The use of black labour in subcontracting

Reflective project

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Contents
1. Introduction .................................................................................................................. 2
2. What is subcontracting and black labour? ................................................................. 3
3. Effects of subcontracting ............................................................................................ 5
   3.1 Advantages of subcontracting ............................................................................. 5
   3.2 Disadvantages of subcontracting ..................................................................... 6
4. Use of black labour and informal labour ................................................................. 7
5. Working as a black labour ....................................................................................... 9
6. Conclusion .................................................................................................................. 10
7. Bibliography ............................................................................................................ 12
Appendices .................................................................................................................... 13
   Interview with a sole trader .................................................................................... 13
   Interview with a worker ......................................................................................... 14
1. Introduction

To big companies, subcontracting is common because by subcontracting they can make more profit and save in side costs of employing. Companies usually don’t have time or skills needed to do every task involved in contract, so these tasks are subcontracted. The problem in subcontracting lies in the ignorance of knowing whether the subcontractor is using black labour or do they even have all the necessary insurances. It is vital to know the company to which the tasks are outsourced.

I chose this subject because it is related to my work in metal construction firm, where I have been working for a year as an assistant. In this firm I’m responsible for all the office work, including payment of salaries and preparing the contracts of employment. Our field of expertise is painting and sandblasting and we are mainly working as a subcontractor to bigger companies.

In the field of metal construction and construction in general, it is very common to subcontract and use black labour. The use of black labour is not acceptable in the firm where I’m working. Some workers have even suggested that they would want to work as a black labour; these workers have not been hired.

In this reflective project, I will evaluate the advantages and disadvantages of subcontracting by the viewpoint of sole trader. I will also evaluate the use of black labour in the field of construction and metal construction; can it be connected with subcontracting.

I interviewed my employer to get more information about subcontracting, and also one worker who has been working as black labour earlier to understand why someone would choose illegal form of working instead of being a legal employee. These interviews can be found in the appendices.
2. What is subcontracting and black labour?

For defining a word subcontracting, one should first define the word outsourcing; by outsourcing a company will allow a subcontractor to execute some work related to business. Usually in outsourcing, the company will give out the whole section of the business activity, e.g. accounting. Whereas in subcontracting, the company can undertake single tasks or provide workers for the contract. As in outsourcing, also in subcontracting the company can also undertake the whole contract as well. These terms are quite near to each other and the meaning of the words is more or less the same. (Chambers, I. [Ed.]. [2007] Business Studies, 3rd Edition. p. 613, 19 January 2010.)

Subcontracting is a way of outsourcing different tasks of contracts to different companies. These tasks are usually something that the contractor will not or cannot perform by using their own resources. This means that a part of the contract is subcontracted to a firm that has more knowledge of the specific area of the contract.

Subcontracting is an important way for businesses to form networks with each other and create business clusters to benefit all parties. By creating these networks, businesses can share resources; e.g. one company can have a huge customer base, known brand and effective sales organization and to this equation another company can bring technical knowledge and effective workers as the third company can have the equipment needed for the contracts. (Vakaslahti, P. [2004] Jalosta liikesuhde kumppanuudeksi, Alihankinnasta yhdessä tekemiseen. pp. 18–23, 13 January 2010). By subcontracting, one contract can have the usage all of these resources and therefore it can be made better.

Word ‘black labour’ refers to those employees that are not legally hired and therefore they do not have e.g. insurances or healthcare provided by the company, these employees do not pay taxes or increase their retirement funds and they also do not have written contract with the employer, so if there is some problems e.g. in
payment of salaries they do not have labour union or anyone else to turn to. If some accident happens, the insurance company doesn't refund it.

The problem occurs when the contract is subcontracted through many companies and the main contractor might not even know all the companies involved in the contract. According to my interview with a sole trader, he thought that some companies might be tempted to use black labour when there are many layers of subcontractors involved in the contract. (Interview with the sole trader, 4 January 2010.)


It is shown in the picture above how one contract can involve even three layers of subcontractors. In this kind of situation the main contractor or the developer of the contract might not even know the names of all the companies involved. So subcontractors who are working in the third layer might not have everything sorted out legally and they could also be using black labour.
3. Effects of subcontracting

For smaller company such as where I'm working, subcontracting is vital. Without subcontracts we probably would not have any contracts because at the moment we are only offering our skills in painting and sandblasting. Since we have worked as subcontractor for Swedish, Norwegian and Finnish companies we have been able to create also international connections as well as domestic. According to the interview with the sole trader, the skills that we possess are not the basic skills of metal industry companies and are therefore usually subcontracted. (Interview with the sole trader, 4 January 2010.)

3.1 Advantages of subcontracting

Positive effect of subcontracting is that it could improve the efficiency of the company if the subcontractor can do the job cheaper. Otherwise the main contractor has to employ workers who possess the skills needed or to train company's existing workers. (Chambers, I. [Ed.]. [2007] Business Studies, 3rd Edition. p. 613, 19 January 2010.) Main contractor also saves time and money by not needing so many insurances and workers; these costs are divided with the companies involved, as every company will need to have insurances for their actions and for their employees.

Subcontracting employs many companies which helps economic situation of the country by bringing more taxation to government. Subcontracting is ideal for smaller companies that don't want to keep large workforce permanently. When a big contract is given to a company, they can choose employees most capable for the job in question; this also improves the employment rate of the country.

By subcontracting, the company can concentrate on its main areas that they master; leaving the subcontractor to carry out certain processes of the contract. (Chambers, I. [Ed.]. [2007] Business Studies, 3rd Edition. p. 660, 19 January 2010). Therefore it serves the benefit for both companies, so that resources are not
wasted at any point of the contract and both companies are employed by the contract.

Subcontracting within European Union area is very simple, since the company does not have to pay value added tax for the services provided to another EU country; the tax is charged reversely in the country where the contract takes place.

3.2 Disadvantages of subcontracting

When subcontracting, the factors of production and decision making are often subcontracted as well; this could be seen as an advantage or disadvantage since the main contractor may not have a saying to decisions involving the contract but also the subcontractor usually have more knowledge of the area outsourced and therefore can make better decisions. If the factors of production are also subcontracted, meaning people, facilities, equipment, technology and other assets involving the contract, the subcontractor is responsible of these factors and has to make sure that all the necessary insurances are paid. (Greaver, M. F. [1999] Strategic Outsourcing. p. 3. New York: AMACOM. 19 January 2010.)

Some main contractors might not be able to stay in the background but are trying to influence on the decision making and human resources of the contract; this will influence on the relations of the companies and also the executing time of the contract. They might feel uncertain of the skills of subcontractor or fear that the contract might backfire; for these reasons both of the companies should have total confidence towards each other. (Greaver, M. F. [1999] Strategic Outsourcing. pp 29-31. New York: AMACOM. 19 January 2010.)

A possible disadvantage of subcontracting could be the use of black labour as workforce. According to my interview with the sole trader, in the metal construction industry it is quite possible that when the chain of subcontractors is long, firms might be tempted to use black labour to avoid paying side costs of salaries. (Interview with a sole trader, 4 January 2010).
4. Use of black labour and informal labour

According to a conference paper, found in the Internet, construction industries, as well as metal construction industry, tend to be project-based and have subcontracting chains which affect the labour markets as well. Within these industries labour tend to be mobile, which means that it is common to move the labour to the sites instead of hiring labour at the sites. Sometimes these sites can be very far from the homeland of the company and this could make the company managers think that they are out of reach of the law. Nowadays it is common that worksites of the industries are abroad. (Davies, S. et al [2008] Labour Standards in Global Subcontracting Chains: Evidence from a Construction MNC. Prepared for the Global University conference at the State University of Campinas, São Paolo, Brazil, 28-30 April 2008 (draft). Available from: <http://www.global-labour-university.org/fileadmin/GLU_conference_Unicamp_2008/Submitted_papers/Davies.pdf> 27 January 2010.)

In the same conference paper, it is said that subcontracting in these industries have became globally competitive and therefore local organizations are not so strong in the bidding of these contracts. At the same time, the working and living conditions of the workforce have deteriorated as well as legality of the labour itself. Some workers are paid under the general wage of the industry, even though they should obey local regulations and general regulations of the industry. According to these authors the cause of this lies in the complex subcontracting networks and the subcontractors, particularly in the lower-end of the chain who are not so eager to obey these regulations. (Davies, S. et al [2008] Labour Standards in Global Subcontracting Chains: Evidence from a Construction MNC. Prepared for the Global University conference at the State University of Campinas, São Paolo, Brazil, 28-30 April 2008 (draft). Available from: <http://www.global-labour-university.org/fileadmin/GLU_conference_Unicamp_2008/Submitted_papers/Davies.pdf> 27 January 2010.) Because of these complex networks it is not easy to control the system.
Since the subcontractor chains are so long and vary within every contract, it is impossible to say which companies are doing their work legally and which are using the black labour. The main contractor does not have the time to check the legality of every company and their employees and this might lead companies to believe that no one is watching over their work.

The conference paper states that the regulations can vary considerably between nations, that affects to making of employment contracts and in the use of informal and black labour. (Davies, S. et al [2008] Labour Standards in Global Subcontracting Chains: Evidence from a Construction MNC. Prepared for the Global University conference at the State University of Campinas, São Paolo, Brazil, 28-30 April 2008 (draft). Available from: <http://www.global-labour-university.org/fileadmin/GLU_conference_Unicamp_2008/Submitted_papers/Davies.pdf> 27 January 2010). Accordingly, it could look like it will be easier to use black labour when the worksite is located abroad. Also, the project-based character of the contracts might have an influence on choosing the labour and the legality of it. The project will be over by the time the officials realise there was anything wrong with the employing-process. And by then parties responsible can be very difficult to find.

Davies states that it is common that the final stages of the contract, such as installation and completion of the contract are often subcontracted to smaller firms; because they usually are the ones that have specialised in those tasks. These firms are also at the downstream end of the chain. (Davies, S. et al [2008] Labour Standards in Global Subcontracting Chains: Evidence from a Construction MNC. Prepared for the Global University conference at the State University of Campinas, São Paolo, Brazil, 28-30 April 2008 (draft). Available from: <http://www.global-labour-university.org/fileadmin/GLU_conference_Unicamp_2008/Submitted_papers/Davies.pdf> 27 January 2010). Smaller firms also have fewer employees if any and therefore they might considerer using black labour to complete these tasks. Subcontracting offers flexibility in the use of labour which might lead to using of black labour.
5. Working as a black labour

The question is: Why someone would want to work as a black labour? For this there is an easy answer: the money. You will get your salary without any deductions made from it. I found out in my interview with the worker that some people believe that they are forced to work as a black labour. The worker that I interviewed stated that he owes a lot of money to collection agency, so he was afraid to work legally because the collection agency would have withhold one third of his salary and then the rest would have gone in living expenses. (Interview with the worker, 4 January 2010.)

He also states that while you are working without a contract you are still able to draw different kinds of allowances such as unemployment and social allowances. The worker realises that it was illegal but at the time being he thought he had no other choice and now as he has grown up, he knows better to not do it again. The worker also says that he wasn’t even thinking the fact that he was working without insurances and if something was to happen, no one would have paid the damages. (Interview with the worker, 4 January 2010.)

Finland is a welfare state that aims to provide a good life to all its citizens. Schools healthcare and at least one vocation are financed together with taxation. Support is available for those without work; government is paying unemployment allowances and social allowances. The society expects every firm and worker to contribute by paying taxes to maintain the system. Although at the time of recession, when workers are made redundant or put on a non-paid leave, black labour could be seen as acceptable. If the social allowance is the only income of the family and there is no legal work available, black labour could be the only way of bringing the food in the table.
6. Conclusion

Company's mission statement and values are the ethical basis of the company's business actions. They indicate the core of the company; what it is doing, how, when and why. A company can have many values and it has to make sure that these values are actualised. By operating against its values the company is hurting only itself. Employing black labour has to be against every value of the company and by doing it the company risks not only their image but also their whole business activity.

I believe that the use of black labour can be partially connected with subcontracting and that many companies are doing it in order to save money in the employment costs, such as insurances and side costs of salaries. At the time of recession it is seen as almost acceptable, but by not operating in the legal way these companies are jeopardising the whole concept of subcontracting.

Since the subcontracting is nowadays more or less a trend in the construction and metal construction industries, the companies that are involved in subcontracting need to show that they are capable of doing it legally and without using black labour. In the question of whether the main contractor should subcontract or to employ people with the necessary skills, the answer has to be made in the light of the contract.

By subcontracting, the main contractor is supporting the survival of the small companies that depend on subcontracts. And for many firms that has the skills and the knowledge that big companies don't posses, subcontracting is indeed vital for the success of these companies.

Some employees are willing to work as a black labour and they might even demand it, but the company that is hiring should be able think beyond the profits made. Since, if a company is to get caught of it the consequences will be huge; the company probably needs to pay enormous penalty to the government.
It is true that these industries are not the only ones to use black labour and it probably happens within every industry more or less. There are also many subcontractors that are functioning legally, but the fact that the main contractor might be very far in the subcontracting chain has an influence on the decision of using black labour.

Finally, I would like to emphasize some of the responsibilities that every company has. First of all, every employer has an ethical responsibility to take care of their employees by paying salaries, offering healthcare and insurances. By employing black labour the company is not carrying their responsibility in the proper way.

There are also external responsibilities that a company needs to obey; social responsibility and different kinds of obligations set by society e.g. paying of corporate taxes and employing people. If a company uses black labour it is not only wrong towards the employee but also towards the society, since by hiring employees legally the company is paying many kinds of payments to the society. Society pays back to companies in different ways; by offering loans, building premises, training workforce and offering healthcare.

In conclusion, despite of these facts that has appeared from this reflective project, every company as well as every human being just has to remember that black labour is illegal and therefore it is obvious that it should not even exist.

Throughout this process I have had an enormous amount of additional information about subcontracting and using of black labour, which is very useful in my work. Information to this reflective project, I have found from the Internet and from different books. Working with this project has been interesting because all the information is relevant to my work and therefore I have had a double benefit from this project.
7. Bibliography

Literature:

- Vakaslahti, P. [2004] *Jalosta liikesuhde kumppanuudeksi, Alhankinnasta yhdessä tekemiseen*

Internet:

Appendices

Interview with a sole trader

What is your position in the company?

“I’m sole trader, so I’m the manager of the company and at the moment I’m also the only worker of the company.”

In what field is the company working and is it only domestic or does the company have international activities also?

“The company is mainly concentrated in the field of industrial painting and sandblasting, at the moment the company is functioning in Finland but we have had co-operation with Swedish and Norwegian companies as well. With these companies we have been subcontractors in different worksites in Sweden and Norway.”

How many workers have you had at total?

“I have had two workers in Norway and one in Sweden, these workers has all been Finnish and has been sent to these sites. I also have an assistant who is working in Finland.”

“I was also working in Sweden in different worksites and in Finnish contracts I have been working by myself.”

What is your point of view in subcontracting?

“In my company all of my contracts have been subcontracted from bigger companies, because industrial painting and sandblasting aren’t the basic skills of metal industry companies. Without subcontracting I wouldn’t have a lot of work and I would have to extend my branch of activities in welding and learn to do a lot of different tasks as well”

“Subcontracting, in my point of view, is working for the benefit of all the companies involved, because it saves the time and resources of companies. So, one company doesn’t need to have the skills and the know-how of every task involved in the contract. Also by subcontracting, big companies are employing smaller companies keeping them alive and at the same time they are also improving economy of the country.”

Do you think that by subcontracting companies are more tempted to use black labour?

“Some companies might be tempted to do that, because the contract can be subcontracted through many companies so the main contractor might not have the whole view of who actually are involved. In my company this is not acceptable way of doing business, so we don’t use black labour or subcontract to companies who are known to do that.”
Interview with a worker

In which fields have you been working and for how long?

“I have been working in the fields of construction and metal construction for about ten years.”

During these years have you ever been working as a black labour?

“Yes, I have, it is very common in these fields to employ black labour or so I have been heard.”

What have been the reasons for you to work as black labour?

“Firstly, there is the money; you don’t have to pay taxes and therefore you can have more money. Also during the working you can draw different kinds of allowances such as unemployment allowance and social allowances. I have lost my credit references and I owe money to collection agency, so by working this way I don’t have to pay my debts.”

Are you aware that this kind of action is illegal?

“Yes, but if I work as an ordinary employer, first the taxation would be withdrawn from my salary and after that the collection agency would take the third of my salary for paying off my debts and then I wouldn’t have enough money to pay the rent and other costs of basic living.”

Do you have any regrets of working as black labour?

“Yes, I do, since know when I think back that time and realise that I have had no insurances and if some accident was to happen during the working time, there would have not been no one to refund the lost. It is quite controversy that within these fields, the use of black labour is very common but they are also one of the most dangerous fields of industry and the accidents can be very bad and lead to early retirement or even death.”

“I haven’t done that for years know and I have made settlements with the collection agencies for paying off my debts, and actually they were very understanding, so I have been hiding from them for nothing. Let’s say that this period of my life was just young foolishness and most of the workers working as black labour are actually young men who don’t know any better.”