in the footwear market and occupies a monopoly position in the organised sector still stands.

The company has no competitor at the national level, with the possible exception of Carona Sahu & Company¹². This is because, apart from Carona, no other manufacturer has a comparable product range, nor does any company enjoy an all-India image like Bata. It, of course, needs to be added here that if we consider the domestic industry as a whole, then the existence of a sizeable cottage and small scale sector somewhat diminishes the importance of Bata.

2.2 Factors Responsible for Bata's Pre-eminence

There are three major factors which we feel have significantly contributed to the success of Bata in the industry for the last four decades. These are,

- a. a wide ranging product line
- b. easy access to international expertise on various aspects of production and sales, in particular on technology, latest international fashion and so on.
- c. an extensive market network

The company engages in manufacturing and marketing footwear, footwear components, leather and other accessories allied to the footwear trade. The range in footwear alone is vast, extending from Hawai chappals to highly expensive leather footwear. The range of a single domestic shoe-line¹³ (domestic meaning those produced in the factory and not purchased from outside), comprises about 1100 separate product lines, which is unmatched in the industry¹⁴. Apart from complete footwear, Bata manufactures and markets machinery for footwear manufacture and tanning machinery that are used all over the country¹⁵. The list also includes accessories like socks, shoe brushes, shoe polish, shoe horns etc. Lately there have been further additions to this list

with handcrafted leather jackets, ladies' handbags, brief cases, travelling bags, pouches etc., mostly sold through Bata's premier retail stores or exclusive shops in the big metropolitan cities. The privilege of being part of a multinational organisation like BSO, also enables Bata to have easy access to international expertise. Continuous flow of imported packaged concepts from the international organisation serves as a principal source of strength for Bata India. In addition, through year round global schedules of various central and regional courses, conferences and meetings between member companies, wide ranging exchange takes place on various issues. These include product development, technology, production and financial management, promotional activities like advertising, retailing operations, shop designing and so on.

Finally the company has a widespread marketing network. It markets its products both in the domestic market and abroad. The domestic sales include sales to the Government, Civil and Defence department and to the general market. For sales in the general market the domestic marketing network includes three types of outlets, namely Bata retail stores, wholesale shops and Bata agencies. There are about 900 retail stores owned by Bata which exclusively sell. Bata products all over the country. Depending on

their nature, the products may be sold either through the family stores or through flagship stores. On the other hand, the wholesale shops and the agencies are not owned by Bata. The agencies are appointed by Bata and are obliged to sell no other makes except that of Bata. The wholesale shops on the other hand, have no such ties. They are located largely in small townships, in rural and semi-urban areas. The wholesale shops are meant to market low priced merchandise (with BSC brand) to retailers. The agencies too sell cheap 'bread and butter items.' There are about 253 wholesale shops and 233 agencies spread throughout India. In comparison, Carona Sahu is found to have only 300 retail and 30 wholesale outlets. The marketing network of even smaller units can be judged from this. Any attempt to build up a similar network today will involve colossal investment and may even meet with failure¹⁶.

Apart from these factors, it should also be pointed out that Bata has assiduously developed considerable brand loyalty on the basis of its product quality and service standards.

Finally it should, however, be remembered that Bata being the pioneer, faced no competition but enjoyed a steady and growing market during its formative years.

The market was purely a sellers' market. In such a situation the company could easily consolidate its position with the aid of mechanised plants and international expertise and emerge much stronger in the post-war years.

Also, there were few government regulations constraining the company during this period. We have already seen that much of the expansion of the company had taken place prior to 1951, i.e., even prior to the introduction of the Industrial Development and Regulation Act. This indicates clearly that unlike a firm today, Bata, like many others of its time, could operate in a much more unconstrained atmosphere.

However, if one looks at the growth of the company overtime, a deceleration and stagnancy is discernible from the end of 1960s. This has been of important concern to the management of Bata. In the following sections we try to analyse this decline in terms of indicators like sales and profit, and then look at the current strategies for revival adopted by the company.

2.3 Performance of Bata in the Post-Independence Period¹⁷

Table 2.2 : Five-yearly Averages of Domestic Sales, Exports and Total Sales of Bata India, 1948-84

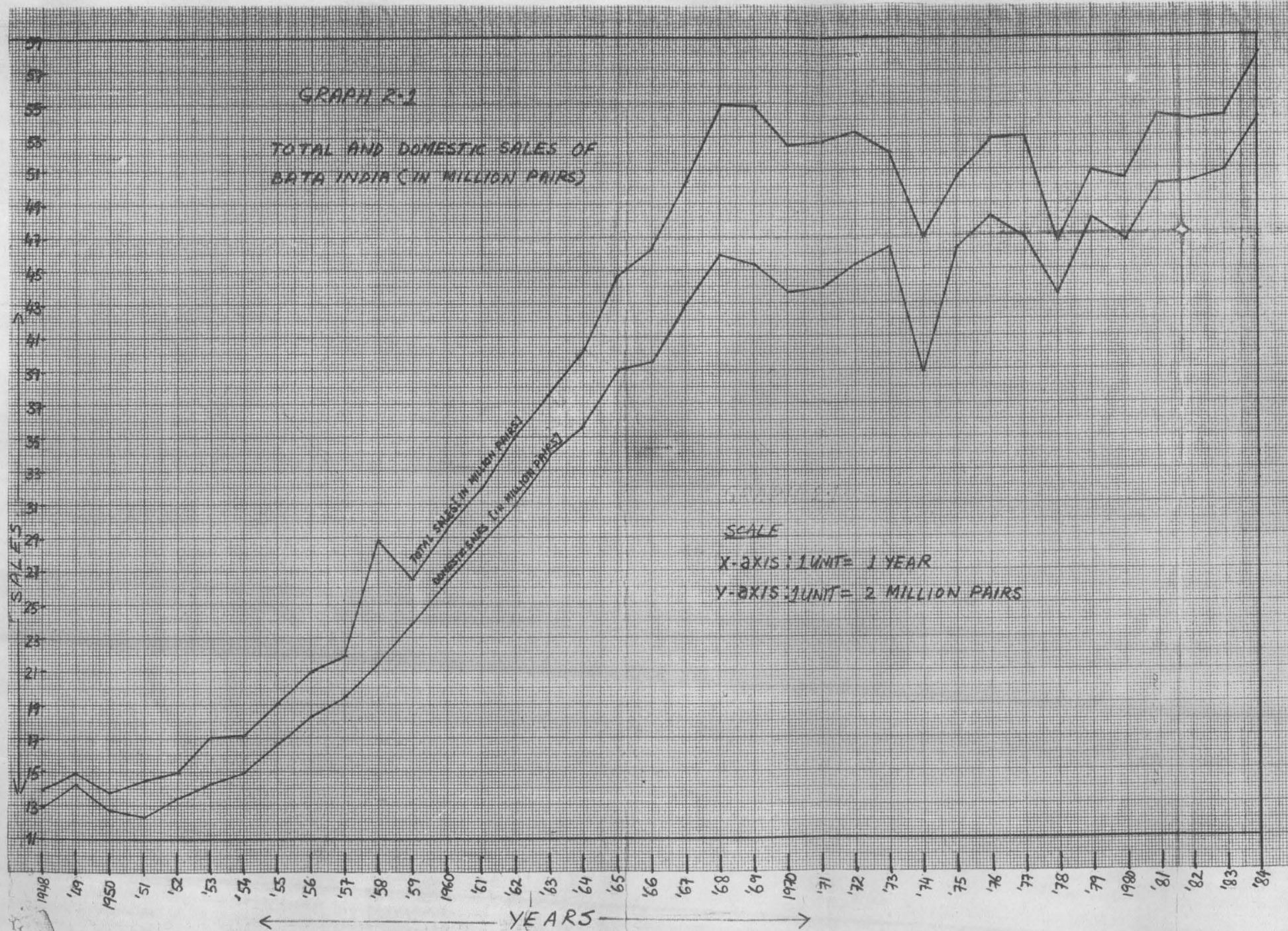
(in million pairs)

Year	Domestic sales	Exports	Total sales
1	2	3	4
1948-52	13.12	1.30	14.42
1953-57	16.73	2.50	19.23
1958-62	26.27	3.11	30.38
1963-67	39.11	5.67	42.91
1968-72	44.81	8.80	53.61
1973-77	45.31	5.75	51.06
1978-82	47.71	3.51	51.21
1980-84	50.40	3.75	54.15
1983	50.85	3.32	54.18
1984	54.13	3.86	57.99

Source : Bata India

Note : The figures for 1983 and 1984 are for those years only.

From the table above, it can be seen that after considerable growth from the late 1940s to the early 70s total sales of footwear show an overall stagnation around 51 million pairs¹⁸ (see also Graph 2.1). It is only with the beginning of the 1980s that total sales show some tendency



to rise. It is worth adding here that total sales were the highest in 1968, a level surpassed only in 1983. The graph clearly shows that domestic sales too follow a similar pattern.

It may be noted that the beginning of the 1970s also marked a decline in exports, even though the share of exports in Bata's total sales is only 11% on an average. However a part of this export is of an intra-firm nature, and depends on competition between member companies within the international Bata network¹⁹.

The decline in the domestic market share of Bata can be seen from the following table (Table 2.3).

Table 2.3 : Average (Five-yearly) Share of Bata's Domestic Sales in PFCE* on Footwear in the Domestic Market, 1960/61 - 1979/80

Year	PFCE at current price	Domestic sales of Bata	(in Rs. crores)
			(3) / (2) (in percent)
1	2	3	4
1960/61**			
1964/65	139.2	22.68	16.29
1965/66-			
1969/70	165.6	40.37	24.38
1970/71-			
1974/75	195.4	55.78	28.55
1975/76-			
1979/80	412.4	83.54	20.26
1980-81***	666.0	112.41	16.88
1981-82	711.0	131.53	18.50

Source : Based on National Accounts Statistics:
Table on Private Final Consumption
Expenditure by object from the following
NAS, February 1980; February 1982
(including Appendix 2) and January, 1984.

Note : * Private Final Consumption Expenditure

: ** The two series of data, on PFCE at current prices and domestic sales of Bata are not strictly comparable, since the first follows the system of 'financial year' i.e., April to March, while the latter follows the standard calendar year. For the sake of comparison therefore we have taken a financial year like 1960-61 as equivalent to the year 1960 since it includes major portion of that year.

: *** The figures for 1980-81 and 1981-82 given separately, are averages over two years.

The last column in the above table clearly shows that Bata's share in Private Final Consumption Expenditure (at current prices) on footwear in the domestic market has shrunk after the mid 1970s. Unfortunately, the market share in terms of actual pairs sold (or produced) can not be estimated since continuous data for total domestic sales (or production) of all types of footwear are not available.

The corporate performance in terms of profitability has also not been satisfactory in the recent period. However, we do not have data for the period before 1968. The limited data that we have confirms oral information

that corporate profitability has systematically declined since the end of the sixties. This is clearly indicated by the profitability ratios shown in Table 2.4.

Table 2.4 : Three-yearly Averages of Profitability Ratios of Bata India 1968-82

(in percentage terms)			
Year	Pre-tax profit margin	Net profit margin	Return on total capital employed
1	2	3	4
1968-70	8.67	4.00	13.10
1971-73	3.00	0.67	4.00
1974-76	1.33	0.33	4.49
1977-79	2.00	1.00	6.32
1980-82	1.33	0.33	9.22

Source : The Stock Exchange Official Directory, vol.18, section 36 (iii), 1977, 1983.

Note : Pre-tax profit margin = Pre-tax profit / Net sales
 : Net profit margin = Net profit / Net sales
 : Return on total capital employed = (Debenture interest + other interest + Net profit) / (Net worth + Debentures + Long term loans and advances)

As we can see from the Table, both Pre-tax profit margins and Net profit margins drop sharply with the beginning of 1970s with a sign of picking up later in 1977-79. There is a perceptible drop in Return on total capital employed with the onset of the 1970s²⁰, although from 1974 onwards

this shows a consistent rise. However, in none of the cases are pre-1970 levels of profitability restored.

2.4 Reasons for the Declining Performance

We think there are three reasons which explain the deterioration in Bata's profitability from the early 1970s onwards. First, an increasingly competitive market facing Bata; second, its high cost of production; third, the company's supply problems and fourth, a slow to adapt product line.

Even though there is no competition at the national level, Bata faces growing competition from the manufacturers of local unbranded or regional makes. The emergence of an increasingly competitive market in recent years, is clearly indicated in the report of a survey that was conducted for the company²¹. An interesting finding of the survey was that, irrespective of the income or age group, the overall pattern of make usage in all centres showed that use of local unbranded footwear was consistently high. Among the all-India brands Bata's share continued to be the single largest.

The manufacturers of local unbranded footwear are mostly to be found in the cottage and small scale sector of the industry, the bulk of which is in the unorganised

sector. These manufacturers have now made a dent in Bata's market for mass-consumption items like Hawaii and certain types of PVC and leather footwear which traditionally have been Bata's preserve.

As we have seen in Chapter I, the competitiveness of the cottage and the small scale sector can be partly explained by the protective and promotional policy of the government. But it is also because overtime Bata's products have become uncompetitive, especially in terms of their price. An important observation made in the survey report already mentioned was that even for the relatively affluent consumer group covered by the survey, Bata footwear seemed more expensive than other makes.

An important reason for the high price seems to be a rising cost of production. After 1973, there has been an unprecedented rise in the raw material cost in absolute terms. This was mainly the result of a phenomenal rise in the price of oil based raw materials and components in 1974 in the international market²². As a percentage of net sales, raw material cost in Bata rose from 46.65% between 1968-70 to 51.28% between 1974-76.

In such a regime of rising raw material costs, it is only to be expected that a firm in the organised

sector with fixed overheads finds it more difficult to adapt to the situation, while the protected and unorganised small scale sector is better able to absorb these price rises.

Apart from rising raw material cost, various other factors have tended to adversely affect the full utilisation of factory capacity. These include in the main, power and labour.

From the early 1970s when the power situation in West Bengal worsened, the factory at Batanagar faced frequent, unscheduled power cuts. This would generally set off a chain of losses like wastage of raw materials, payment of idle wages etc. which adds to the cost of the company²³. Finally, Bata was forced to install generators in its own plants which further added to the capital cost of production.

Increasing incidence of labour problems has also contributed to the uncertainties of factory supply. Labour is one factor where the basic ingredient of Thomas Bata's policy did not seem to work out in the Indian case. According to this policy Thomas Bata in his factory followed a strict rule of anti-unionism, achieved mainly through a strong paternalistic approach

towards labour and employment of young workers from rural regions²⁴. Even though the beginning of Batanagar factory was made on similar lines, with a very docile work force comprising mostly unskilled, migrant workers from East Bengal; overtime the factory saw the growth of a highly politicised workforce. Bata Mazdoor Union, which is the sole union for the Batanagar factory, was organised in 1945. Apart from this there also exist separate unions for the shop staff and shop managers.

The organised nature of the workforce (quite contrary to what Thomas Bata would have faced in Zlin) has also led to a rise in wage costs. Thus the share of wages in value added increased from 50 percent in 1968-70 to 59 percent in 1974-76²⁵. From the early 1970s the organised workforce has also not allowed Bata to maintain a regular, and smooth production. The 1970s and the 1980s have been noted for their frequent strikes, departmental work stoppages and go slows which meant considerable loss to the company²⁶. The worst years were 1974 and 1978, marked by prolonged industrial unrest that were confined not only to the factories but covered even the retail shops owned by the company. Compared to 1977 total sales in 1978 fell by 12% in terms of quantity. Consequently, the outside purchase in these years also increased²⁷.

Industrial relations continued to be strained even in the 1980s. Loss of production in 1983 alone due to strikes etc was valued at approximately Rs 2.7 crores, the highest since 1978.

Strikes in Bata have been primarily due to disagreements over wage hikes, bonus payment, casual and temporary nature of work and sub-contracting of production by the factory. The labour problem continues to be a significant cause of concern for Bata even today.

Finally a major drawback of Bata has been its traditional product-mix weighted in favour of basic shoe-lines like Hawaii and PVC footwear. These articles, even though best-selling do not yield much in terms of profit per pair sold. The low profit is mainly because the company is forced to keep their prices low (even if the cost is high) due to the highly competitive nature of these markets.

Apart from the factors mentioned so far, we may also add that deteriorating service standards at the Bata retail shops have further added to the worsening of the situation²⁸.

Having thus looked into the decline in Bata's performance overtime and its causes, we now try to

understand in the following section, the measures undertaken by the company to overcome this situation and their rationale.

2.5 Strategies for Recovery

The adoption of a new strategy was initiated in 1975 under the programme named 'Project Upswing'. The project, as the name suggests, is a revitalising plan aimed at adapting to the new market situation faced by the company. It may be noted here that while the project was conceived in 1975 the actual plan materialised only in the early 1980s.

According to our understanding, the main aspects of this project are to:

- i Economise on both manufacturing and distribution cost.
- ii Reduce the burden of in-house production; impose a greater thrust on marketing and explore new markets.

The measures to economise on cost in most cases, required certain internal adjustments. These include,

- a Systematic and gradual reduction of the workforce with absolute embargo on additional recruitment.

- b Technical upgradation aimed at improving productivity, which includes modernising of plants and equipment by either overhauling the existing machinery with more efficient and sophisticated ones or adding entirely new machinery.
- c Shop-floor reorganisation leading to small production units with segregated and hence a more manageable size of workforce.

The set of measures aimed at the second aspect consists of first, a reduced emphasis on direct-in-house production of every article that is sold, and second, to bring about a change in the product-mix of factory production. The latter mainly includes increased manufacturing of items which are high value-added and exclusive in nature. This new luxury market-oriented production plans are mainly because (i) unlike the basic shoe-lines, luxury articles yield a higher margin per pair sold (ii) in the relatively new and untreaded nature of the market in high fashion footwear in India, there is, at least in the short run, less competition. Finally, a third important measure is to enhance the importance of marketing not only by better utilising the existing widespread market network but also by intensifying these market channels.

Sub-contracting is an important element of Project Upswing in reorganising production. As a measure, it serves the purpose of the twin objectives of the recovery plan mentioned before. Thus while it is intended to generally reduce the burden of in-house production, minimise the cost of production and undermine the power of organised labour in the company, it is also aimed at retaining and recapturing the market share of Bata in basic shoelines.

Even though sub-contracting in Bata has been almost forty years old, it is only after mid 1960s that sub-contracting really grew in significance. A possible reason for this initial slow growth of sub-contracting is the vertically-integrated structure of Bata which went against the logic of sub-contracting. After the mid 60s both the growing government policy restrictions on Bata as well as the internal crisis faced by the company towards the end of 1960s, encouraged Bata to resort to sub-contracting on a larger scale.

It may be added here that this departure in the form of sub-contracting, from the earlier tradition of building vertically-integrated plants follows a pattern similar to some of the Western member companies of the Bata network. Some of these companies have either closed

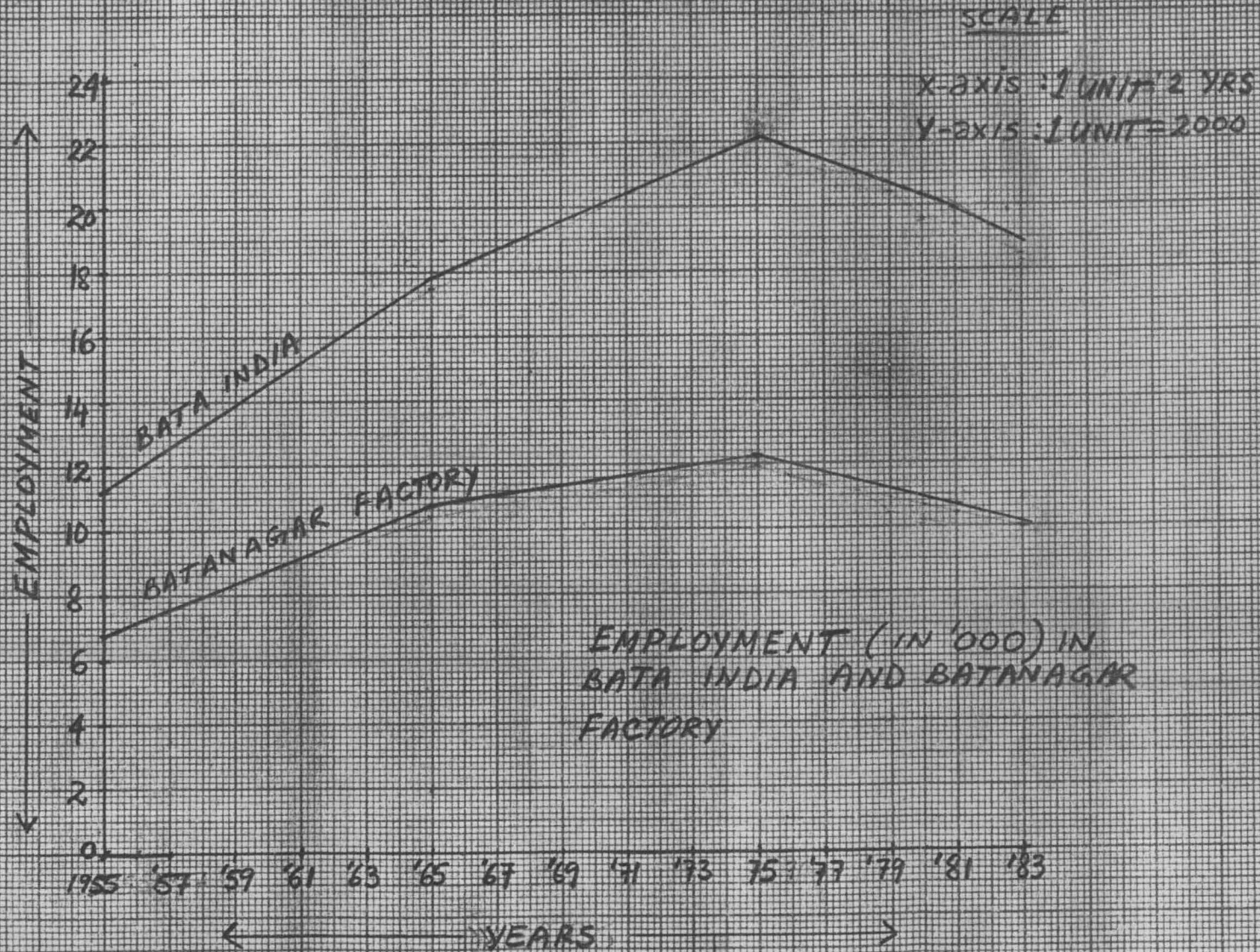
shop or have resorted to international sub-contracting because of rising militancy of labour in the West and intense competition from the Third world countries²⁹. This has in fact indicated an increasing trend towards international relocation of production in the Third world countries within the Bata network³⁰.

Most of these measures are already under way. To begin with, there has been an absolute embargo on additional employment in India after 1975. This is clearly reflected in the size of employment after 1975 (see Graph 2.2). The decline is mainly in the size of the manufacturing workforce³¹. Between 1975 and 1981 a decline of 10% was observed in the total size of the workforce, with Batanagar in particular showing an almost 12% decline over the same period. The same is true of other factories too, even though the decline here is comparatively less marked. The decline being largely concomitant with retirement, has been gradual, born out of a deliberate policy of the company to avoid any scope in the future for unpleasant industrial disputes.

The second way resorted to by the company for reducing its dependence on the labour force and improving efficiency has been by modernising the plant and equipment. Most of the technical upgradation measures were therefore

242

GRAPH 2.2



carried out between 1976 and 1982. Capital expenditure amounting to Rs 2.57 crores was made in the first phase between 1976 and 1978. This was spent on modernising manufacturing facilities, taking advantage of the liberal import policy of the government which permitted import of some leather footwear and tanning machinery under open general licences. Another Rs 2.46 crores was invested in 1981 and '82 to modernise assembly lines at Batanagar factory³² and for renovating the premier retail stores. In addition, investments were also made in high technology machines and power equipment. The department was re-equipped in some sections in the same period.

Apart from modernising and overhauling, efforts were also made to raise productivity by reorganising production on the shop-floor in the form of the recently (1981-82) introduced 'module system'. According to this system, the entire factory is divided into six modules. During our survey in 1982/83 the system had been introduced only in the leather factory and was shortly to be introduced in the rubber factory too.

A module unlike the earlier system, essentially compartmentalises production into smaller, manageable

and self-contained units catering only to a handful of departments³³. Each module therefore contains its own manipulation, sewing and confection³⁴ sections and serves as the single supplier to 4/5 departments. In contrast, in the earlier system, each section like manipulation, sewing and so on were significant units by themselves which catered to a large member of departments.

The module arrangement has been particularly useful in managing labour, the size of the labour force being smaller in a single module.

The account given above, therefore shows how with the accentuation of the problems of production in the factory, there followed almost concomitantly, an all out drive on the part of the company to modernize plant and equipment, mechanise and reorganise production to absorb the rising costs.

Turning now to the aspect of new market orientation, the measures in this case are related to Bata's product range, product-mix and market penetration.

The product range has been expanded to include non-traditional items such as expensive leather bags, leather jackets, ladies' handbags, travelling bags and

the like. These items are mostly manufactured by small scale units. At one time the company also considered marketing of many other related affluent consumer goods through tie-ups with various organisations³⁵.

As part of the intended change in the product-mix there has also been an increasing tilt towards producing more of high value-added articles. The first important change of this nature can be seen with the launching of the branded footwear practice in the last 3-4 years. In a bid to win back the earlier brand loyalty, Bata introduced some major international brands in the domestic market like North Star, Power range of professional footwear, Marie Claire (Ladies' leather footwear introduced in 1981), Bubblegummers, Ambassador etc. All these are basically luxury products³⁶.

This inclination towards more expensive and exclusive type of footwear is further confirmed by Bata's recent plan to exploit the market potential in light-weight professional sports shoes. Bata contributes significantly to the existing domestic demand for ordinary and professional sports shoes³⁷. A new factory for manufacturing modern type of rubber and canvas sports shoes is therefore sought to be set up in Bangalore³⁸.

Another important aspect of the new market-orientation has been to intensify market penetration, especially in the rural and semi-urban areas. In fact there has been a simultaneous drive to both broaden the sales network as also intensify the existing channels. The number of wholesale shops has gone up from 200 in 1973 to 253 in 1984. Attention is also being paid to renovation of the retail stores and opening of new flagship stores.

Sub-contracting, as already mentioned, constitutes an integral part of both types of measures. In the first case, the importance of sub-contracting lies not only in supplying footwear produced at a cheaper cost, but also as an alternative source of supply that helps to reduce the company's dependence on organised factory labour. In the second case, the role of sub-contracting is important because while the factories begin to orient themselves towards the luxury market, the significant market segment of basic shoe-lines is taken care of through sub-contracting.

2.6 Conclusion

In this Chapter we find that the consolidation of Bata in India as a large scale vertically-integrated structure took place at a time when the market was

relatively free of competition, and constraints posed by government policy were also non-existent. These factors along with the fact that Bata was part of a larger international organisation, enabled the company to attain a position of pre-eminence in the domestic market.

Much of this consolidation process in the early years also rested on successful implementation of certain basic policies of the Bata system. The two important policies were first, selling 'cheap but quality' footwear to under-sell the competitors and capture a wide market, and second, preventing the labour from organising. However, with the shift in government policy, changing market structure, nature of market demand, growing militancy of factory workers and generally rising costs of supply, these policies no longer worked and Bata was faced with a crisis. The way out in response to this crisis was not only a more selective production but also unlike before, a tilt towards the luxury market. However there is also a concerted attempt to recapture its market share in its traditional areas of strength, the mass-consumption market.

In this process of transformation, sub-contracting is seen to have a crucial role. In the first place, it is an instrument to procure and sell cheaply the

mass-consumption items in which the protected, unorganised sector has until recently been able to undersell Bata. In addition, sub-contracting also has a role to play in the production of high-profitability items for the luxury market. The strategies underway are the subject of our discussion in the next Chapter.

Notes and References

- 1 Reference to Bata's expansion into Europe and the far Eastern countries has been made by Douglas (1972), pp.178, 180.
- 2 These raw materials included rubber, raw and semi-finished leather.
- 3 See Vakil and Maluste (1937), pp.117, 153. It is shown that till 1930 Japan was the principal exporter to India, of various commodities which included apart from boots and shoes, glassware, clocks and watches, silk goods, hosiery, umbrellas, toilets and other fancy goods. Japanese products were mostly superior in terms of their low price and quality finish which not only displaced other foreign suppliers but also adversely affected local Indian production. In boots and shoes, two other important contenders were United Kingdom and Czechoslovakia in that order. The share of Japan in Indian import of boots and shoes, however, showed a relative decline between 1930 - 1935/36.
- 4 Although discriminating tariff protection in selected industries imposed by Government of India during the inter-war years led the foreign multinationals in some cases to set up manufacturing facility in India, this was not the case with Bata. This was because the policy of discriminating protection did not apply to footwear.
- 5 M/s Cooper Allen & Company was founded in 1881. It was a self contained complex of tanneries, shoe factory, industrial leather, leather manufactures, rubber and extract plant, and in course of time became one of the largest Army boot and equipment factory. In 1920, Cooper Allen was merged with North West Tannery to form the leather branch of the British India Corporation Ltd. By 1954 however the leather branch was making loss and was eventually taken over by the government. In 1969, the Tannery and Footwear Corporation of India (TAFCO), a public sector undertaking was set up in its place.
- 6 In the initial years of industrialization, the firms in Western Europe and America tended to have

vertically-integrated plants, a character later inherited by India. The reason for such a tendency has been pointed out by Nagaraj (1984). We therefore think that Bata with its European background would have tried to follow a similar pattern while setting up manufacturing facility in India.

- 7 The brief history of Bata's development in India is mainly on the basis of Company records.
- 8 There are two sources which have tried to estimate total production of leather footwear. These are Central Leather Research Institute, and Food and Agricultural Organisation, United Nations.
- 9 Using the same figures of production of rubber footwear in the organised sector as given in Chapter I, we try to give below, Bata's share in the production of rubber footwear by the organised sector.

Table 2(i): Bata's Share in the Total Organised Sector Production of Rubber Footwear

Year	Three-yearly averages of production in the organised sector	Annual average of (2) over 1968-79	Three-yearly averages of Bata's production	Annual average of (4) over 1968-79	(5) / (3)
	(in million pairs)					(in percentage)
1	2	3	4	5	6
1968-70	50.44		31.20		
1971-73	42.02		28.43		
1974-76	39.12	43.07	26.74	28.55	66.29
1977-79	40.68		27.82		
1980-83 (4-yearly average)	38.66		28.30		

Source : Figures for production in the organised sector are computed from Indian Rubber Statistics, vol. xvi, 1980.

- 10 Bata's share in the organised leather footwear sector is computed on the basis of the following table.

Table 2(ii): Share of Bata in the Total Organised Sector Production of Leather Footwear

Year	Production in the organised sector	Bata's production	(3) / (2)
	(in million pairs)			(in percentage)
1	2	3	4
1973	14.6	13.6	93
1974	13.8	12.9	93
1975	15.4	13.6	88.3
1976	15.7	14.1	90
1977	13.1	13.1	100
1978 (est)	13.0	10.6	82

Source: Figures for production in the organised sector are from Kothari's Economic and Industrial Guide of India, 1980-81.

An alternative source for obtaining figures of production of leather footwear in the organised sector is Annual Survey of Industries. The ASI census sector can be considered as the organised large scale sector. We therefore compute once again Bata's share on the basis of ASI data (see following table).

Table 2(iii) : Bata's Share in the Organised Sector Production of Leather Footwear

Year	Production of leather footwear in the census sector	Bata's production	Bata's share
	(in million pairs)		(in percentage)
1	2	3	4
1960	8.3	-	-
1961	6.1	-	-
1962	6.8	11.1	163
1963	13.4	11.3	84
1964	33.0	12.9	39
1965	15.6	14.5	93
1966	16.7	14.8	87
1968	19.9	17.5	88
1969	19.0	16.2	85
1970	19.8	15.0	76

Source : Census sector figures are based on Annual Survey of Industries, Detail Results of the Census sector, vol.4, Industrial classification no.241.

Here also Bata's share is clearly very high. But the ASI estimates seem very unreliable. For example in 1962, Bata's production exceeds total production in the census sector. Similarly the total production of census sector in 1964 suddenly increases by over 200 percent, to fall sharply in the next year itself.

- 11 Comparing the figures of total domestic sales of leather footwear in the country and that of Bata in particular between 1961 and 1980 averaged over five years, we give below Bata's share (see last column in the table below) in the total market for leather footwear.

Table 2(iv) : Bata's Share in the Domestic Market for Leather Footwear

Year	Five-yearly averages of total domestic sales	Annual average of (2) over a period of 10 years	Five-yearly averages of domestic sales of Bata	Annual average of (4) over a period of 10 years	(5) / (3)
	(in million pairs)					(in percentage)
1	2	3	4	5	6
1961-65	128.8	154.6	10.8*	12.6	8.15
1966-70	180.4		14.3		
1971-75	223.7	238.9	14.0	13.6	5.69
1976-80	254.0		13.2		

Source : Computed from Table 41, Food and Agricultural Organisation, 1983.

Notes : It may be pointed out here that 'total domestic sales' or what is referred to as 'Apparent availability' by FAO, has been arrived at by deducting total export from total national production. However, the source does not explain how total national production of leather footwear was calculated.

* The average is only for four years between 1962 and 1965.

- 12 Carona Sahu & Company (CSC), a wholly Indian owned company, began by manufacturing rubber and canvas footwear. It started manufacturing leather footwear only from 1957. The company was the first one to enter the field of plastic footwear in India. In 1978, the sales turnover of CSC was Rs 15 crores which is only 15% of that of Bata in the same year.
- 13 A shoe-line essentially represents the product range of the company, i.e., what it chooses to market for the year. A shoe-line therefore consists of

established product lines, brand new products and often modified versions of some of the existing ones.

- 14 Compared to the 1100 product lines of Bata, CSC is known to have 900 product lines of its own.
- 15 Apart from domestic sales, these machines are also exported by Bata. Export of footwear machines between 1965 and 1971 is valued at about Rs 11 lakhs. The growing importance of the engineering division is indicated by the fact that Bata has obtained of late, the membership of the Association of Indian Engineering Industry (AIEI).
- 16 A particular case in point is Swastik rubber. Although the company made an attempt to build up a retail network on the pattern of Bata, it failed mainly because unlike Bata, the network was not built up along with the growth in production.
- 17 It may be pointed out here that continuous data series right from the beginning of 1950s (or even earlier) is not available for all indicators of performance. While the longest series available in this sense is that of domestic sales, for other indicators, it begins either in the first or last quarter of 1960s. As a result our understanding of the decline is not only based on comparative analysis of the data over time, but also on impressions gathered during our field survey discussion with the company officials.
- 18 In fact even for the period 1968-72, total sales would have been around 51 million pairs but for the high figure in 1968.
- 19 In the total Indian exports however Bata accounts for a significant share. This share too has undergone a perceptible decline from 65% in 1965 to 31% in 1975.
- 20 A comparison between Bata & Carona in terms of their Return on total capital employed is worth noting from the table below.

Table 2(v): Return on Total Capital Employed of Bata and Carona

Year	(in percentage)	
	Return on total capital employed (3-year average)	
	Bata	Carona
1	2	3
1968-70	13.10	9.13
1971-73	4.00	7.93
1974-76	4.49	15.03
1977-79	6.32	15.26
1980-82	9.22	-
1980	7.25	13.17*

Source : The Stock Exchange Official Directory, vol.18, section 36 (iii), 1977, 1983.

Note : * This figure is only for the year 1980

The table shows that even though the 'return' in the case of Carona is little more than half of Bata's 'return' in the initial period 1968-70, this is raised to 13.17% in 1980 when the corresponding figure for Bata is only 7.25%. For Carona this is actually a decline since the peak return was reached at 19.48% in 1976 (not shown in the table) which is reflected in the three-yearly average between 1977-79. The corresponding figure for Bata is only 6.32%.

- 21 The survey was carried out in 1981 in 2 metropolitan cities namely Calcutta and Delhi and 4 other mini-metros, namely Patna, Lucknow, Hyderabad and Ahmedabad. The total size of the sample was 4800 individuals at the listing stage, reduced to 1200 for in-depth interviews. The choice of the sample was according to 2 major income and age groups. These were:

Income Group : Rs 750-1500 and Rs. 1500+

Age Group : 16-30 years and 31-45 years.

- 22 The rise in prices in the international market has led to drastic increase in the price of major raw materials used in the domestic industry. These are natural rubber, synthetic rubber, textiles, PVC resin, solvent oil etc.

As a matter of illustration, we quote below the price rise in some of the raw materials between 1973 and 1974:

Table 2(vi): Prices of Select Raw Materials Between 1973 and 1974

Raw material	Unit	1973 May (Rs)	1974 May (Rs)	% increase in 1974 over 1973
1	2	3	4	5
Natural rubber	ton	5,200	10,000	92
Synthetic rubber	ton	7,000	11,800	31
PVC resin	ton	4,500	7,100	58
Textiles	metre	4.60	6.95	51
Solvent oil	litre	0.83	3.00	261
Zinc oxide	ton	5,250	20,000	281

Source : Bata India AGM Report, June 1974.

- 23 In the following we give the figures of manhours lost in Batanagar factory due to power cuts.

Table 2(vii): Manhours Lost in Batanagar Factory
Due to Power Cuts

Year	No. of Manhours lost
1	2
1972	12,60,900
1973	24,65,283
1974	42,21,074

Source: Bata India

In 1975 the factory installed a 2000 KW generator on loan from foreign shareholders.

24 This point has been made by Douglas (1972), p.177.

25 The share of wages and salaries in value added in Bata is based on the following table.

Table 2(viii): Share of Wages and Salaries in Value Added in Bata India

Year	3-yearly averages of wages and salaries in Bata (in Rs lakhs)	3-yearly averages of value added in Bata (in Rs lakhs)	(2) / (3) (in percentage)
1	2	3	4
1968-70	1259.48	2514.42	50.09
1971-73	1514.06	2611.74	57.97
1974-76	2069.98	3514.59	58.90
1977-79	2358.30	4217.43	55.92
1980-82	3255.25	6064.68	53.68

Source : Computed from The Stock Exchange Official Directory, vol.18, section 36 (iii), 1977, 1983.

26 Table 2(ix) : Number of Manhours lost in Batanagar Factory Due to Strikes etc.

Year	Number of Manhours lost
1	2
1970	19,47,273
1971	20,70,872
1972	3,02,872
1973	1,76,800
1974	21,53,620

Source: Bata India

27 In 1978 there was a prolonged strike in both the Batanagar factory (114 days) and Mokameghat tannery (132 days). Loss of production was valued at Rs.13 crores. Consequently 16% of the total leather footwear sold by the company was purchased from the small scale sector and in non leather footwear category, 28% of company's own production of such footwear was procured from the small scale suppliers.

28 This is explained partly by the fact that in contrast to the earlier practice, the 'commission' element in the salary of retail shop employees has been nearly dispensed with. The commission which was based on number of pairs sold by the shop was an incentive to push sales. While the proportion of basic salary to commission earlier was 60:40, this was reduced over time due to agitation by the shop employees to 95:5.

29 According to a top official in the Batanagar factory, this is true of many of the Bata member companies. Thus Bata, USA manufactures only very high fashion shoes in its factory. It also imports complete products from Taiwan, Korea, or simply assembles readymade uppers & components in the factory.

The reason mainly lies in rising labour cost and also frequent change of fashion in the international market. Between 1968 and 1972, the workforce in Bata, USA was therefore reduced from 2200 to 900 or so. For a similar reason, Bata companies in the European countries also mostly engage in sub-contracting. However, there are also cases of closure like Bata, Holland.

In comparison, the labour cost in the Southeastern countries is reasonable so that manufacturing activity is still quite significant.

30 This was quite evident from the interview given by Tomas J Bata, Chief Executive, BSO, to Business World (See BW, April 9-22, 1984, 'Bata India Strides Ahead', p.37) during his visit to India in February, 1984.

31 This will be clear from the following table.

Table 2(x) : Staff Position in Bata Units

	1955	1965	1975	1981
Batanagar	6,913	10,761	12,213	10,750
Patna	752	1,094	1,852	1,700
Faridabad	390	1,106	1,591	1,460
Mokameh	393	570	716	620
Sales	2,694	4,202	4,984	4,690
Administrative	95	115	761	680

Source : Business India, January 18-31, 1982.

We may add here that similar kind of personnel policy is being followed even for people from the managerial cadre. In 1981 therefore Bata carried out premature retirement (otherwise known as 'voluntary retirement scheme') of 98 managers on grounds of non-performance. Although the basis of 'non-performance' has been seriously disputed, the fact remains that Bata is earnestly trying to trim its employee strength.

- 32 These modern assembly lines, known as 'secaro' and 'secon' have been installed in both leather and rubber factories in Batanagar. These are high-efficiency conveyor systems compared to the old ones. While the older conveyor belts would rotate with periodic halts in between which meant some workers had to sit idle till the belt moved again (even though this pause is quite short), in the new system, the belt moved continuously so that no one could sit idle while the conveyor was on the move.
- 33 In the earlier system, single, separate sections for manipulation, sewing and confection (each representing different aspects of production) catered to the needs of all departments. As such the size of each of these sections was quite large compared to that in the module system.

- 34 These are names used on the shop-floor, meaning cutting of materials, stitching and fitting.
- 35 Some of these tie-ups took place in the latter half of 1979. Thus the tie-up with Mafatlal company was for selling executive men's wear. Similarly there was one with Leather corporation of Orissa Limited to market footwear manufactured by the latter. (Both appeared as news items in Business Standard, July 28th and August 17th, 1979).
- 36 Most of these luxury articles were introduced between 1979 and 1981.
- 37 See Business Standard, January 10th, 1984.
- 38 During the time of our field survey, the company was in the process of negotiation with the government over this.

Chapter III

Sub-contracting By Bata India Limited

In Chapter II we saw that Bata achieved its historic position in the domestic industry in India, mainly through its pioneering attempt to produce directly for mass consumption. However, we also saw how Bata's traditional market pre-eminence was shaken in the 1970s. Why and how this change came about was the main subject of our discussion. On the basis of our subsequent discussion on Project Upswing, we noted, that sub-contracting of production is now being used as a major instrument to arrest the company's declining fortunes.

In this chapter we therefore focus on the sub-contracting practices in Bata. In this context, to begin with we consider the brief history of sub-contracting in the company. From here we discuss the restrictions imposed by the government on Bata. This is followed by a discussion of the development of various agencies for sub-contracting in Bata and in particular, sub-contracting by the Batanagar factory. The following two sections of

the chapter contain a brief discussion of the official procedures involved in sub-contracting and the nature of the inter-relationship between the Department of Contract & Ancillary Development and its suppliers. The chapter therefore has the following sections:

- 3.1 Sub-contracting in Bata India and the role of government restrictions
- 3.2 The agencies for sub-contracting
- 3.3 Sub-contracting by the Batanagar factory
- 3.4 Quantitative estimates of sub-contracting
- 3.5 Procedures for sub-contracting
- 3.6 Nature of inter-relationship between Bata and its suppliers
- 3.7 Conclusion

3.1 Sub-contracting in Bata India and the Role of Government Restrictions

Even though sub-contracting operations in Bata came into full play in response to the internal crisis of the 1970s, the development of sub-contracting practices in Bata prior to this, has been marked by an encouraging role played by government policy. This becomes apparent if we look at the history of sub-contracting in the

company during this period in two time phases, namely pre and post-1965 phase, the distinction being marked by significant shift in government policy.

As early as mid 1940s, Bata had started buying on a selective basis, handmade leather footwear from two suppliers in Agra and Calcutta¹. Although overtime Bata came to have suppliers from other leading footwear centres also, like Delhi, Kanpur and Bombay, we find that till the mid 1970s, a few suppliers from Agra and Calcutta accounted for the bulk of the purchases². The products purchased were mostly handmade chappals and sandals especially ladies' footwear and also handmade leather shoes. These products, given the variety in their design and the small quantity in which they could be produced, were not suited for manufacturing in the factory. Apart from this reason, it was also in keeping with the practice in the rest of the industry where as we have already mentioned, putting-out system of production was quite common.

The importance of sub-contracting in Bata's operation continued to increase through the 1950s and it became an important supplement to factory production. Both from the account of company officials as well as

suppliers, it is understood that Bata at this time pursued a liberal policy towards the sub-contractors, often giving them money in advance. However, a new stage came after mid 1960s, with growing restrictions being imposed by the government on the company which enhanced the importance of sub-contracting and made it a more systematic practice in Bata. These restrictions made it both compulsory and preferable for the company to increasingly resort to sub-contracting.

The restrictions followed mainly as a result of the government's protective policies towards cottage and small scale sector which we have already discussed in Chapter I. Thus a direct outcome of the reservation of leather footwear in the small scale sector, was fixing and freezing of Bata's licensed capacity in leather footwear. Bata being the largest in the industry, its licensed capacity for leather, rubber and canvas footwear was finally fixed³, after protracted negotiation with the government, in 1983⁴. The capacity for leather footwear was thus pegged at 14.637 million pairs while the existing installed capacity was for 19.256 million pairs. This implied that Bata was to reduce its installed capacity for leather footwear by about 24 percent. However there was no such reduction in the

company's installed capacity for rubber and canvas footwear since these were not reserved for the small scale sector.

Second, the company was directly asked by the government to purchase, identical or similar leather footwears as it manufactures in its own factory from the small scale manufacturers. It was in fact stipulated by the government that quantities of reserved items agreed to be purchased by Bata from the small scale sector would be taken into account while fixing the licensed capacity of these items⁵.

Right from the late 1970s, policy announcements of the government made it clear that expansion or growth of the organised large scale sector would still be permitted, despite reservation, subject however to the condition (in addition to what we have already stated in Chapter I) that the latter assist in the marketing of products of the small scale sector. Thus, liberalisation required the large business houses and the FERA companies to buy 50 percent in terms of value of their total requirement of components and other items from the small scale sector. For other companies this requirement was only 25 percent⁶.

From the above it is quite clear that in combining capacity restrictions on Bata with selective liberalisation conditional upon marketing assistance to the small scale sector, the government clearly encouraged Bata to farm out certain lines of production.

Another example of the government's restriction on Bata with a similar underlying objective, can be had from the following. Thus while a large number of small scale entrepreneurs obtained license to import PVC footwear manufacturing machines, the government refused to allow Bata at the same time to import these machines. In addition, the company was asked by the government to assist the manufacturers of PVC and leather footwear with technical know-how, designs and provide market for their products.

From the above discussion therefore, it can be said that the government generally played an encouraging role in the growth of sub-contracting practices in Bata. As we shall see in the following section, this growth is also marked by development of separate agencies within the company to cope with various types of sub-contracting.

3.2 Agencies for Sub-contracting

According to official source⁷ there are over 300

supplying units from whom Bata purchase various items. These purchases can be categorised into four types:

- a. Traditionally bought-out items which include shoe accessories like eye-lets, shoe brushes, shoe polish, shoe horns, hosiery items like socks and also raw materials, moulds and lasts.
- b. Components of footwear like soles and straps which are sub-contracted.
- c. Labour-intensive operations that are sub-contracted and
- d. Complete footwear sub-contracted by the company.

In this chapter, except the first type, we shall consider the three others i.e., sub-contracting of components, activities and complete products.

Sub-contracting of production in Bata is done by three agencies, namely (i) Factory (ii) Department of Contract and Ancillary Development and (iii) Sandak Purchasing Centre. All three operate independently of each other. The need for three different agencies for sub-contracting is mainly because of the difference in the nature of products/processes sub-contracted. Thus while Sandak Centre sub-contracts production of plastic

or PVC footwear, Department of Contract and Ancillary Development (we shall henceforth refer to it as Contract Department) farms out mainly handmade footwear made of leather and coated cotton fabric. Factory on the other hand, sub-contracts variety of things including footwear made of leather, coated cotton fabric and rubber.

The reason for the operational independence between these three sub-contracting units in Bata lies in the special type of cost accounting system followed by the company. According to this the company is divided into a number of independent cost profit centres. This method has been devised to examine the differences in productivity between departments to enable the company locate more easily the points of inefficiency in the production process. This has led to operational independence between departments. In this sense the Factory (or the manufacturing unit) may therefore be considered a separate operational unit, so also Contract Department as well as the retail and wholesale departments in the company.

In terms of their organisational structure, the two non-factory purchase departments resemble each other very closely. Thus, both have their own

managerial head, departmental staff consisting of a quality inspector, technical hands and accounting personnel. In the case of Factory, the organisational structure basically consists of special teams being formed for monitoring particular sub-contracting operations.

The type of sub-contractors supplying them, the nature and extent of control exercised and as already mentioned, the nature of products sub-contracted differs between Factory, Contract Department and the Sandak Centre. A major focus of this chapter would be to bring out these differences.

We shall now consider these individual agencies separately. Till the late 1960s, all purchases were taken care of by a general purchasing department. However, in response to the reservation policy of the government, separate departments in the name of Sandak Purchasing Centre and Department of Contract and Ancillary Development were set up to monitor the sub-contracting of different type of products.

Thus from the very beginning of the launching of PVC or plastic footwear (popularly known as 'Sandak' which is infact a BSO brand name) in India, the company

had to procure, because of the reservation policy, its entire requirement of PVC footwear including that of PVC soles from the small suppliers⁸. The Sandak Centre initially had about 15 suppliers. Presently there exists between 20 to 25 suppliers from Calcutta, Rourkela, Thane and Delhi. Even though the main co-ordinating centre is stationed in Delhi, the suppliers send their products directly to the retail shops for sale. While suppliers are generally provided with the product specifications and technical know-how, men, machines and even purchase of raw materials is taken care of by the suppliers themselves.

Purchase of leather footwear on the other hand has not been purely an outcome of government policy. As we have already noted in the last section, farming out of handmade footwear, mainly of leather (and also other materials) to the small scale manufacturers has been an old practice in Bata. However, the setting up of Contract Department both formalised and strengthened this inter-relationship between Bata and the artisans. The Contract Department purchases Bata's entire requirement of handmade footwear, consisting of shoes, sandals and chappals made of leather, coated cotton fabric and fluocolised fabric.

3.3 Sub-contracting by the Factory

However, it would appear that it is the Factory which is now undertaking the most strenuous efforts to increase sub-contracting of both components as well as complete footwear. Furthermore, there is a two-pronged strategy to sub-contract both basic, low margin footwear as well as more expensive, high value added footwear.

We have already seen in Chapter II how Bata has been losing out to the small scale manufacturers. Nowhere is this more evident than in the market of Hawaii. Hawaii has been the best-selling article among all products of Bata. However, as already noted, the market for Hawaii although growing, is also highly competitive. The emergence of a fresh breed of suppliers mainly from Delhi, Faridabad, Jullunder, Calcutta and Kerala has increased the competitive pressure on Bata.

These suppliers, having a lower conversion cost are more price competitive than Bata. As a result, to retain and recapture the market share of Hawaii, as well as to insulate its supply from the disruptions in factory production, the company has sought to sub-contract a part of production of Hawaii.

While the changing nature of the market has been

an important causal factor behind sub-contracting of Hawaii, government policy too has been an encouraging factor in this. Thus although rubber footwear has not been reserved for the cottage and small scale sector, the government, like in the case of PVC footwear, has imposed restrictions on Bata to import sophisticated machines used in the manufacture of Hawaii. However the small scale sector face no such restriction. Hence to avail the benefit of liberal imports allowed to the small scale sector, Bata was encouraged to partly farm out the production of Hawaii.

Sub-contracting of Hawaii takes three forms. The complete product is sub-contracted or only straps and soles or only the labour-intensive operations like trimming of Hawaii straps. From the very beginning of Hawaii production, Bata has been farming out the work of trimming of straps. In the industry as a whole, the trimming work is organised as a household industry, where the women mostly do this work. We therefore find women from various Mohammedan households in eastern parts of the city of Calcutta, where most of the rubber factories are located, collect these moulded straps from different factories. These are taken home, where the women members of the family do the work in between household chores.

However, despite the predominantly household nature of the work, Bata continues to patronise right from the start, collective production units. This is mainly because, given the nature and extent of work from Bata, distributing it among a large number of scattered household workers would have made it inconvenient for Bata to monitor all activities.

We made a field enquiry in one such unit. Such a unit is generally owned and managed by a non-profit making charitable organisation. Being non-profit in nature the organisation does not charge any rent from Bata for housing the working unit and even bears the necessary transport cost by itself. Necessary items like scissors are also provided by the organisation.

The workers in these units are generally unskilled women from agricultural labour households who are first trained and then employed on piece-rate basis. A women worker is able to earn only a meagre daily earning of Rs 2 or so which indicates very low piece-rates. These units being generally exclusively tied to the Batanagar factory, the earnings of the women fluctuates directly with the flow of supply order from the Factory. It also leads to underemployment among the women workers

and a decline in their daily earning. This was in fact the case with the unit which we visited. Here the supply of straps from the Factory had fallen from 25,000 pairs to 16-17000 pairs every two days. This is mainly a result of competition because of which production of Hawai itself has been increasingly farmed out by the Factory, in which case, the sub-contractors generally farm out the work of trimming to individual women household workers⁹.

Apart from the activity sub-contracting mentioned above, straps and soles of Hawai are also sub-contracted individually. However the most important is sub-contracting of the entire Hawai product. The suppliers of components as well as complete Hawai are spread over Calcutta, Faridabad, Bangalore, Patna and Thane. According to one of the suppliers, there are twenty or more such suppliers presently attached to the Factory.

However, unlike activity sub-contracting, farming out of 'complete products' by the Factory has a comparatively recent history¹⁰. It is mainly in the nature of preparing the Factory to face the changing market set-up. Hence from discussion with officials it was clear that Batanagar factory is in the process of



systematically laying down an external production base. The production base so developed comprises a variety of suppliers ranging from independent units to completely captive units.

In the case of Hawaii the suppliers may be divided into two categories according to the degree of autonomy enjoyed by them. One is suppliers who supply the product according to the product specifications provided by the Factory. None of these suppliers are provided with raw materials from the Factory but they make their own purchase¹¹. Premises, men and machines, everything belongs to the suppliers. In this case, complete costing is done by the sub-contractor and invoices are sent by him to the Factory, and the final purchase price is fixed on a mutually agreed basis. Most of the older suppliers to the Factory belong to this category¹². All these suppliers are well-established in their own right and also operate in the open market, apart from working for Bata. It is very clear that these suppliers enjoy a good bargaining position vis-a-vis the Factory.

The second type includes those suppliers who not only produce according to the specification of the Factory but are also provided with technical know-how

and raw materials. These supplying units are more or less tied to the Factory. In this case the overall costing is generally done by the Batanagar factory, while only the conversion charge is computed by the supplier himself. Here too the premises, men and machines belong to the supplying unit. In both cases quality checking is done by the Factory itself. Satellite units of this kind are of a more recent origin, developed mainly in response to the market crisis faced by Bata. These units have come up over the last 3-4 years.

The result of increasing sub-contracting of part or whole of Hawaii footwear have borne fruit. Seeking to re-establish its traditional market share in this item, Bata has in the process, increased the contribution of Hawaii to its overall sales. Thus Hawaii sales have steadily risen in the three years between 1980 and 1983 from 43.5% to 54.2% of Bata's total domestic sales (in pairs) of rubber and canvas footwear.

While traditionally a fair proportion of Bata's Hawaii has come partly or wholly from sub-contractors, a more important aspect of Factory sub-contracting at present is the trend towards sub-contracting of non-Hawaii categories of footwear. What is particularly interesting

is the contrast between suppliers of Hawai and suppliers of particular kinds of leather footwear.

In recent years, the Factory has been trying to build up an external production base for footwear made of leather and coated cotton fabric. Unlike Hawai, production of these are not so standardised. The newly emerging production units in this case are of a completely captive nature again. These are developed purely at the initiative of the Factory.

The development plans of these units are dubbed as 'satellite projects', having a special team of key factory officials (as mentioned in the beginning) in charge of monitoring them. As the very name suggests, manufacturing units developed under such projects are generally tuned to the exact requirement of the Factory and produce exclusively for Bata. During the training period, the unit is generally assisted by a retired technical hand of Bata, who apart from imparting the technical know-how to the workers, also takes care that quality specifications are met properly. Payment to the official is made by Bata. The workers are generally unskilled women from agricultural labour households, as was the case with activity sub-contracting. They are

employed on a piece-rate basis with no security of employment. Here also, as in Hawai sub-contracting, the unit is run by a non-profit making organisation which bears the necessary transport and overhead costs by itself¹³.

Payment for supply during the training period is made on piece-rate basis by the Factory. It is only after the training period is over and the unit has become efficient to supply the required weekly volume of order that the Factory enters into regular contract with them. Generally these units are supplied (sold) with all the necessary raw materials and also second-hand machinery from the company. Therefore, starting with the supply of raw materials, laying down of production specifications, price fixation and complete absorption of output, the control of the Batanagar factory over these units is complete in all sense.

The development of such captive units is a recent phenomenon and is still at an experimental stage. Two instances came to our notice. One is an unit in Punjab, planned to be developed as a satellite unit of Batanagar factory for manufacturing gents' leather shoes. The other unit is known as 'Dolly shoe project'. The unit

was in its training period, manufacturing children's shoes made of coated cotton fabric, under the brand name of 'Liliput'.

From our discussion on sub-contracting by the Factory, two aspects emerge. The first is that, as part of Project Upswing, there is a concerted attempt to further develop sub-contracting in a traditional product line like Hawaii as well as introduce sub-contracting in newer products that Bata now seek to market. The results of this in Hawaii sales, we noted, have been encouraging for Bata. In other than Hawaii footwear, the early '80s saw the beginning of this strategy which would soon bear fruition. The second aspect of Factory sub-contracting is that the type of product and its market also determines the type of supplying unit developed by the Factory. Thus we find the Factory farms out to non-captive units, low priced, mass-consumption items like Hawaii whose technology is already well-diffused in the industry. The same is not true of articles that are sub-contracted in the non-Hawaii category. Here the supplying units are captive units and this is intended to prevent general diffusion of technical know-how and preserve control over production.

3.4 Quantitative Estimates of Sub-contracting

We have seen that of the three agencies, Factory, Contract Department and Sandak Centre, the last mentioned has to buy, as per government policy, the entire supply from outside. Factory and Contract Department are the two agencies consciously promoting sub-contracting with the former pushing this strategy in both traditional and new footwear. Unfortunately while we have managed to obtain the total Factory supply to Bata's domestic sales, no break up between produced vs purchased items in either value or volume terms was provided by Bata.

What we do have are the data presented in Table 3.1 on total supply by the three agencies.

Table 3.1 : Category Sale (Domestic) and Their Relative Importance in Total Domestic Sale of Bata India

Year	Factory* supply	Contract purchase	Sandak purchase	Total domestic sales	(3)/(5)	(4)/(5)	(3+4)/ (5)
	(in 'ooo pairs)				(in percentage)		
1	2	3	4	5	6	7	8
1969	38,460	1,639	5,191	45,290	3.62	11.46	15.08
1970	35,393	2,004	6,291	43,688	4.59	14.40	18.99
1973	35,743	2,505	8,140	46,388	5.40	17.55	22.95
1974	30,429	2,515	5,929	38,873	6.47	15.25	21.72
1977	37,649	1,709	7,500	46,858	3.65	16.01	19.65
1978	32,981	2,216	8,279	43,476	5.10	19.04	24.14
1979	38,513	2,114	7,420	48,047	4.40	15.44	19.84
1980	38,280	2,060	6,926	46,636	4.42	14.85	19.27
1981	41,667	2,335	6,155	50,154	4.66	12.27	16.93
1982	40,681	2,758	6,794	50,233	5.49	13.52	19.02
1983	32,608	2,939	7,848	50,852	5.78	15.43	21.21

Source: Bata India

Note : * This also includes products sub-contracted by the Factory.

Looking at the purchases of Contract Department and Sandak Centre alone, there would seem to be little discernible trends in sub-contracting. But our discussion of the nature of sub-contracting by the Factory, which accounts for almost 80 percent of Bata's total sales (in pairs), has amply shown that the main thrust of Project Upswing in sub-contracting is in this agency. More disaggregated data would have shown more clearly a distinct upturn in the extent of sub-contracted supply.

Looking at the trends in Sandak Centre & Contract Department alone it can be seen that purchase of Sandak accounts for the major bulk of the two purchases (15 percent of total domestic sales) and is much higher than Contract purchase. The purchase of Sandak, however, after reaching a peak in 1978 has stagnated afterwards. This is due to increasing competition faced by the company from other manufacturers.

The purchases made by Contract Department on the other hand, constitute around 5% of the total domestic sales¹⁴. From 1979 onwards we find that Contract Department's

purchase in absolute number has shown a mild increasing trend¹⁵. One reason is that with the new focus on the luxury product market, Bata has been developing the new international brand of ladies' leather footwear (Marie Claire)¹⁶ through this department. In fact, the company is trying to develop the whole range of ladies' footwear through Contract Department. The ladies' line is supposed to have been the weakest point in the company's product range in the past. These footweares are comparatively labour-intensive in nature and hence not entirely suitable for factory production. Farming out through the Contract Department has therefore been an ideal solution.

Recently, from 1979 onwards, further additions have also been made to the list of articles sub-contracted to Contract Department's suppliers. These new additions are mainly meant as added attraction to the retail customers. They include leather products like pouches, fancy travel bags, leather jackets etc. However, they still constitute only a marginal proportion of the total purchase made by the Contract Department.

In our opinion a complete picture of sub-contracted production both by value and in terms of the number of pairs would show an increasing trend from the late 1970s

when Project Upswing with its accent on sub-contracting was taken up. In a company where sub-contracting was not an entirely new phenomenon, there was now a conscious attempt to increasingly sub-contract production partly or wholly. The impact of Project Upswing in the short run already tells on Bata's profitability ratios. Thus in the three year period between 1983-85, Pre-tax profit margin, Net profit margin and Return on equity in Bata has increased to 3.5, 1.58 and 12.80 percent respectively¹⁷. However to what extent this trend will help Bata turn around its declining profitability on a long term basis will depend much on the nature of its relationship with the sub-contractors, trend in the government policy towards small scale sector and the company's own marketing strategy.

3.5 Procedures for sub-contracting

The first and the most important stage in the whole procedure of sub-contracting is the holding of a shoe-line. Articles to be sold in a particular season and their market prices are decided in this shoe-line. They are held twice a year, prior to the beginning of every season. Each of the three agencies hold their separate shoe-line.

Each shoe-line is held in two stages. The first, is the 'Preliminary shoe-line' where all articles, comprising samples of both new and old items are put up along with their costing, for selection. The Final shoe-line is held two weeks after the Preliminary, incorporating the suggestions made at the preliminary level.

The process of price fixation constitute an integral part of the shoe-line. It not only decides on the retail market price of new articles and purchase price of articles to be sub-contracted, but also revises the existing list of prices, both purchase and sales. All this is done on the basis of feedback from the factory officials, officials from Sales and Production departments including also suppliers from Contract Department and Sandak Centre.

Retail price of an article, whether sub-contracted by Contract Department or manufactured in the Factory consists of three major components. These are,

Retail price per pair = Purchase price paid to the
supplier (cost of manufacturing
in case of Factory) + Operational
cost and margin of the Contract
Department (or Factory) +

Operational cost and departmental margin of the retail department

The first two components together form what is called 'our delivery value' or ODV. This is essentially the price at which Contract Department (or the Factory) sells its merchandise to the retail department (and wholesale department) of the company. The ODV is always expressed as a fixed percentage of either retail and/or wholesale price of an article. The ODV percentage differs between all the three agencies for sub-contracting in Bata. However, within each department the percentage is same for all footwears. In the following we give the breakdown of Contract ODV.

Table 3.2 : Percentage Breakdown of Retail Price of Articles and Their ODV for Contract Department

<u>Expressed as a percentage of retail price</u>	<u>Footwear only</u>
<u>Retail price</u>	100.00
1. Retail department's cost	28.00
2. Retail department's margin	4.50
3. Contract Department's supply price (ODV)	67.50
<u>Contract Department ODV</u>	67.5
4. Purchase price paid by Contract Department to suppliers	59.1
5. Dept's. operational cost	7.3
6. Net margin for the Dept.	1.1

Source : Bata India

Irrespective of leather or non-leather articles, in practice, the actual price paid by Contract Department to sub-contractors in Calcutta, was always found to be lower than the maximum payable percentage. Hence we find that on an average, the suppliers in Calcutta had received only 57% of the retail price instead of the maximum payable of 59.1 percent (See column 7 in Appendix III). Since the Contract ODV is fixed for the season, any savings in this manner only add to the profit of the department.

The shoe-line is followed by financial planning and fixing of the production, sales and purchase estimates for the Factory, Sandak Centre and Contract Department. In the last case, once the suppliers have agreed on the purchase price, they are issued weekly despatch orders (DO) along with necessary raw materials required for production. This latter practice was started over the last 2-3 years, to ensure good quality, timely supply and stable price for raw materials.

The two main raw materials supplied by the department are coated cotton fabric and leather board, both of which are mostly manufactured outside West Bengal. Apart from this, rubber sole is also occasionally supplied by the department. We found nine out of 17 suppliers in Calcutta

purchase some raw material from the Contract Department and four out of this nine buy exclusively from Bata. All the nine suppliers supply mainly non-leather articles.

A supplier is generally given a month from the time of issuing a DO to supply the merchandise. Irrespective of whether the supply has to be made in Calcutta or outside the state of West Bengal, all suppliers of Contract Department send their goods straight to Bata retail shops. This is, however, different from Hawaii supply which is first sent to the Factory for quality checking, from where it is marketed. The Sandak Centre follows a similar method as that of the Contract Department.

In the case of Contract Department, since all deliveries are directly made to the retail shops, quality checking and even packing of the readymade articles are done in the supplying units. The delivery charges in the nature of freight and octroi are paid for by the Department. The monitoring of suppliers is done on the basis of weekly reports submitted by the latter.

Payment by the Department takes about seven to eight weeks' time. Suppliers who make use of the bill discounting facility receive immediately about 75% of the payment

through the bank while the remaining 25% is paid after about 1 to 1½ months.

3.6 Nature of Inter-relationship Between Contract Department and its Suppliers in Calcutta

The relationship between the Contract Department and its suppliers is essentially 'business-oriented'. This is evident from the limited nature of assistance provided by the Department to its suppliers¹⁸. Thus, except for necessary technical assistance and a good record of timely payment, there is nothing to suggest a paternalistic relationship.

On the contrary, the Department showed clear tendencies of discrimination between suppliers. The basis of this discrimination lies in the different market standing enjoyed by individual suppliers and the kind of products supplied by them¹⁹. Such discrimination also indicated the Department's intention to promote more professional suppliers. We try to understand the nature of inter-relationship on the basis of three factors namely price fixation, supply of raw materials and quality control.

- i Price fixation: This is a major source of conflict between the Contract Department and the suppliers.

Although the cost breakdown provided by the suppliers forms the basis of price fixation, the suppliers are not allowed much say in actual fixing of the purchase price. As a result, the price proposed by the suppliers is never in agreement with what is actually paid. Secondly, purchase price paid to the suppliers is generally more rigid than the retail price of similar articles. Thus, a rise in the retail price of an article between shoe-lines is not followed by a similar rise in the purchase price of the article since the latter remains fixed for every season. This implies that the benefit of a higher retail price is not passed on to the suppliers. Also, while the company allows itself the flexibility needed to keep its profit margins intact in the face of contingencies if any (e.g., unforeseen rise in costs), it does not allow for the same in the case of suppliers²⁰.

Finally, the problem of low purchase price is generally true of sub-contractors who supply more basic, mass-consumption articles. The low price of these articles is not enough to comfortably cover their cost of production and as a result yields very poor margin. The

low price paid is a deliberate policy of the company to retain competitiveness and maximise sales of these articles.

ii Supply of raw material: Even though sale of raw materials by the Contract Department constitutes only an insignificant proportion of total requirements, it has added to the problems of the suppliers. First, lack of proper management on part of the Contract Department has created pressure on the suppliers to absorb untimely supply of raw materials against no particular order. This has also shifted the burden of inventory management on to the suppliers²¹. Even then, the suppliers are mostly discouraged from making independent purchase of their own²². Secondly, the credit period allowed to the suppliers against such sales is much shorter than what they otherwise get in the open market²³. Thus the Department often make big deductions at a single stroke, against little or nil order, instead of spreading it in separate instalments. This creates a financial strain on the working capital base of the supplier.

Finally, as we have mentioned in the last section, the supply of raw material is generally made to the suppliers of low-priced, non-leather articles. The suppliers of high-priced merchandise on the other hand, do not purchase (with few exceptions) even items like leather board and microsheet which are common to all suppliers.

iii **Quality control:** This remains another major area of grievance for the suppliers. This is because while the Contract Department takes little direct responsibility in quality checking, it judges the quality standard of a particular unit on the basis of defective articles and customers' claims etc. received by the unit in a year's time. This system has given rise to tension between the suppliers and the Contract Department because the claims are always disputable.

'Customers' claims are articles claimed by the customer from the shop within few days of purchase. In this case, deductions to be made from the suppliers' price depends on the length of the period before claims are actually made²⁴. The rising frequency of the customers' claims has made the suppliers suspicious of

its cause. The suspicion is well-founded since the claims are often returned two or three months after sale by the retail shops²⁵. A second type of claim is known as 'shop shortage'. These arise when the shops receive less than what the suppliers have sent. In this case, due to deliberate negligence of the shop manager who actually receives the consignment, the onus of recovery from the transport company mostly falls on the supplier. The latter, in case he fails, is forced to shoulder the entire loss himself. Even though the number of shop shortage is still small (15 to 45 pairs in a month), they occur almost every month. There is nothing to indicate that the Contract Department has tried to settle the matter with the Retail department about any of these.

Another quality related issue is the order of 'R pairs' by the Contract Department. These generally consist of defective pairs, odd pairs and rejects from the suppliers' workshop. However, we found that a supplier is often specifically asked to make such R pairs for the Department²⁶. This means that even though the work is first hand, payment is only according to reduced price rates. But the records of monthly purchase maintained by the Contract Department as per government

directive, do not make any distinction between 'R' and 'non-R' pairs. Given that quality standards vary between market segments, there is every possibility that these 'low-quality' footweares are finally sold as 'non-R' pairs.

In all three cases mentioned above, it is mostly the suppliers of basic, mass-consumption articles who suffer.

However, despite the various problems mentioned above, the suppliers still preferred to do business with Contract Department. The main reason is that even though the price offered by Contract Department is somewhat low compared to the market rate and allows for very little margin, this is more than compensated by the high order, much higher than what any other buyer in the open market can absorb²⁷.

In comparison to the open market therefore, Bata appears to be a more desirable partner to work with. Apart from the significant volume of work provided by Bata, it also has a good record of timely payment. Perhaps due to this relatively greater certainty and better security, suppliers in Calcutta mostly supplied exclusively to the Contract Department even though there was nothing in the official contract that bound them to do so.

3.7 Conclusion

In this chapter we find that sub-contracting by Bata has been in the main influenced by two factors. One is the restrictive attitude of the government towards Bata as part of its policy to promote small scale manufacturers of footwear and the second is Project Upswing.

Even though purchase of complete footwear by Bata dates as long back as 1940s, government policy restrictions after the mid 60s brought about an encouraging trend in sub-contracting practices in the company. It also led to the development of independent agencies within Bata to undertake sub-contracting. These are the Factory, the Sandak Purchasing Centre and the Contract Department.

While purchase of Sandak from the small scale suppliers has clearly been a direct outcome of government policy, its role in the case of both Contract Department and Factory sub-contracting can not be as neatly segregated.

It would appear that with the government showing preferential treatment to the small scale sector and Bata's own capacity being frozen (along with other

restrictions being imposed on it) the latter has been cajoled into developing sub-contracting as a source of supply. What really made this imperative was the declining profitability in the 1970s as Bata lost touch with the market and small scale producers made a dent into even traditional areas of Bata's strength. Project Upswing recognised the importance of dovetailing sub-contracting with Bata's marketing strategy. Thus for instance, sub-contracting of Hawaii by the Factory and its attempt to lay down external production bases, like the "Dolly shoe" in other product lines has been encouraged mainly as a response to the crisis faced by Bata.

All three agencies of Bata now actively pursue sub-contracting to improve their profitability. However sub-contracting by the Factory, unlike the Sandak Centre or Contract Department, was found to have a more varied nature, consisting of activity, components and product form of sub-contracting. While purchase of plastic & handmade leather footwears is generally made from independent small scale units, we noted that Factory follows a combination of arrangements. This consists of both captive and relatively autonomous units. The arrangement differs according to the nature of footwear,

their market, extent of technology diffusion etc.

Finally we found that the inter-relationship between Contract Department and the sub-contractors is absolutely 'business-oriented' and even discriminatory. The discrimination is mainly in terms of the price fixation, supply of raw materials and nature of quality control exercised by Contract Department.

Notes and References

- 1 The supplier from Calcutta was previously an employee of Bata.
- 2 Unfortunately we have little knowledge of the amount of purchase made in this period. According to the first supplier from Calcutta, whom we happened to meet, alone supplied 10 to 12,000 pairs in a week.
- 3 For figures on licensed capacities of leather, rubber and canvas footwear in Bata, see Table 2.1, Chapter II, p.68.
- 4 The negotiation for fixation of licensed capacity by the government of India began soon after the reservation, and continued till 1983. The proposals were generally made by the government through direct official or press notifications. That there was continued disagreement between the government and the company over what should be the licensed capacity of leather footwear in Bata, is apparent from the long correspondence between the then Company secretary of Bata and Secretary, Ministry of Industry, Department of Industrial Development.
- 5 Thus before 1979, the number of leather footwear to be purchased from the small scale sector, as proposed by the government, amounted to 49,16,721 pairs. However, after 1979, this was reduced on request from the company to 27,29,214 pairs.
- 6 See 'Chairman's speech' in Bata India AGM Report, 1979; see also The Economic Times (New Delhi), May 24th, 1981. The keenness of the government to closely integrate the large scale with the small scale sector of the industry can be easily inferred from the policy announcements made here.
- 7 Company AGM Report, April 23rd, 1982.
- 8 However it may be mentioned that the PVC soles for more sophisticated merchandise are generally made

in the factory itself. In 1982, the Batanagar factory imported a 'Solpak' machine to manufacture sophisticated unit soles (PVC) through injection-moulding process, for North Star and similar range of footwear.

- 9 Like in the case of trimming, Factory has also been sub-contracting upper stitching operation for Moccasin shoes, ever since the introduction of the latter (nine years ago) in the domestic market. The Factory supplies, apart from the cut upper, the necessary raw materials like thread, wax etc. Payment is on a piece-rate basis by the Factory and is made generally after a month. The nature of the working unit in this case is largely similar to that of Hawaii strap trimming. The units belong to social welfare organisations like Mahila Samities. A single woman worker in this case is able to earn a monthly income of Rs 40-60. The necessary transport cost and the room rent of the working unit is borne by the organisations. Presently, a daily collection of 900 pairs of Moccasin uppers is distributed among six sub-contractors.
- 10 In sub-contracting of complete products by the Factory, Hawaii is the earliest example. According to one of the ex-factory officials (who has become a supplier now), as early as in the 1950s, Factory purchased Hawaii from a supplier in Bangalore. According to the same supplier it is only of late has sub-contracting of Hawaii been organised by the Factory on a systematic, large scale basis.
- 11 However, purchase of raw materials in this case is made from suppliers approved by the Factory.
- 12 One such supplier has been Trot Shoe & Company, quite a well-known name in rubber footwear in Calcutta.
- 13 These organisations do not have much bargaining power vis-a-vis Bata. Being basically social welfare organisations, their first concern is to provide some gainful employment to the poor women workers.

- 14 In value terms, the Contract purchase accounts for about 7 percent of the Company's 'income from sale of goods etc'.
- 15 Even though quantity of Contract purchase show only a mild increase, the importance of its role in the Project Upswing can be seen from the following example. Thus in 1978 when labour problems in the factory severely disrupted production, the purchased articles through Contract prevented the shops from going entirely dry. Apart from using it as a gap filler of this sort, there is also an attempt to use 'Contract suppliers' labour as a substitute for factory labour. Hence, in the same year, Bata asked some of the Contract suppliers in Calcutta to do some finishing job on articles meant for export. Even though the attempt failed due to lack of adequate facilities in the suppliers' workshop, the attempt by itself brings out the importance of sub-contracting here.
- 16 Marie Claire brand of footwear is also made in the factory although of different design. However, of the factory supply it is generally said that they are merely assembled from imported components.
- 17 These ratios are slightly different from that used in Table 2.3 in Chapter II. In the latter case, 'net sales' has been used as a denominator for computing margins, while in this case it is total sales. Similarly, 'equity' is only a part of total capital employed.
- 18 The limited nature of assistance from the Contract Department can be understood from the fact that there is no financial assistance even with respect to product development expenses which is totally shouldered by the suppliers. Similarly the Department does not provide, as a rule, the suppliers with any second-hand machinery despite demand from the latter.

In terms of establishing new suppliers or helping them to diversify also, the role of Bata is quite limited. However, some of the older suppliers of Contract Department who are ex-Bata officials, were assisted by the Company to become sub-contractors.

- 19 Discrimination may also be seen as both cause and effect of lack of organisation among suppliers. The organisation has been difficult mainly because of differences between suppliers in terms of their background and the nature of products supplied by them. In 1980, an attempt was made by the suppliers to form an Association, however this failed. The lack of organisation, which reinforces the individual supplier's dependence on the Department enables the company to perpetuate its discriminatory practices.
- 20 Any change in the purchase price received by a supplier being dependent on the holding of a shoe-line, suppliers generally demand holding of a shoe-line in every season. While this is true of the factory shoe-line, in the case of the Contract shoe-line this has been restricted of late to only one season.
- Finally the Contract shoe-line is generally held before the Budget. As a result any change in the cost of production of the suppliers due to the Budget, can not be accommodated through a change in the purchase price till the next shoe-line.
- 21 The Department also delegates the cost of unloading and storing raw materials to some of the suppliers. These suppliers however are not paid for this service. Instead all suppliers are charged at the uniform rate of 2 percent of the value of purchase, as handling charges which is nothing but a service charge for loading-unloading operations.
- 22 An example will illustrate this point well. According to the sub-contractors, an attempt by them to substitute the existing supplier of PVC was initially discouraged by the Department. Eventually however the Department itself bought from this new source and supplied to the sub-contractors. According to the suppliers, there are several such examples which shows the role of Contract Department to be often superfluous and deliberately interposed.
- 23 In the open market, the credit period allowed to the Bata sub-contractors ranges between 3 to 4 months.

- 24 Thus if an article has been claimed within few days of purchase, the debit is 100%. If the period is longer then 75% and so on.
- 25 The suspicion is that the shop manager in order to reduce stock at the end of the year, sends the articles back after doing deliberate damage. Similar practice also seem to be true of shops, where sale is generally low and customers are encouraged to have easy replacement.
- 26 This is generally true of relatively inefficient units. In Calcutta there was one supplier who was facing a decline in orders for some time and was finally asked to manufacture 'R pairs'.
- 27 According to the estimate of a supplier, even a reputed wholesale trader (like 'Khadim' in Calcutta) would purchase at most 500 pairs daily from all its suppliers, while the Contract Department alone purchases, from a single supplier, 3000-10,000 pairs in a month.

Chapter IV

Some Aspects of Sub-Contracting

In the last chapter we have seen the rising trend towards sub-contracting in Bata, the various forms that it takes and their rationale. Our discussion so far has looked at the company's approach to sub-contracting. In this chapter now we shall turn to the sub-contractors.

The suppliers of Bata, as we have already noted in the last chapter are spread all over India. The Contract Department alone has 87 suppliers, from which 17 are in Calcutta. We made a survey of these 17 suppliers in Calcutta. The suppliers who directly undertake orders from the Contract Department are generally known in the company parlance, by the term 'agent'. These agents mostly belong to educated, middle-class Bengali families better known as 'Bhadralok' in Calcutta. In terms of technical qualifications none except three, had any formal training in footwear manufacturing, even though all of them were well-conversant with the production process.

On the basis of our survey we found that the extent

of autonomy enjoyed by these 17 agents vis-a-vis the Contract Department varied. The least autonomous agents were those who had no independent market standing. This group included mainly senior agents who have been supplying from as early as 1960s or even earlier. These agents, some of whom were ex-employees of Bata, had no established business of their own till they joined the Contract Department as suppliers. Hence, they mainly grew with orders from the Department and remained heavily dependent on it.

In contrast, the agents who enjoy maximum autonomy are those with established business origin, i.e., those who had been well into the footwear business long before working for Bata. Some of these agents even ran well-established, parallel business like wholesaling or retailing in footwear apart from working for Bata.

The nature of products supplied presently by these two types of agents also differs. These products are classified (unofficially) by the suppliers into two categories, namely 'special' and 'general'. All non-leather, low priced merchandise like those made of coated cotton fabric (CCF) are called general articles, while the expensive, leather footwear (including those

made of fluocolised fabric) are termed as special. The special articles yield higher margin per pair compared to the general articles.

We found that it is mostly the autonomous group of agents who supply special articles while the general articles are supplied by the less autonomous agents. In the recent years, Contract Department has been trying to promote both the special articles as well as the more autonomous type of agents¹.

All agents in Calcutta who supply to the Contract Department, themselves undertake activities such as finishing, quality control, packing, labelling and final delivery of the products to Bata retail outlets. However, not all agents undertake production directly.

Production may be carried on either in the agents' workshop or farmed out to smaller sub-contractors working separately in their own domestic workshop. Even where production is organised inside the agents' workshop, there exists at times, considerable internal sub-contracting. The sub-contractors-to-agents in either case (external and internal) have no direct dealing with the Contract Department. In all cases, the agent or sub-contractor-to-agent may further farm out certain

activities like machine operations to specialised units.

Thus, broadly speaking, we can distinguish three main ways in which production is organised:

- I Agent is directly responsible for employing workers and organising production in his own workshop.
- II Agent owns the workshop and the necessary machines, but delegates production of complete product to sub-contractors who mainly employ workers and organise production in the agent's workshop.
- III Agent farms out production to sub-contractors who organise it in their own domestic workshop.

Of the total seventeen agents who were supplying in 1983 from Calcutta, the highest number of them, 6, followed Type II, followed by 5 agents having Type I and 2 with Type III. Among the remaining 4, one was a Co-operative and the rest were some combination of the three types mentioned above. The major focus of this chapter, will be to bring out, on the basis of our survey, the difference between these three types of organisations. The chapter consists of the following sections:

4.1 Direct production by agents (Type I)

- 4.2 Sub-contracting by agents (Types II and III)
- 4.3 Relative advantages of production under the three types of organisation
- 4.4 Shift from 'external' re-subcontracting
- 4.5 Conclusion

4.1 Direct Production by Agents (Type I)

In this case the agent himself provides the necessary fixed and working capital requirement, employs workers and organises the division of labour in the workshop.

4.11 Workforce Organisation

There are three sets of workers who are directly employed by the agent. First, those who do the daily allocation and supervisory work like quality checking of finished articles, finishing, distributive activities like packing, labelling, delivery to the transport company, unit's accounting and other miscellaneous outdoor work for the agent. A unit may employ on an average six such workers. These workers are always employed on a time-rate basis, being paid wages fixed on a daily/weekly/monthly basis by the agent and enjoys good security of employment. These workers are mostly Bengalis.

The second set consists of the machine operators. Agents who do not farm out all the necessary machine operations, employ these workers to operate the machines. The machine operators may work on time-rate as well as piece-rate basis. When paid on time-rate basis, an individual may either combine machine operation with some other work or has to operate more than one machine.

The third and the largest set of workers employed by the agent consist of the manufacturers who do the labour-intensive operations. These workers are commonly known as 'headworkers' in the workshop. They are essentially mastercraftsmen who have the necessary skill and experience. These headworkers are employed only on a piece-rate basis.

Each headworker further employs on his own, assistant workers to help him in the detail operations. These assistant workers are mostly brought from either the same village or belong to the same family as that of the headworkers. It is difficult however to gauge the exact incidence of family labour because of a close-knit relationship between the headworker and his assistants, none of whom easily divulge such information. The assistants are employed on a piece-rate and/or daily subsistence basis.

A unit may employ on an average ten such headworkers where each headworker will have one to three such assistants working under him.

With the exception of the first set of workers mentioned above, the bulk of the remaining workforce responsible for manufacturing belongs to the Chamar community. Most of these workers, although now living in Calcutta for quite some time, came largely from Monghyr district in Bihar. While the Bihari Chamars constitute approximately 95% of the total workforce engaged in manufacturing, the remaining 5% is accounted for by Bihari Moslems and Hindus from Bengal. This pattern is predominantly the same in the case of all supplying units of the Contract Department in Calcutta.

As we have already mentioned in the beginning, in Type I, the agent himself organises the division of labour inside the workshop. The manufacture of footwear broadly consist of three divisions, namely making of the uppers, soles and finally fitting. The agent therefore organises his workers into three groups, as uppermen, solemen and fittingmen.

While the work of upper and fitting requires

experience, skill and imaginative craftsmanship, work of the solemen is generally more laborious and time-consuming in nature. As a result the number of solemen is generally higher than that of the uppermen. However, the actual ratio differs between units, depending on the nature of footwear and also relative efficiency of the workers. The number of fittingmen is always minimum since it requires the least manual effort. For example, one fittingman is sufficient to keep up with 5 uppermen and 7 solemen.

Each of the three divisions consist of a number of detail operations which can be categorised into skilled and unskilled types. The skilled operations consist of cutting of raw materials, designing of the upper, preparing the insole, fitting, trimming etc. These are done by the headworkers and their skilled assistants. The relatively unskilled work on the other hand consists of various odd jobs like applying adhesive, carrying raw materials and components from one place to another etc. The apprentices attached to the headworkers generally do such unskilled work, which includes at times even cooking and cleaning if the workers are living inside the workshop. The apprentices therefore learn their work in this manner, graduating from one stage to another.

While the headworker and his assistants form a single group of their own, the machine operators are generally seen as a separate group. The machine operators are generally provided as a 'common service' by the agent to all headworkers who require it. It is 'common' in the sense that these machine operators are not attached to any particular headworker and his group but come directly under the agent.

Mostly it is the headworkers and workers employed to do distributive and other activities who are recorded as legitimate workers of the unit, while the assistants including the apprentices generally go unrecorded. As a result, the official work force in such units is only 15-30 per cent of the actual size of the workforce. This is a common method employed by all agents, across the three types of organisation. This is mainly to avoid implementing the labour laws regarding working condition, minimum payable wages and other entitlements like paid holidays etc. This has also been made possible because, so far as official registrations are concerned, all agents observe only the bare minimum which is absolutely necessary for business with Bata. These mainly consist of registration for West Bengal State Sales Tax and

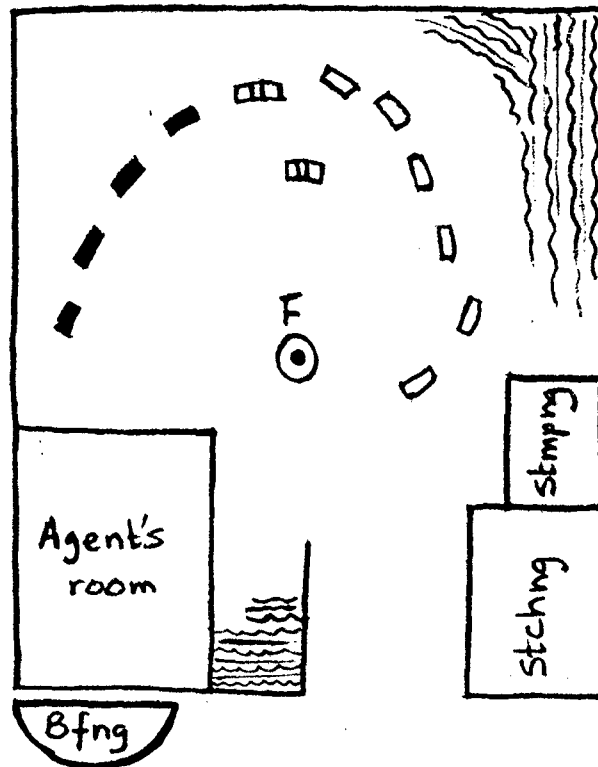
Central Excise. However, registration under ESI (minimum 20 workers) and Factories Act, 1948 (minimum 10 workers), are generally ignored; even though most of the units employ above ten workers.

4.12 Organisation of Work

An understanding of the nature of labour process in this case can be had from the spatial organisation of the work in the workshop. We therefore try to describe (see Figure 4.1 on p.159) this shop-floor organisation.

In a small rented workshop as shown in the figure, groups of upperworkers and soleworkers sit in separate rows, facing each other with the fittingman in between. Sufficient space is generally left in the centre since each worker sits with a 'chakki' (block of wood, cut from a tree trunk) in front, on which he has to do his work (except for cutting raw materials etc. which is done on the floor). In terms of machinery, a small rented workshop like this with limited workspace will have only the bare minimum like stitching and stamping, generally placed in the corners close to their point of requirement². Machine operations like buffing will be either farmed out or else a Buffing machine will be kept just outside the workshop (see figure), since these are

FIGURE 4.1



Spatial Organisation of Work Inside
The Workshop In Type I

Legend

■ Upperman

□ Soleman

▤ Finishingman

⊙ Fittingman

≡ stock of raw materials

Bfng Buffing machine

stching stitching machine

stmpng Stamping machine

bulky in size and also emit a lot of dust.

The nature of the production process in footwear is such that it requires all groups to work simultaneously. Thus, while in the upper group each headworker along with his assistants tries to complete his quota of upper work, the solemen carries on the preparation of insole. The service of the machine operators in this process is used by both the groups. Pairs of stamped insole and stitched uppers are then passed on at the same time to the fitter for fitting. From this point, the upper workers are free till the next batch of upper work begins again, but some bit of solework still remains. Hence, while the fitting continues, the solemen prepares the bottom soles, so that once the completed uppers are supplied by the fitter, these are stuck with the soles, trimmed and passed on to the finishingmen. The quality checking of the completed articles is then done by the agent's supervisor.

In a workshop bigger than the one shown above, much larger space is provided for each group of workers. There will also be a separate stitchingman for each group of workers. The fittingman in this case will sit close to any one group but all the necessary components will be brought to him by the young apprentices.

From the description above it may be noted that each group of workers has to constantly keep pace with the other group. For example, the uppers have to be completed at the same time when insoles are ready since otherwise the fittingman will have to sit idle. Also once the insoles are over, the solemen can not sit idle but have to start the preparation of soles since these will be required after fitting is complete. Also once the work is on, each group has to pass on from one batch to another so that production continues non-stop in this manner.

4.13 Wage Payment

Payment to all workers is generally made at the end of every week. We have already noted that the headworkers are paid on a piece-rate basis. Apart from this the agent also pays an average daily subsistence of Rs 5 or 6 to all the headworkers. This rate is similar across all type of units, irrespective of the organisation of production. This payment is also made for the assistants working under the headworkers. It is important to point out here that payment to the assistants is made only through the headworkers. This is because the assistants are generally subjected to the sole authority of the headworker and any negotiations with the agent

over payment etc is therefore done by the headworker himself on behalf of his assistants. The daily subsistence (along with any other advances that are made) is kept account of and is deducted by the agent when it gets time to pay each headworker. However, deductions are never made in a single stroke and it is only after a reasonable payable sum has accumulated in favour of the headworker that the latter allows (mostly based on mutual agreement with the agent) such deductions to be made. The headworker too makes similar deductions from his assistants.

We therefore have

- a The headworkers and their assistants, between whom there is a relationship of paternalistic dependence. This paternalistic relationship, which provides the headworkers with a traditional means of controlling his assistants, is maintained through payment of subsistence to the assistants and keeping them confined under his control. This is certainly of advantage to the agent who can thus ensure a stable supply of cheap labour. In the same way he too controls the headworkers.
- b Payment of piece-rate which provides an in-built

incentive for the workers to work harder and faster all the time. This system of payment also discriminates against the relatively older workers.

- c The nature of the production process also serves as a major instrument of control. This is clearly evident from our description which shows that speeding up by one group has to be matched by the other since otherwise it will speak of the relative inefficiency of a group. This leads to a general intensification of the workprocess even though an individual worker may try to beat this process of intensification by cheating on the quality (e.g., not waiting long enough to let the adhesive dry well). His scope however is limited since there is constant direct supervision by the agent's appointed men and there being no attempt at organised protest so far among the workers against this process of intensification, it only ends up generating competition among themselves. Competition of this nature among the workers, being a barrier against their collective solidarity, serves as a useful basis for the agent to control them.

The lack of solidarity is also observed between the headworkers and their assistants, vis-a-vis the employees

responsible for distributive activities. The latter are generally referred to as 'malik's men' by the headworkers. This is mainly because these employees are paid on time-rate basis and they are given supervisory power over the latter. Much as these ideas find their root in the different status enjoyed by different workers in the agent's workshop, they obviously go to atomise and alienate the workforce into smaller islands.

From our description so far, we see therefore, how in order to maintain control over the workers and squeezing the maximum labour out of them, a combination of paternalist, jajmani principles and Taylorist managerial techniques were deployed.

4.2 Sub-contracting by Agents (Types II and III)

So far we have been describing direct production with a two tier structure, consisting of agents and workers. The crucial distinction between this type and where the agent re-subcontracts is that the latter is a three tier structure, consisting of agents, sub-contractors-to-agent (STA) and his workers.

These second-level sub-contractors (or the STAs) are basically petty, small scale manufacturers with or without

their own workshop. The production capacity of these individual sub-contractors is generally highly insufficient to cater to Bata's demand. Also none of these sub-contractors have any financial standing of their own. Most of them like the workers in Type I are Chamars from Bihar. They are illiterate cobblers who have been in this occupation for generations. On the other hand, the nature of work involved in being a supplier to Bata includes lot of paper work like maintaining the prosperity card, preparing the costing sheet, weekly statements of supply etc all of which obviously call for a certain degree of literacy. As a result there has been very little upward mobility among these sub-contractors, who have rarely been able to eliminate the agent in between and graduate to the status of a direct supplier. Among all the agents in Calcutta, only two had been sub-contractors to ex-agents of the Contract Department earlier and they too were from the non-Chamar community.

We consider below the two types (Types II & III) of sub-contracting by agents, which are largely similar in nature with only a few differences.

One major difference between Types II and III is

in terms of the role of agent. Thus in Type II, the agent has his own manufacturing unit and the necessary machinery i.e., he takes care of the fixed capital requirement of the unit. However, in order to organise production, the agent employs sub-contractors in the workshop. A unit may employ anywhere between eight to ten such internal sub-contractors.

In Type III the agent farms out to sub-contractors outside, who work in their own domestic workshop so that along with the organisational responsibility, even the necessary fixed capital requirements is taken care of by the STAs. The agent is therefore reduced to being purely a middleman here. Thus an agent may employ on an average twelve such sub-contractors. The workers employed on a time-rate basis for quality checking and other distributive activities are recruited by the agent along with the STAs, since the latter are not responsible for such work.

Like in Type I, the machine operators in Type II also provide common service to all internal sub-contractors who separately pay for the services on a piece-rate basis. It may be added here that common service in this case sometimes includes both fitting and finishing.

In Type III, however, the machine operations are more commonly farmed out by the STAs to specialised units outside. There are a few exceptional cases where the STAs have their own machines in the workshop, in which case operators are employed on a piece-rate basis.

It will be interesting at this point to compare the inter-relationship between the agent and the STAs vis-a-vis that between the agent and the Contract Department. Comparison between the two shows that the former relationship is more of a patron-client type. The STAs enjoy definite advantages in their business with a Bata agent compared to that with traders in the open market. An important advantage, as in Type II, is that the STAs are provided with a workshop even though this implies an exclusive tie with the agent. Other advantages include, unlike the case of the traders, deductions in instalment and payment without any tied clause. However, unlike the agents, who do not have much say over matters vis-a-vis the Contract Department, the STAs are able to bargain better with the agents. The reason is mainly because of the relative degree of autonomy enjoyed by the STAs vis-a-vis the agents. This is especially true of the sub-contractor who works in his own domestic

workshop and is truly autonomous. But even those who work in the agent's workshop have greater mobility than the agents themselves. This is because these STAs have had the necessary experience, with some even having independent units of their own in the past.

In both Types II and III, the individual STA employs his own workers which comprise mainly family labour. Hence a strong kinship relation is observed between the STA and his workers similar to that between the headworker and his assistants in Type I. While in Type II, the average number of workers employed by an STA is five, in Type III, the number shows considerable variation. It was found to vary between two to as large as thirty workers.

In Type II also the agent records only the sub-contractors and the employees engaged in distributive and other activities as part of the official workforce, while the rest are left out. An interesting point to note is that the workshop often serves as a living unit for the workers. The implication of such a residence-cum-workshop is that it enables the working hours in the workshop to be absolutely flexible. As a result, whenever the supply order is high, the working hours can

be stretched freely and a higher workload imposed on the workers. Moreover, the workers in general also become more amenable to paternalistic control.

Hence, we found that whenever the workers lived inside the workshop, the working hours in those units were extremely long. The working day started from seven thirty in the morning, often stretching upto one or two at night. In contrast, in other units working hours were comparatively more regular stretching from nine in the morning to nine at night. The practice was most commonly found in Type II and less so in Type I and III.

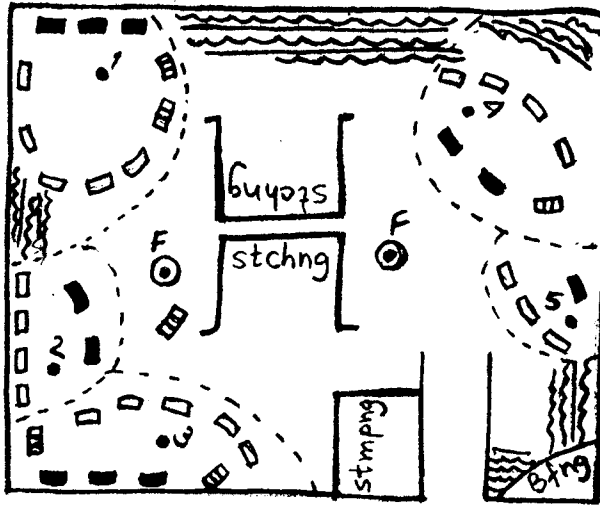
The reason could be that in Type II, the workshops were mostly an extension of the household premises, located in the middle-class residential areas. As a result, these were not only more spacious but there was also no need to close them down like the rented ones. Second, the rented ones being mostly found in the heart of the 'mochi patty', the workers could easily get back home even if late. Above all, however, this may be seen as a deliberate practice by the agents to reap the benefits of such a situation. For the sub-contractors and his workers a residential workshop solve their problem of accommodation.

In a similar manner, as under direct organisation of production by agent, the STA too organises his workers into similar skilled and unskilled division of labour. Once again, we try to understand this from the spatial organisation of work in Types II and III (see Figure 4.2 on p.171)

From the diagram it can be seen that in Type II, each STA with his separate group of workers transforms the whole workshop into a collection of independent production units where the organisation of each unit closely resembles the direct production arrangement of Type I. The only minor difference, which is evident from the diagram, is the inclusion of the fittingman along with the machine operators as part of the 'common service'. Thus with the exception of the Buffing machine, the rest are all centrally located inside the workshop, within easy reach of each group.

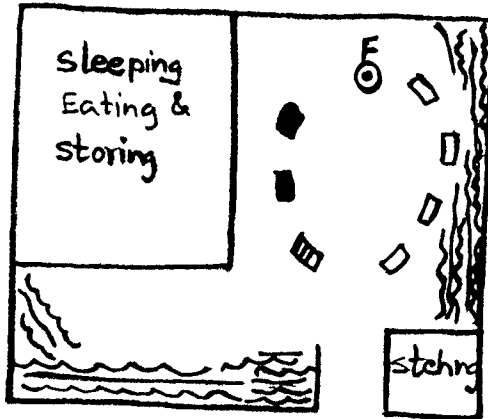
In comparison to Type II, the size of the workshop rented by an independent STA in Type III is much smaller. Such a workshop (as shown in the Figure 4.3 on p.171) is also used for sleeping, eating and storing all possessions like utensils, clothes etc. In the remaining space the STA sits with his workers as given in the diagram.

FIGURE 4.2



Spatial Organisation of Work Inside The Workshop in Type II

FIGURE 4.3



Spatial Organisation of Work Inside The Workshop in Type III

Legend

- | | | | | | |
|---|--------------|----------------|------------------------|----------------|-------------------|
| ■ | Upperman | ⊙ | Fittingman | <u>bfng</u> | Buffing machine |
| □ | Soleman | • | Subcontractor-to-agent | <u>stching</u> | stitching machine |
| ▣ | Finishingman | ≡ | stock of raw materials | | |
| | | <u>stching</u> | stamping machine | | |

The nature of the production process is similar to that described in the last two cases. Although final quality checking of all articles is supposed to be done by the supervisory staff of the agents, effectively it is left to the charge of the STA.

The system of payment, as mentioned before, serves as an important instrument of control here also. The STAs in both Types II & III pay their skilled workers on a piece-rate basis and also provide them with an average weekly subsistence of Rs five. The unskilled workers or the apprentices receive only a subsistence, mostly in the form of free food & lodging. The daily subsistence along with any other advances (for marriage, sickness, festival etc) that is provided is deducted by the STA from the skilled workers during the time of payment (this does not include the unskilled workers since they are not formally paid as such).

Although the STAs are supposed to sell completed articles to agents at a predetermined purchase price, in effect the net sum received by the STA, after all deductions are made, consist only of labour charges and a commission for the overall supervisory work. A major deduction is for raw materials sold by the agent to the

STAs. However, unlike the Contract Department, deductions are always made in instalment by the agent. We therefore find in Types II and III, a combination of jajmani and paternalist principles of control over work organisation similar to the one found in Type I, but at an even greater level of intensity. Mainly because the 'spirit of competition' in the case of re-subcontracting is not restricted between workers but also exists between STAs.

A major difference between direct organisation of production and re-subcontracting lies in the respective roles of the headworkers and the STAs. While the headworker is concerned only with one part of the production process, a STA has control over the whole process. This has serious implications in terms of the managerial burden on the agent. Thus in the former case, the agent or his supervisory staff has to co-ordinate between headworkers who are engaged in different stages of production. Secondly, a STA unlike a headworker has to bear in part (or whole) the risk of production. This implies that the agent in the case of re-subcontracting (especially Type III) is able to pass down the brunt of reduction sale to the STAs³, whereby an agent receiving lower price for a defective pair from the Contract

Department also pays in turn a lower price to the STAs. In direct organisation of production, the agent has to absorb it himself.

Finally, as already noted, the agent who sub-contracts, generally sells all the necessary raw materials to the STAs. This provides the agent at least with the scope to earn some profit⁴ and pass down fluctuations if any in the raw material prices to the sub-contractors.

4.21 Activity Sub-contracting

Even though our discussion so far has been mainly about product sub-contracting, we did note that there is considerable activity sub-contracting too, mainly in terms of machine operations.

The sub-contracting of machine operations is made to small, specialised units, run by one or two men only. A unit may specialise in only one activity like stitching/buffing/stamping/machine printing or combine more than one. However, stitching is generally separate. These units are located in places where there is a thick concentration of cobblers' families. Generally each cobbler's 'patti' or 'muhallah' (as they are called) will have a number of such units catering to the

manufacturers from that area.

For agents, having their own workshop it is found that sub-contracting of machine operations is higher among those whose workshops are rented and also located close to the heart of the industry. This has mainly to do with availability of space in rented workshops for housing of machines and availability of suitable sub-contracting units in particular locations.

Thus out of fourteen agents having a workshop (either rented or otherwise) only two farmed out buffing operation. Both these agents did not have enough space in their rented workshops, but they were located near the 'mochi patti'. Besides, a buffing machine is also avoided because of its dust problem.

We may add here that each agent's workshop generally has stitching and stamping machines which is the bare minimum requirement.

In the case of STAs' workshops (Type III) which are always located near these 'pattis', the rate of farming out is generally higher with a few exceptions. Hence, nearly all the five units that we interviewed farmed out necessary machine operations. This is because, apart

from workspace another major constraint which prevents them from investing in machines is lack of capital.

Finally, the agent's workshop may have in addition, more specialised machines like painting, machine printing, air-compressor etc, although none of the STAs would have them in their domestic workshops. It is important to note here that while none of the agents farm out stamping operations, all the STAs farm out this operation. The stamping work is generally done in the unit itself by the agents to prevent Bata brand from being used by others. However, according to the STAs, farming out of this operation is based on mutual faith with the servicing units.

4.3 Relative Advantages of Production Under Three Type of Organisations

We begin this section by giving below the cost break-up for a leather article manufactured in all the three types of organisation of production.

Table 4.1 : Cost of Production (per pair) of a Leather Article produced in Types I, II and III

Cost per pair (in Rs)	Organisa- tion type	Type I	Type II	Type III
	1	2	3	4
1. Raw material		35.30	35.32	35.32
2. Labour		7.00	<u>4.30*</u>	4.18*
3. Price paid to STA			<u>39.62</u>	
4. Overheads		2.00	1.85	<u>0.50</u>
5. Price paid to STA				<u>40.00</u>
6. Additional overheads borne by the agent		-	-	0.30
7. Total cost of production		44.30	41.47	40.30
8. Profit		3.29	6.18	7.35
9. Purchase price paid by the Department		47.65	47.65	47.65
10. Bata's retail price		79.95	79.95	79.95

Source : Field survey information

Notes : 1) The difference between the purchase price paid by the Department and the retail price of an article is accounted for by the departmental cost and margin of the Contract and Retail department.

* The labour cost includes payment to machine operators. In Types II and III, this also includes the commission for the STAs (For piece-rates paid to workers in different organisation types, see Appendix II)

A comparison of the cost of production between the three types (as shown in the Table) shows that while production in Type III is the cheapest, cost of production is highest in Type I. This, as is evident from the Table, is mainly due to differences in labour and establishment cost between direct organisation and re-subcontracting of production outside.

The low labour cost in Type III is mainly because the extent of family labour used by STA is generally higher than in Type I. In the latter case, even though the assistants to each headworker are often from the same family, no such kinship relationship exists between headworkers. In Type III on the other hand, the STA and his workers work as a close-knit family. As a result of this close kinship, which is further reinforced by payment of subsistence, a STA is able to pay piece-rates to his workers which are lower than what has to be paid by the agent to individual headworkers in Type I.

The second item where Type III tends to be cheaper is the establishment or overhead cost⁵. Normally the overhead cost for an agent organising production in his own workshop, will consist of house rent, electricity, maintenance charges of machines, salaries and wages of

employees, interest payable on bank loans taken and packing and forwarding charges⁶. In the case of re-subcontracting of Type III, the cost of major overhead items is shouldered by the STA which lowers the overhead cost for the agent. Moreover, these overheads are generally lower (e.g., house rent and electricity) for a STA than for an agent.

However, the agent still has to bear the minimum cost of maintaining an office, a quality checker and of transporting the articles⁷ to the transport company, since none of these are the responsibility of the STA.

Even though a comparison between Type I and Type III shows the latter to be cheapest and hence more profitable than the former, in terms of quality control, the contrary is true. To begin with, by sub-contracting, the Contract Department itself is forced to partially delegate the task of in-process quality control to the agents. Even though the department officials have full discretion to visit any of the suppliers' units without prior notice, in effect this provision is seldom fully exercised since the Department has in all, only one or two quality inspectors. Thus while there is a final quality checking by the Contract Department official,

effectively quality control is left largely to the charge of the agents, who generally appoint a quality checker in the workshop. However, in the case of re-subcontracting by agents, especially in Type III, the responsibility of in-process quality control is delegated further to the STA since production takes place in the STA's own workshop. Here too the agent's quality checker may be carrying out a final checking of all articles. However, on the whole, successive delegation in this manner from Bata to agents to the STAs leads to a general slackness in quality control.

While Types I and III appear to be diametrically opposite in character, Type II, in terms of profitability and extent of quality control strikes a mean between these two extremes. Thus while the labour cost is almost equally lower in Type II as in Type III (for the reasons already stated), the overhead cost is almost the same as in Type I. This is because in both cases the agent maintains his own workshop, machinery, supervisory staff etc. However, there can be differences in overhead cost between Type I and Type II due to the fact that agents in the latter case sometime try to recover part of the overhead cost by charging a nominal rent from the STAs for living in the workshop and similarly charge the machine operators for using his machines.

In terms of quality control too, Type II ranks in between Types I and III. This is because in the case of internal sub-contracting, the manufacturing activity being in the agent's workshop, the STA and his workers are subjected to constant supervision by the agent. As a result there is better quality control in Type II compared to Type III.

4.4 Shift from 'External' Re-subcontracting by Agent

Having discussed the relative profitability and extent of quality control between the three types of organisation of production, we now try to explain the shift observed in recent years from external re-subcontracting towards Types I and II.

Prior to the early 1980s, the most predominant form of organisation followed by the agents was Type III. The main reason being, as already noted, the relative profitability of Type III. However, even though profitable, and convenient for the agent, a movement away from Type III has been discernible among the agents in recent years during 1980s. The main reason is that the company in recent years has increasingly felt that re-subcontracting by agents has led to a serious deterioration in the quality of products sub-contracted.

This becomes a serious problem in the context of increased competition that the company faces in the market. Hence, since the early 1980s the company has been putting pressure on the agents to shift from Type III towards Types I and II where a greater check can be maintained on quality. This shift is easily apparent from the Table (see Table 4.2) on page 183.

From the Table it is clear that while agents who have started operations recently have directly opted for Type I or II, even older agents who initially began with Type III have been shifting away from it.

On the basis of our discussion in the last Chapter, it is known that the system of quality checking in the case of 're-subcontracting by agents' (especially in Type III), apart from being ineffective has given rise to additional problems (see sub-section on quality control, pp. 138-140, chapter III). It is possible that the Contract Department in order to avoid this has become more strict about quality than earlier and discourages re-subcontracting by the agent as in Type III.

The shift away from Type III has led to an equally dominant presence of Types I and II among the agents.

Table 4.2.: Nature of Shift in Production Organisation by Agents Between Their Year of Entry and the Year of Field Survey (1983-84)

Agent Sl.No.	Year of entry	T y p e		R e m a r k s
		During entry	During survey (1983-84)	
1	2	3	4	5
1	1978	II	II	Propose to shift to Type I shortly.
2	1950s	III	III	Will be quitting soon.
3	1979	I,III	I	--
4	1978	II	II	Dropped due to the unit falling sick.
5	1975	III	I,III	Presently dividing work on a 50-50 basis between both types. Plans to shift to Type I soon.
6	1981	II	II	--
7	1968	II	II	--
8	1975	II	II	Will be switching over to Type I shortly.
9	1972	I,III	I	--
10	1974	III	III,I*	Plans to shift to Type I fully.
11	1983	II	II	Propose to move to Type I.
12	1971	II	II	--
13	1980	I	I	--
14	1980	Co-op	Co-op	--
15	1981	I	I	--
16	1969	I	I	--
17	1981	I,II	I,II	Relative dependence on Type I since the time of entry, has increased from 25 percent to 75 percent of work done. Now plans to shift to Type I completely.
18	1980	III	III	Plans to set up his own mechanised unit shortly.

Source : Field survey information

Notes : Agent Nos.6,7 and 12 appeared to be generally unenthusiastic concerning their business with Bata. Hence, they did not make any changes in their production organisation during the period in question.

*This combination (III,I) does not fully confirm to our definition of the 3 types. Here, the agent buys ready-made components from contractors outside and carries out only the assembly operations in his own workshop under direct supervision.

The reason for this is the nature of product supplied by different agents. We give in a Table below, the classification of agents by nature of products supplied and the type of organisation followed:

Table 4.3 : Classification of Agents by Organisation Type and Nature of Product Supplied

Nature of Product	Organisation Type						Total
	I	II	III	Combi-nation*	Co-op@		
	1	2	3	4	5	6	7
Special only	4	2	1	1	-		8
General only	1	2	1	1	1		6
General & Special both	-	2	-	1	-		3
Total	5	6	2	3	1		17

Source : Field survey information

Notes : * This implies some combination of the three types

@ Co-operative.

From Table 4.3 it is clear that the majority of the suppliers who follow Type I are suppliers of special articles. Also 4 out of 8 special articles suppliers follow Type I. On the other hand, the general article suppliers are more or less evenly distributed between different types of organisation. Even the suppliers who follow combined arrangement and supply both general and special articles, follow Type I for special articles. There are two reasons for this. One is that special articles being more expensive and intended for an exclusive market, entail more stringent quality standards compared to the general articles. This is best ensured through direct organisation of production or Type I.

The general articles in comparison are rather poor in margin. Hence in the face of a new emphasis on quality by the company, Type II provides the agent with a convenient way to combine profitability with good quality control.

4.5 Conclusion

From the above chapter we can now draw the following conclusions. First, the 'agents' or the direct suppliers of the Contract Department enjoy a varying degree of autonomy vis-a-vis the Department. This depends on the

market standing and experience of a supplier. The nature of product(s) supplied by an agent also seem to vary with the extent of autonomy enjoyed by the supplier.

The major focus of the chapter was on the different types of organisation of production followed by agents in Calcutta and to bring out the difference between them. The agents were found to follow three different types of organisation which often involved more than one round of sub-contracting. Thus while in Type I, organisation was done directly by the agents, in Types II and III, the agents re-subcontracted production of the complete product to second-level sub-contractors or STAs.

The description of all the three types clearly showed that similar instruments of control, differing only in degree, are used to ensure cheap and stable workforce. Thus the benefits and security of employment associated with the official labour laws were substituted by paternalistic control in all three cases to (a) extract more labour and (b) lower the payment. This common element of control over a totally unorganised workforce and its cheapness clearly provides the major justification for the company to farm out production. In other words, our analysis of the entire process of sub-contracting shows

that it is the workers who bear the ultimate brunt of **exploitation.**

Even though the instruments used for control are largely similar in all three types, differences at the level of organisation has implications for the agents in terms of better control, burden of management, delegation of risks and relative profitability. In all respects, we found that in Types II and III, (where the agent re-subcontracts), he stands to gain more than what is possible in direct organising of production or Type I.

However, despite the convenience involved and the profitable nature of re-subcontracting, especially Type III, the agents were found to shift from it because of increasing emphasis by the company on quality. The response to this led to an almost parallel emphasis on Types I and II organisation among the agents which was explained by the nature of product supplied, their relative margin yield and quality requirements.

Apart from product sub-contracting which constitute the major theme of the Chapter, we also found cases of activity sub-contracting like machine operations. These were resorted to, depending on the size, location and financial standing of the sub-contractors' units.

The inter-relationship between agents and his sub-contractors, as discussed, showed it to be paternalistic in contrast to what we observed between the agents and the Contract Department. Moreover, unlike the agents, the STAs seemed to enjoy a better bargaining position vis-a-vis the former. The reason for this was the socio-economic background of the STAs and their relative familiarity with the open market.

Notes and References

- 1 That the department has been encouraging of late more professional suppliers, is evident from the Table below which gives classification of agents by their status of autonomy and time of entry.

Table 4(i): Classification of Agents According to Their Status of Autonomy and Time of Entry

Time of entry	Highly autonomous	Least autonomous	Total
1	2	3	4
1960s & earlier	-	3	3
1970-75	3	2	5
After 1975	2	-	2
1980-83	5	2	7
Total	10	7	17

Source : Field survey information

The table clearly shows that agents recruited in the recent years are more autonomous in character.

- 2 Thus stamping machine is only required by the workers engaged in preparing insoles, since the stamping work is done on the insoles. However, stitching work is needed by both upper and soleworkers.
- 3 Reduction sale by Bata consists of articles sold at reduced price. Those consist of articles with minor defect, odd pairs, surplus stock carried over from last week and so on. Among these, for defect pairs supplied by the agent, the Contract Department pays a lower price to the agent. Thus when an agent re-subcontracts, he is able to charge in turn a lower price to the STAs and thereby pass on the brunt of reduction sale to them.

A similar advantage enjoyed by an agent who re-subcontracts is of passing down the monthly fluctuations in supply order from Contract Department to the STAs. Total purchase made by the Contract Department from suppliers all over India shows fluctuations from month to month. This fluctuations is higher among the general article suppliers, as indicated by the average coefficient of variation of monthly supply (46.78 for general suppliers and 29.67 for the special article suppliers). As a result of re-subcontracting the agent is able to avoid absorbing these fluctuations by himself.

- 4 The practice of selling all the necessary raw materials to the sub-contractors has been in existence for long among agents who re-subcontracts. Generally this provides the agent with an opportunity to sell with a margin. Among all the raw materials that is sold, leather, rubbersole, leather board and foam generally show a high percentage increase over their purchase price. Except leather, all three are commonly required in all footwears.

However, there are exceptions when the agent has to subsidise the sale himself (charge a lower price than what he has paid for) mainly to appease the STAs.

- 5 It may be pointed out here that while we argue about the relative magnitude of the overhead cost between the three types, in comparison to the overhead cost of factory production in Bata, it is much lower across all types of organisation followed by the agents.
- 6 The list may also include what is known as reduction reserve. This is a comparable category found with the Contract Department which maintains a reserve fund to guard against the loss due to reduction sale. Following the Contract Department, some of the agents too follows a similar procedure. Since defective pairs that goes for reduction sale are more or less a constant feature, this fund constitutes an element of their overhead cost.

It may be added here that maintenance of a reduction reserve is not necessary for agents who re-subcontracts since in this case the agent does not bear the loss himself.

- 7 Even though the freight and octroi charges are paid by the Contract Departments for all agents, the latter is responsible for carrying the merchandise upto the office of the transport company.

Chapter V

Summary and Conclusions

It is widely observed by scholars that since the mid 1960s sub-contracting has been of growing importance in the Indian manufacturing sector, especially in the engineering industries. We set out to study this phenomenon in the footwear industry which remained hitherto untouched by existing literature on sub-contracting. We began by asking the usual questions that are raised in sub-contracting literature, that is, what are the factors that encourage a firm to sub-contract, what are the type of products/processes sub-contracted by a firm, what is the nature of the inter-relationship that sub-contracting gives rise to etc. However, we also attempted to go beyond this traditional boundary of the literature and tried to look at the conditions and organisational basis of production that actually sustain the process of sub-contracting. In this context, we looked at the working conditions and the characteristic of the workforce employed in the sub-contractors' workshops; the form in which production is organised by the sub-contractor

and tried to explain the dynamics within these forms.

In the Introductory chapter we tried to place our problem against the backdrop of the footwear industry in India. Here we found that the industry was highly decentralised in its production base and sub-contracting was widely prevalent. We also saw that government policy promoted inter-sectoral linkages through sub-contracting.

In Chapter II we saw that the establishment and emergence of Bata in the pre-independence period as the dominant firm vis-a-vis others was mainly due to certain favourable factors. It is because of this good start that Bata enjoyed a period of continued prosperity even in the post-independence period. In a predominantly decentralised industry, Bata stood out as the single largest firm. The three important factors that made all this possible were the uncompetitive nature of the domestic market at this time, a compromising workforce and a government policy which had not yet restricted the growth of the large scale sector.

However towards the end of 1960s, a gradual change in these (and other) factors marked the beginning of a period of declining prosperity for Bata. In response

to the crisis, Bata resorted to a two-fold strategy. One, to recapture the increasingly competitive market of mass-consumption items. Two, more selective in-house production and a new emphasis on the luxury market.

Sub-contracting constituted an integral element of the strategy for recovery. On the one hand, it was meant to improve the price competitiveness of Bata's traditional product lines (mass-consumption goods) in the market and thereby recapture their market share. On the other hand, it helped the company to capture the new luxury market and also served as an instrument to undermine the strength of organised factory labour in Bata.

In Chapter III, we went into Bata's sub-contracting more closely. Sub-contracting in Bata was found to be carried out by three separate agencies, depending on the nature of the product/process involved. Two factors were jointly instrumental behind sub-contracting by these three agencies. These are government policy and Bata's own internal crisis. Thus government policy was mainly instrumental for sub-contracting of Sandak, while it was not so in the case of sub-contracting by Contract Department and the Factory. In view of our discussion in the Introduction as well as in Chapter III

we found that specific restrictions imposed by the government on Bata were intended to encourage the company to develop sub-contractors in the small scale sector. Although the vertically-integrated structure of the company initially seemed to act as a temporary constraint to this process, the crisis of the 1970s made it imperative for Bata to resort to such a strategy. This impact was evident in the sub-contracting of Hawaii and the development of satellite projects like 'Dolly shoe' by the Factory. Similarly the development of ladies' footwear through Contract Department as part of Project Upswing, reflected the combined influence of the above two factors.

The subject of Chapter IV is crucial to our study. We tried to understand here the economic rationale behind sub-contracting from the sub-contractors' point of view. In order to do this, the chapter considered the sub-contractors of one department (Contract Department) and concentrated on the different forms in which sub-contractors organised production and tried to bring out the difference between these forms.

The agents (or sub-contractors) were found to organise production mainly in three different forms,

namely Types I, II and III. The main difference between Type I and Types II, III was in terms of delegation of responsibilities. Thus while in Type I, sub-contracting involved a two-layered structure consisting of Contract Department and its agents, in Types II and III, there was an additional layer of second-level sub-contractors or STAs.

In all the three types, availability of cheap and unorganised workforce constituted the real foundation which supported the production process. The instruments of control of this labour force between all three types, differed essentially in degree and not in their form. Thus the spirit of competition and the extent of paternalistic control was found to be more intense in the case of re-subcontracting (Types II, III) than under direct organisation (Type I). Hence in all three types, the possibility of controlling and exploiting the cheap and fragmented labour force provided the major economic justification for the agent to undertake sub-contracting.

However, the organisational nature of the three different forms differed in terms of their profitability and scope for quality control. Thus Type III was traditionally preferred by the agents for its highly

profitable nature. But over time, because of increasingly competitive market and intense quality drive by Bata, a general shift was observed away from Type III. The resultant co-existence of Type I and Type II was not only because both ensured better quality but was also due to the difference in the nature of products supplied by the agents, their relative profitability and quality standards.

Finally, before concluding it may be said that our study has basically looked at how sub-contracting can be mutually beneficial for the parent firm and its sub-contractors. However, the role of sub-contracting in the development of small scale industries has been pointed out by scholars and as we saw, sub-contracting is also encouraged by the government for this purpose. We therefore feel it is important to enquire at the level of individual industries, what growth potential does the small scale enterprises have through sub-contracting. We have not attempted this in our study. The term growth potential in this context can mean various things. One, whether sub-contracting enables the small scale enterprises to grow out of their dependency overtime on any particular parent firm and

allow them to make an independent dent in the market; alternatively it can mean diversifying from a single parent firm to a number of firms and thereby improving the bargaining strength of the sub-contractor; it can also mean a sub-contractor developing over time his own technological capabilities. Such analysis of the growth potential of small scale sub-contractors can be done by considering any one industry and looking at a set of sub-contractors overtime. This will enable us to point out which factor(s) promote/limit the growth of small scale enterprises through sub-contracting: Whether it is the nature of the entrepreneur or the type of parent firm; or the nature of the product and its market; or the very inherent quality of sub-contracting relationship.

Appendix I

Questionnaire Used in the Field Survey

Before we list the questions below, we may point out that the following questionnaire, especially the section on small scale units is almost identical to the one used by Hubert Schmitz for his three case-studies on Brazil.

Parent firm

- I. Profile of the firm
 - i History of the firm.
 - ii Size of the firm in terms of value of assets/sales turnover/value of output/employment/market share (figures overtime).
 - iii Type and specifications of product(s) manufactured by the firm.
 - iv Nature of the market catered to by the firm.
 - v Market network of the firm.

- II. Sub-contracting
 - i For how long the firm has been sub-contracting?
 - ii What percent of the total domestic sales is sub-contracted by the firm (figures over time)?
 - iii What is the type of product(s)/process(es) sub-contracted?
 - iv Whether similar articles as those sub-contracted are also made in the factories? If not, what is the difference in the technical characteristics between products made in-house and those sub-contracted?

- v What market is fed with the sub-contracted articles: Domestic and/or Export?
- vi How many sub-contractors the firm has? (Region-wise and size-wise classification if possible)
- vii Does the firm has separate Ancillary development cell for the sub-contractors?
- viii How does the firm locate or select potential suppliers?
- ix Type of suppliers encouraged by the firm and the nature of articles sub-contracted - are the two related?
- x What is the manner in which the firm organises sub-contracting and how does it ensure quality control?

III. Rationale for sub-contracting

- i What is the reason for the firm to sub-contract? What is the nature and extent of sub-contracting? Can they be explained in terms of overall market for footwear; government policy related to the industry; internal problems faced by the firm; nature and level of integration of the firm; availability of efficient suppliers in the area where the firm is located; technological nature of the products; availability of cheap labour and greater cost-efficiency of the sub-contractors; any other

IV. Nature of assistance

- i Whether the firm provides technical/financial managerial/any other assistance to the suppliers. If yes, on what terms and conditions?
- ii Nature of technical assistance: Communication with respect to input specifications/quality control assistance in terms of feedback received from the dealers or consumers/joint development of product designs with the suppliers/any other?
- iii Raw material: Is this normally provided by the firm? If yes, why? Does the firm provide all the necessary raw materials or only the principal ones?
- iv Financial: Is the firm generally in favour of providing financial assistance to the suppliers? If yes, at what rate of interest? Credit ties if any; does it charge any implicit rate of interest in the form of reduced price for goods sub-contracted?
- v Has the firm sold any second-hand machinery to the suppliers? If so, at what terms?
- vi Does the firm insist on exclusive tie with the suppliers/helps them to diversify to alternative markets?

V. Pricing and Payment

- i List of prices paid for various articles sub-contracted and their retail price.
- ii What is the price of comparable articles produced in the factory?
- iii How is the price payable to the sub-contractors fixed?

- iv What is the role of sub-contractors in the fixation of price?
- v What is the procedure for payment to the sub-contractors: Direct payment/chalan system/ any other?
- vi For how long the payment is deferred since the time of delivery of goods by the sub-contractor?

VI. Impact of Sub-contracting

- i What has been the impact of sub-contracting on the firm's cost and profitability overtime? In particular, what has been the impact on the firm's labour and overhead cost, inventory holding costs, tax burden, re-organisation of work process within the factory, absorption of market fluctuations, credit requirements?

VII. General questions

- i Structure of the industry: Changes over time.
- ii Government policy relating to the industry.
- iii Raw material marketing.
- iv State of technical change in the industry; extent of technology diffusion.
- v The firm's relationship with BSO in terms of technological assistance etc.
- vi The firm's perception of the future of the small manufacturers; whether feels any serious threat of competition from them?

Small units including sub-contractors of Bata

I. General

- i Name and location of the unit.
- ii Setting up of the business (when, how and why).
- iii Type of organisation (Proprietary/Partnership/Private Ltd.).
- iv Whether registered under: Shops and Establishments Act/Factories Act/ESI/Sales tax/Central Excise/SISI/Directorate of industries/DGTD?
- v Size of the unit in terms of: value of assets/sales in quantity or value terms (weekly/monthly/quarterly/annual)/production in quantity or in value (weekly/monthly/quarterly/annual)/capacity installed/employment.
- vi Type and specifications of the product(s) manufactured by the unit; whether also engages in repair work etc?
- vii What is the background of the entrepreneur: whether ex-employee of the parent firm/technical qualification if any/name of the community he belongs to/local or migrated?

II. Raw material

- i What are the raw materials required for production?
- ii Source of raw materials for the unit: Tannery/intermediaries/parent firm in the case of sub-contracting/co-operative/any other.

- iii Dependence on particular suppliers of raw material.
- iv Difference in the price and quality of raw materials purchased by small and large firms.
- v Normal requirement of the unit (in value terms) per month/week/day.
- vi What according to the unit are the problems of getting raw material? what has the government done or could do in this respect?

III. Credit

- i Whether received any loan? if yes, what is the amount received and for what purpose (term loan/working capital)? From whom and on what conditions?
- ii What are the problems faced by the unit in obtaining credit?

IV. Labour

- i Total number of workers.
- ii Composition of the workforce: supervisory staff; workers engaged in manufacturing; family labour/hired labour; men/women/children; semi-skilled/skilled/unskilled; permanent/casual/contract.
- iii Number of workers by activities.
- iv Terms and conditions of employing hired labour (specific to the unit and in the area).
- v Training of apprentices on job/any other way.
- vi What is the turnover among workers and its explanation (government legislation/anything else)?

- vii Is there much change over of workers between small units/between small and large?
- viii Number of hours worked on an average per day/week.
- ix Wages paid daily/weekly/monthly by activities; difference between supervisory staff and the manufacturing workers; between permanent/temporary/contract/skilled/apprentice workers.
- x General implementation of labour legislation in the unit - benefits to the workers in terms of paid holidays etc.
- xi What is the average productivity of the workers engaged in manufacturing?
- xii Does the entrepreneur himself participate in the work or merely supervises?

V. Machines used in the unit

- i Machinery owned by the unit: number, description and function.
- ii Bought from whom: manufacturer/dealer/other units?
- iii How is the purchase financed?
- iv Problems if any in obtaining the machines?

VI. Production

- i Detail description of the labour process.
- ii What are the stages of production that are generally carried inside the unit?
- iii Which part of the labour process requires maximum skill?

iv. How is the work generally organised within the unit?

v. What is the nature of quality control?

VII. Marketing

i Sales turnover per month/week (figures over time).

ii Percentage of production sold to the parent firm in the case of sub-contracting; other firms with reputed brand names; wholesalers; retailers; Leather Development Corporation; directly to consumers; any other.

iii In case sold directly to the consumer, which consumer group does he cater to generally?

iv What is the extent of unsold stock, as percentage of monthly output?

v Detail description of how marketing is done.

vi Degree of competition in the market.

vii Competition with whom: other small firms/medium and large firms?

viii Is the competition in terms of price/quality/market goodwill/access to market channel/raw material/product differentiation/any other?

ix What are the problems of marketing faced by the unit. Whether thinks there is advantage in joining a co-operative for marketing the products? Whether the unit knows of any such co-operative helping the artisans to market their products?

- x What according to the unit has been the nature of government assistance in this respect?

VIII. Only for Sub-contractors

- i Whether working for Bata only? If not, name of other firm(s); their type & size.
- ii Nature of product/process sub-contracted by Bata to the unit.
- iii How long the unit has been working for Bata?
- iv Proportion of output sold to Bata; elsewhere.
- v What according to the unit is the reason for Bata to sub-contract: difference in labour cost; provision of labour legislation; government policies; taxes; fluctuating market demand; any other?
- vi Nature of assistance from Bata: Repeat questions from section IV and V of the questionnaire for the Parent firm.
- vii What has been the rejection rate like? Whether any unnecessary harrassment by Bata over quality?
- viii How is the price fixed by Bata? Does Bata, according to the unit's opinion provide sufficient margin for the unit to grow?
- ix Does the unit think it has grown because of orders from Bata?
- x Does the unit further sub-contract part of the work? If so, what is the nature of this work and why? What is the nature of these second-level sub-contrctors?

- xi Repeat some of the questions under this section for the second-level sub-contractors if they exist (where the parent firm is no longer Bata).
- xii Cost of production and profit margin per unit of product sub-contracted

Name of the item	Amount required (unit)	@ Rs.	Percentage
1. Raw material			
2. Labour			
3. Overheads (machines, electricity, rent, taxes etc)			
Cost of Production			
Profit margin			
Selling price			

Appendix II

Table A 2: (Average) Piece-Rates* paid to Upper, Sole and Fitting Workers in Types I, II and III for Manufacturing Leather Footwear

(in Rs)			
Worker doing particular operation	Type I	Type II	Type III
1	2	3	4
1. Upperworker	1.75	1.50	1.50
2. Soleworker	3.00	1.10	1.00
3. Fittingman	1.00	0.35	0.33
Total	5.75	2.95	2.83

Source : Field survey information

Note : *These piece-rates do not include payment to the machine operators.

Appendix III

Table A 3 : Price Paid at Various Levels for Articles
Sub-contracted by Department of Contract &
Ancillary Development

Sl.No. of Articles	'pp' to STA*	'pp' to Agent*	Con- tract ODV	Retail price	(2)/(5)	(3)/(5)
1	2	(in rupees) ₃	4	5	(in percentage) _{6,7}	
1	9.65	12.80	NA	21.95	43.96	58.31
2	11.00	15.00	NA	25.95	42.39	57.80
3	12.00	16.65	20.20	29.95	40.07	55.59
4	14.00	18.60	22.25	32.95	42.49	56.45
5	14.00	19.00	NA	32.95	42.49	57.66
6	14.70	19.75	NA	34.95	42.06	56.51
7	18.88	24.25	29.00	42.95	43.96	56.46
8	21.80	25.70	30.35	44.95	48.50	57.17
9	19.00	26.00	31.70	46.95	40.47	55.38
10	21.30	28.00	33.70	49.95	42.64	56.06
11	25.80	30.00	35.75	52.95	48.73	56.66
12	NA	32.50	38.15	56.95	NA	57.07
13	NA	34.25	40.45	59.95	NA	57.13
14	NA	37.00	NA	64.95	NA	56.97
15	-	38.25	45.20	66.95	-	57.13
16	36.50	40.00	47.20	69.95	52.18	57.18
17	-	42.00	NA	74.95	-	56.04
18	-	45.75	53.95	79.95	-	57.22
19	-	51.50	60.70	89.95	-	57.25
20	-	57.00	67.45	99.95	-	57.03
21	-	74.50	87.70	129.95	-	57.33
22	-	91.50	107.95	159.95	-	57.21

Source : Field survey information

Notes : * This stand for price paid to Sub-contractor-to-Agent and Agent.

NA = Not Available

- = Non-existent

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