Disguised Employment – The Nature of Forced Entrepreneurship

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Abstract
Present labor markets are in the wind of change. A widely made distinction between employees and individual contractors has been challenged. The study discusses abductively, i.e. both conceptually and empirically, the nature of being a responsible employer. Consequently, the two central concepts are: a) responsibility and b) employment relationship. The empirical research task is: Why does disguised employment exist? Question of the research is: What is disguised employment as forced entrepreneurship? The approach is qualitative and abductive, which in this case means a two-way dialogue between the findings gained from literature and interviews. For this exploration, twelve open and unstructured interviews were conducted, two authentic written descriptions of dispute cases were analyzed and three concluding theme-based interviews were made by phone to clarify some remaining open questions. Disguised employment causes harm to employers and employees in the form of forced contracts, lack of experience in firms and unethical and irresponsible outsourcing. Responsible employment is a balance between rights, obligations, power and corporate social responsibility.

Keywords
Disguised employment, Forced Entrepreneurship, Flexibility, Responsibility

The main purpose of the paper is to analyze disguised employment as a form of forced entrepreneurship. The topic is relevant, because present labor markets are in the wind of change. A widely used distinction between employees and individual contractors has been challenged. Traditionally, we have thought that people who go work for, and subordinate themselves, to a single business are employees and people who run their own businesses and contract out their products and services to customers are independent contractors. This may look as clearly different as black and white, but it is not.

In the middle, there is mushrooming a so-called grey area that can be labeled as disguised employment. A firm may be involved in this kind of a situation both as an employer and an employee. This study contributes to practice with analyzing current employment markets. The aim of this study is to analyze the experiences between employers and employees, but also with other stakeholders like legal experts, trade unionists, start-up-advisers and employment officers to analyze the conflict of interests in employing.

This study contributes to theory with opening up irresponsible employment to debates of corporate social responsibility. Analyzing immoral and even illegal employment can increase the understanding on corporate social responsibility. The empirical research task is: Why does disguised employment exist? Question of the research is: What is disguised employment as forced entrepreneurship?

Contribution of this study increases understanding on corporate social responsibility. Firm as an employer is responsible for decisions, actions and results to stakeholders. Like Carroll (1991) suggests, social responsibility to stakeholders can be achieved if managers are morally aware. Stakeholders can have stakes in the form of shares, legitimate interests and rights for the firm. (Näsi & Näsi & Savage, 2002a). A firm is in interaction with its stakeholders (Näsi, 2002b; Carroll & Näsi, 2002). Like Näsi mentions (2002a), owners, management and employees are often the main stakeholders in a firm.

Organizing production has during recent years been strongly influenced by subcontracting and outsourcing. It has meant networking, flexible staffing, and renewed supply chains. These arrangements have increased some flexibility, and promoted growth in business. Outsourcing those business activities which are not core competencies, is not as such negative. It can also promote employees’ career development opportunities. New outsourced business can be more rewarding than the former more stable hierarchical organization. (Kessler & Coyle-Shapiro & Purcell, 1999). Workload has been divided to employees and independent contractors who take entrepreneurial risks. However, the difference between employees and contractors is not black and white. There can sometimes be a grey area between employment and independent contracting. Employers might sometimes use disguised employment and forced entrepreneurs in reducing costs and in achieving profitable gains. The tax system, laws and unions try to safeguard so that contracts are covered by industrial employment agreements and taxes and social security payments are properly paid on time. In many countries, the marginal rate of taxation is lower for business profits for income based on wages or salaries, which explains why disguised employment can be welcomed by employees. To avoid the risk of unfair dismissal, employers use a contracting labor force, and simultaneously they also avoid the expense of providing a range of protective entitlements and escape the cost of labor regulation. Fixed labor costs become more variable. Employers may find the costs of meeting their obligations too protective entitlements and escape the cost of labor regulation. Fixed labor costs become more variable. Employers may find the costs of meeting their obligations too
of legal and moral obligations.

Disguised employment is flexibility in staffing but also in diminishing costs. According to trade unionists an ex-employee has been told that he could earn more money by being an independent contractor. Also it has been made clear that there is no work available if he does not start disguised employment as a forced entrepreneur. Like an interviewed trade unionist explained “There is usually co-operation with the one and only former employer. People are forced to become entrepreneurs…. (idea of) traditional professional self-employed jobs, like a doctor or a lawyer, have been expanded to different jobs where gaining income through self-employment is not possible. It is one of the most disgusting ways to increase employer’s profits. Employees are really in trouble in these cases. Starting your own business out of your own desire, it is a totally different situation. I do not see any good in this disguised employment.”

A firm may be involved in this kind of situation both as an employer and as an employee. First, a firm can sometimes be totally financially dependent on one of its members who are asked to set up a company for self-employment and become a forced entrepreneur. Second, a firm may have to compete against other companies who use disguised employees, which can be seen as unfair competition. Third, if they use a subcontractor who operates as a self-employed actor, the subcontractor’s company can be taxed as if she were an employee, particularly if the income comes from a single source. Fourth, there is also a risk that the firm using disguised employees can later be ordered to pay statutory social costs as a percentage of the whole invoiced amount, and this kind of “time bomb” can be a stress factor caused by taxation. Fifth, a closely-held firm may pay wages and salaries to non-working junior or retired executives to reduce overall taxation, but this can be dubious, immoralizing, unfair, and in any case it has nothing to do with real employment. To understand better the nature of responsible employment, disguised employment is used as an opposite and rather controversial example. The purpose of the paper is to illustrate the nature of responsible employment and dimensions of responsibility in employing (Kaler, 2002; Gray, 2001; Chrisman & Chua & Zahra, 2003).

Corporate Social Responsibility and Disguised Employment: Background for Forced Entrepreneurship

Responsibility is a reflection of duties and accountability (Kaler, 2002, see also Cranston 2002) which are part of a reliable business. Informative accountability (Spira, 2001; Swift, 2001; Lemieux, 2001) makes a business accountable. This includes also recruiting employees. Employing is a part of reputation, image and brand in the company. It reflects ethics in recruiting (Käyhkö, 2002; Simmons, 2004). Accountability as informative responsibility is legally controlled (Gray, 2001). It creates information for stakeholders. Accountability is typically causal responsibility which is based on the right to use power and to delegate it. Employing is typically causal for employees and the firm. Employing as accountable decisions and acts must be justified and it must be based on legitimate power. These kinds of morals and ethics are based on law and society’s norms (Laporta, 1996) and can be a part of corporate social responsibility in a firm. (Sarre, Dog & Fiedler, 2001; Bertelli & Lynn Jr. 2003). According to Carroll (1991) corporate social responsibility can be divided into economic, legal, ethical and philanthropic responsibilities. It is interaction between community, government, business, owners, consumers and employees (Carroll, 1993). A firm is responsible for business operations, profitability and competitive position (economic), but also for obeying law and norms in production, marketing, management and business operations (legal). Fairness in planning, decision-making and actions are ethical responsibilities. (Carroll, 1991). In other words, it means making the right and justified actions (Eversen, 1998) that are based on values (Annas, 1998). Meyer (1998) sees that the nature of responsibility is based on values and morality. Demands, expectations and control of society direct the nature of responsibility. Morality is dividing our expectations, decisions and judgment on what is right and wrong and what is justified and unjustified. (Nuttall, 1993). The fourth dimension of corporate social responsibility, “Being a good corporate citizen” (Carroll, 1991) by producing resources for the community and improving the environment is the basis for philanthropic responsibilities. Like Matten and Crane (2005) mention, companies are competing globally and at the same time trying to fulfill many different stakeholder goals (see also Crane et al. 2005). They suggest, that public interest and citizenship, “stakeholder democracy” can have an impact in a form of corporate social responsibility on all firms. Firms should, according to Klonoski (1991) work for common social goals in society for achieving the aims of corporate social responsibility (see also Carroll, 1979).

In this study, employers are also business owners and managers. Behavior can be seen as a result of responsible or irresponsible decision-making (Lambrecht & Uhlaner, 2005). International competition, taxation or social costs can easily affect decision making. Owners face moral questions regularly at the workplace. High taxes or social costs can tempt disguised employment. Recruiting, firing staff, rewarding, job advertising, training new employees, paying wages, taking care of the health and retirement of employees and following the conditions of workplace are the basis for responsible employment. For an employer, it is essential to obey the law when recruiting personnel. Analyzing complaints, interacting with employees and making decisions based on fair rules are the basis for responsibility in being an employer. (Carroll, 1993).

Efficiency, outsourcing, downsizing and delaying create needs for a flexible workforce by challenging responsible employment. Reductions of labor force lead in some circumstances to disguised employment. If workers want to keep their job they are obliged to start their own company as forced entrepreneurs. (Boyle, 1994). This has meant transition from employment to self-employment. Firms have externalized functions previously conducted in-house by continuing to make contracts with their employees. (Stanworth & Stanworth, 1997). Employees are more often self-employed or they work part-time in different organizations. Short-term contracts in the firms are usual. Companies are buying skills that they need on a contract basis. They seek for profitability and productivity. They hire a workforce depending on the demand of the market. (Cooper, 1999). The forced entrepreneurship can be explained by labor market flexibility. The nature of flexibility can be functional, financial, numerical and distancing. These concepts are connected with each other in a definition of “flexible firm” given by Atkinson (1984a). Functional flexibility is achieved inside the organization by combining employees’ abilities and tasks into a new form and sharing work differently in the organization. Numerical flexibility can be controlling the number of workers according to changing economic circumstances and demand. Financial flexibility is something that reduces costs, and it can create competitive advantage in the business. Distancing flexibility may be subcontracting but sometimes also downsizing and organizing into new units. (Atkinson, 1984b; Atkinson, 1987, see also Gramm & Schnell, 2001). The nature of flexibility is a result of increasing changes and uncertainty in the environment (At-
The present paper reports abductively about the complexity of employment. The focus of qualitative research is in the perceptions of employment and responsibility. This is one of the most appropriate solutions for conducting qualitative research. (Cassell & Symon, 1994). Opinions of the different dimensions of responsibility are compared between legal experts, employers, potential, former and working disguised employees, trade unionists, start-up-advisers and employment officers. The multiple approach in choosing informants enhances understanding the responsible employment. Legal experts’ knowledge is about the labor law and the judgments in the juridical cases. They interpret contracting cases by law. Employers have a managerial perspective. They take managerial responsibility of employment and employees and describe the decision making in the business. Former disguised employees give details about the situations and motives which they have come across with in the contracting. Trade unionists deal with the issues concerning employees and how employers are recruiting and outsourcing business. Employees take contact to trade unionists when they want to know more about how legal disguised employment is and what employees’ rights are in these cases. Start-up-advisers do a lot of work with new entrepreneurs and new business development. They also see quite often situations where disguised employment is used. By giving instructions to future and novice entrepreneurs, they have got a lot of contacts and experienced a lot in the topics of employment and unemployment. Employment officers deal with disguised employment when employees want to ask help in the cases of becoming an entrepreneur or how to avoid unemployment.

The data is collected by conducting twelve individual and anonymous open interviews and two written cases. Furthermore, three complementary theme interviews were conducted by telephone (see table 1). Two persons were purposefully chosen from legal experts, employers and employment officers for the interview. Three disguised employees, and three start-up-advisers and three trade unionists were interviewed. One of them was a potential disguised employee and the other one former disguised employee, who had negative experiences about the disguised employment. The third one was an employee who had been successful in the circumstances which were very similar with the disguised employment. Most of the informants were men and the employees were younger than the employers. All informants were chosen by the former experiences of disguised employment but also by the criteria how well they were familiar with the subject. The multiple approach in choosing informants supports the understanding of the responsible employment. By interviewing different specialists it is possible to achieve a more holistic view of the topic. It also helps to find new research ideas for continuing the analysis of the forced entrepreneurship.

All contacts were made first by phone screening two weeks before the interviews. After the schedule was decided between the informants and the interviewer, information about the interviews and the topic was sent as a reminder by e-mail. Interviews were conducted during March and April 2004. All open interviews lasted from 40 to 60 minutes and they were recorded to c-cassettes. Two employers and one legal expert interview were made by phone. Two authentic written cases by former disguised employees are also analyzed in this research. It must be remembered that the cases were written by the employees for trade unions earlier on, and not at all for this study in the first instance. We hold the view that this description makes them more reliable as the former disguised employees have trusted on the trade unions and given them an abundance of details concerning their cases. Their aim has been to get some instructions and help for finding a solution in contracting. When trying to explore the dimensions of responsible employment, a multidimensional triangulative approach is used.

It was possible to gain a more holistic understanding by using an intensive schedule in the interviews. They were conducted group by group so that it was possible to discuss deeply with each informant. Interviews with the employers were conducted on the last week because in the first weeks the aim was to increase information about the responsibility and employment. After that stage was achieved the employers were interviewed. Theme-based interviews by phone were possible because the conducted open and unstructured interviews had already given understanding and information about the research topic. The questions were sent to informants beforehand by e-mail and

Table 1: Demography of informants

<table>
<thead>
<tr>
<th>STATUS</th>
<th>AGE</th>
<th>TECHNIQUE</th>
<th>METHOD</th>
<th>SCHEDULE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee A (Male)</td>
<td>25-40</td>
<td>Archives of administration</td>
<td>Written case</td>
<td>Week 15 (2004)</td>
</tr>
<tr>
<td>Employee B (Male)</td>
<td>25-40</td>
<td>Archives of administration</td>
<td>Written case</td>
<td>Week 15 (2004)</td>
</tr>
<tr>
<td>Employee C (Male)</td>
<td>18-24</td>
<td>Individual face-to-face interview</td>
<td>Recorded open interview</td>
<td>Week 14 (2004)</td>
</tr>
<tr>
<td>Employment officer A (Female)</td>
<td>41-60</td>
<td>Individual face-to-face interview</td>
<td>Recorded open interview</td>
<td>Week 15 (2004)</td>
</tr>
<tr>
<td>Employment officer B (Male)</td>
<td>41-60</td>
<td>Individual face-to-face interview</td>
<td>Recorded open interview</td>
<td>Week 16 (2004)</td>
</tr>
<tr>
<td>Employer A (Male)</td>
<td>41-60</td>
<td>Telephone interview</td>
<td>Written theme interview</td>
<td>Week 16 (2004)</td>
</tr>
<tr>
<td>Employer B (Male)</td>
<td>41-60</td>
<td>Individual face-to-face interview</td>
<td>Recorded open interview</td>
<td>Week 15 (2004)</td>
</tr>
<tr>
<td>Lawyer A (Female)</td>
<td>41-60</td>
<td>Individual face-to-face interview</td>
<td>Written theme interview</td>
<td>Week 15 (2004)</td>
</tr>
<tr>
<td>Start-up-adviser B (Male)</td>
<td>41-60</td>
<td>Individual face-to-face interview</td>
<td>Recorded open interview</td>
<td>Week 15 (2004)</td>
</tr>
<tr>
<td>Start-up-adviser C (Male)</td>
<td>41-60</td>
<td>Individual face-to-face interview</td>
<td>Recorded open interview</td>
<td>Week 15 (2004)</td>
</tr>
<tr>
<td>Trade-unionist A (Male)</td>
<td>41-60</td>
<td>Individual face-to-face interview</td>
<td>Recorded open interview</td>
<td>Week 15 (2004)</td>
</tr>
<tr>
<td>Trade-unionist C (Male)</td>
<td>41-60</td>
<td>Individual face-to-face interview</td>
<td>Recorded open interview</td>
<td>Week 15 (2004)</td>
</tr>
</tbody>
</table>

Age is only as estimation, because the informants are anonymous. Age, gender and professional status are not analyzed in this study, but they are given as demographical information on informants.
the interviews were conducted directly by phone. Each theme-based interview lasted about 30 to 40 minutes. The main issues in the open and theme-based interviews were respectable employment, contracting, disguised employment and firms as respectable employers. It was possible to record the open interviews without interruptions. The interviewer did not know informants on a personal basis. Every single word of the data has not been transcribed, but the main answers were directly transcribed from the recorded material. In a qualitative research, the decisions and conclusions can be made from the recorded material and not necessarily only from the transcribed material. (Hirsjärvi & Hurme, 2000).

Theme analysis for each interview was conducted. Data was analyzed by comparing informants’ thoughts, emotions and words in disguised employment. Themes reflect a social reality on disguised employment. Themes are results of theme interview analysis. The aim of the analysis was to understand the disguised employment as a form of forced entrepreneurship. Both the empirical research task (Why does disguised employment exist) and research question (What is disguised employment as forced entrepreneurship) were analyzed as a basis of theme interview analysis. Interviews were coded straightly from the tapes and written documents. The coded texts were analyzed so that especially themes on disguised employment were the focus of the analysis. Characteristics were analyzed in themes by formulating types of disguised employment.

Motives and Consequences of Disguised Employment

Theme 1: Unclear status: employee, entrepreneur or subcontractor? Employers can make immoral decisions in trying to achieve flexible staffing and profitability. For instance when employees are forced to accept new working contracts as reluctant risk-takers it is typically a way to force them into disguised employment. Employees are then often left only with this choice as a means of employment and become a contractor for the same company as a forced entrepreneur. From an employee’s point of view, disguised employment can be an opportunity or a threat. In legal terms, ‘disguised employment’ does not exist. It may occur but it is possible to analyze case by case if the business is self-employment, contracting or employment. Like lawyer A (representing for a governmental agency) says: “There is a very clear distinction whether you are an entrepreneur or an employee… you can not even make any other agreements… interpretation is very strict…” Working as an employee means that you work as an employee for someone else and you get salary from the employer. Disguised employment is not only due to the lack of needed skills but it is also due to the lack of knowledge in making agreements. Lawyer B mentions that “Problems could occur if you do not make it clear enough for both sides. Then in the interpretation, opinions can differ. It is always a matter of evidence… how much employer can control employees’ work… Disguised employment may occur if you want to keep your job… you accept it because you will not get any new job from anywhere else… you might get positive and optimistic views of becoming self-employed. Then you do not understand how extensive all compulsory insurance and social costs are for you.”

Theme 2: Threat of unemployment Employee A was just thinking of taking a new step towards disguised employment. He has a permanent job. The managers in the company Y have proposed that A would outsource this job. The working conditions would be the same. Employee A would have a possibility to charge the company Y for his work. He told that “My father has his own company and he is doing business with company Y… I can do the same work as my father… I do not need any tools for working because I can use my father’s machines and equipment.”

Employee A was planning to continue his father’s firm because the father was going to retire in a few years’ time. In A’s case, own personal conditions were affecting a lot to a decision making. The case is not necessarily disguised employment, but a typical example of multidimensional working conditions. Employee B has got a lot of negative feedback about disguised employment. Employee B says that “Technological changes have caused a lot of unemployment and there have been lay-offs. We were told that we are more expensive than machines… Especially social costs are special problem for employers… Company Z’s manager N.N. proposed me self-employment because it is more appropriate for saving my employment.”

Employee B refused and stayed as an employee. The threat of unemployment was still severe. All the time B analyzed possibilities to make a contract. B thought that working as an entrepreneur would be more independent. B believed that profitable business could be possible in a new contract. According to B “I would be also an equal negotiator with company Z…”

There was a meeting between B and three managers of the company Z. B told that “We agreed that company Z will give me… (information about).. forthcoming work which I then do by planning individually. They promised me that I will get work for at least 10 months every year. We did not make any written agreement… although I wanted it.”

B’s old agreement was never canceled, B did not get fired, and B did not fire himself. One of the managers in company Z collected B’s output. The tariffs were contracted between the manager and company Z. “I never had an opportunity to see this contract”, B told. The work was the same as before when B worked in the company Z for several years. “Soon I realized that I did not have any kind of opportunity to have independent work. Independence would have been a principle for profitability.” B did not have any kind of possibility for independent decision making. He did not simply have any time to make contracts with other employers or companies. Everything was strictly monitored and ordered by company Z. B used even the same tools he had used before the new contract. All tools and machines were owned by company Z. “There were no financial risks in my working… I did not hire any employees, because I could not afford it.” B’s work was not profitable for himself. B insisted that he should have more wage. Company Z agreed, but after the decision was made B got only one short work contract instead of longer working period. B did not manage to cover costs and he faced with some financial problems and he finally got unemployed. He thinks that he was misused and exploited by the company Z. “Self-employment was only a way to avoid social security payments and other responsibilities of employer. I did not even have any kind of opportunity to work as an entrepreneur and a possibility to success… in reality I worked normally as an employee without those rights which should have been belonged to me according the law.”

Theme 3: Avoiding the expense of protection An employee was in this situation left without any legal protection. There was not even a possibility to see the contract. Employee B thought first that the position could be equal as a negotiator. Own independent decision making was also a lucrative vision for Employee B. The threat of unemployment was severe in these circumstances. B did not have many choices. Everything was decided without written agreements. After all, it was
unclear for an employee what are the rights that belonged to contractors. Everything remained the same except that the income was insufficient. B thought that this was illegal. Employer avoided all responsibilities. Employee B sees that there is neither justice in nor reason for this kind of behavior. Disguised employment is a desired way of working sometimes. Employee C has worked already five years in conditions which are very similar to the disguised employment. In the disguised employment the changing part-time contracts are a risk to disguised employees. C says that “My own risk is that if my company will change contract, I might get weaker position. I have worked already five years in these contracts and it has been done three times at this company. It is typical that you have to negotiate about them. By controlling the salaries the company is monitoring entrepreneurs to certain kind of behavior.”

Employee C has accepted his role. It makes him earn sufficient living. Risks have been divided in that contract so that it is possible to earn the living. Both sides have accepted it. Details have been co-decided locally in making the working agreement. Legally this kind of situation is possible. It is not morally also so problematic than the real disguised employment. Companies want to add their market share. They, however, want to avoid the risk of recruiting employees. Like Trade Unionist C says “It is a problem if the people are made to be self-employed… then it can be a question about the same targets as the employer has had before. At the same time the same employer’s own personell’s working time is diminishing. Then they are talking about subcontracting and then we can not use any labor laws although in the situation when we recruit new franchisees and diminish our own employees’ working time we are avoiding employment protection.”

From employer’s point of view, profitability is important. Employer B says that “I think that the motive is that you make money when it is possible. Employer’s motive is that the work must be profitable. But on the other hand employer must also take care of the business… employer must have a responsibility for employees and they must take care of them. If a business is not profitable you do not have a job.” Trade unionist A thinks that for an employee it is the most important thing that there will be a job. “Disguised employment exists because it is easier to know the right price-level, there will not be any long contracts, competition is followed more easily. The smaller the group will become, the more flexible the working times will be and there will not be any extra payments.”

Theme 4: Transferring risks to employees
Also individual reasons can be a motive for being a disguised employee. Employer A says that “There can be a situation that you can be an unemployed. You may be old and you believe that you cannot get any other job or you just simply do not want to take risks. If you accept something like that (disguised employment) the motive must be a fear or a situation that you have to work like that. If we think it (disguised employment) in the ethical or moral levels it does not feel very justified that you risk employees’ well being like that. It is morally wrong to force old employees to entrepreneurship. It is a different situation if we start a new business and recruit new employees and in doing the working agreement we discuss together that we have got this kind of way to handle the things in the business.” To some extent, disguised employment can also be risk preventing. There is not so much risk, because one does not have to pay any social costs and for quiet times. Risk is transferred from one’s company to another person. Start-up-adviser A says that “The risk is transferred artificially from the entrepreneur to these employees who start to work in one-member companies. There is very little any entrepreneurial freedom, schedules are fixed and the work that you get is given from the company where you are working. It is a question about outsourcing and trying to concentrate on core competency. It is a question about flexibility, we want to transfer the risk and try to avoid lay-offs. If there is no work then it is entrepreneur’s own risk.”

Theme 5: Social problems: loss of wage level and tax incomes
Consequences of contracts as to self-employment and employment are affecting both the employers and the employees. Employer A thinks that actors who do not pay all labor costs according to the law can sell products or services at lower prices. He says that “Society loses money. Tax payers pay social security costs. Everybody wants to save money as much as possible… so they are looking for their own benefit. These kinds of entrepreneurs… can sell illegally purchased products.”

According to Employer A, disguised employment is a very negative phenomenon in the market. He says that “This kind of development (disguised employment) can create uncertainty and unfair competition if everyone is fighting for the customers… The consequences reflect to mental welfare and we can see it in the sick leaves and in the families… it reflects to children and youth and to other society and there you can have the our next generation.”

Employer B is against disguised employment which in his opinion is negative. B assumes that “Disguised employment limits… you become a slave. An employer will not give you resources. Resources can be reduced by saving the costs. Owners want to maximize profits. Employees do just the minimum amount in the work so that they achieve financially certain level but they do not want to do any extra. If you work as an individual entrepreneur they work absolutely differently. Employees do not have any privileges but they do not have entrepreneur’s freedom.”

Theme 6: Consequences for employers:
The level of quality and services will suffer
Employment Officer B thinks that disguised employment causes problems not just for the disguised employees, but also to customers and the society. B explains that “Risks are real… Outsourcing will increase flexibility of job markets. Products and services are born more reactively. Quality may suffer. Economical pressure can affect those circumstances. The amount of new entrepreneurs will rise when there is a lot of unemployment... and if a large company has been downsized.”

Tax authorities can prevent partly disguised employment. Start-up-adviser A says that “Tax system does not necessarily accept this kind of entrepreneurship… The conditions must be clear. If you get your living by disguised employment it is hard to judge this kind of business very strongly if the opportunity is unemployment. At least there is someone who is offering some job to another one. If there is clear misbehavior and they are based on wrong decisions then we have to discuss about them. At least it is a question about entrepreneurial choice. It could be great if you have a possibility to develop your own business idea before you do not have any job, so you could have own networks too. Franchising is perfect for certain groups but everything in the field of entrepreneurship is not franchising. If we have real entrepreneurs with real business ideas… then they will not accept this kind of way (disguised employment) to operate in business.”

In disguised employment, one cannot decide the price level. Employers, on the other hand, have difficulties to lead and
manage work. Trade unionist B assumes that “...there is no any commitment to the company. People are not any more working for the company’s success. It is not possible to guarantee quality concept. You can be out of the social security system, and if you cannot decide your own price level, then you have in hand some serious problems. Then we are in a serious situation concerning social costs... Disguised employment is... white slavery.”

To sum up the themes, motives of disguised employment are controversial. While companies are working responsibly by finding the right price level and saving extra costs, they do not take responsibility for the employees in disguised employment. Employees are afraid of saving their jobs and incomes. They want to have a job, but they are often lacking knowledge and skills to become self-employed. Disguised employment as such is in general illegal and nearly always unethical. Consequences of disguised employment will affect to the society, companies and individuals. Wages will decline. Tax incomes are lost by lowering wages but also by illegal operations made by disguised employers. Authorities’ work will increase. Unfair competition can increase. Outsourcing, also unethical outsourcing, can become more common. The level of service and quality will suffer. Disguised employees have got weak negotiation power which can gradually lead to labor abuse. They prefer to do just the minimum and earn just the minimum for living because there is no possibility to entrepreneurs’ or employees’ real incomes.

Conclusions

By using disguised employment as an example of being a non-responsible employer the owners’ responsibility of setting moral standards to firm’s personal administration has been opened for academic discussion. The corporate social responsibility of a firm should cover the well-being of the staff without sacrificing the company profitability with regards to the competition. The avoidance of legal obligations is risky and expensive in the long run.

At the theme 1 (“Unclear status: employee, entrepreneur or subcontractor”) types are disguised employee and reluctant risk-taker. Disguised employee does not know the rights in making a contract with an employer. This kind of employee is ignorant or mislead. Lack of information, education and activity affect to disguised employees. Reluctant risk-taker does not have any other choice than transform from an employee to risk-taking forced entrepreneur. Employer wants to delegate entrepreneurial risk to former employees. In these cases employees do not have any other choice than accept forced entrepreneurship.

Theme 2 (“Threat of unemployment”) types are exploited employee and permanent job seeker. Exploited employee does not have opportunity to make working contract with an employer. This kind of person is working only because of the threat of unemployment. Especially technological changes affect to the severe unemployment in some industries. Exploited employee does not get sufficient income of disguised employment. Permanent job seeker is looking for stability. This kind of person is looking for continuous job and income. Disguised employment is often monitored by the employer so strictly, that permanent job seeker does not have opportunities to negotiate new contracts with any other employers.

Theme 3 (“Avoiding the expense of protection”) types can be irresponsible employer and profitability seeker. Irresponsible employer leaves employees without any legal protection. Irresponsible employer acts against labor laws. Working is done without any written documents which will give an advantage to immoral employer to mislead the employees. These employers want to avoid the costs they should face for recruiting employees. Irresponsible employers’ only goal is to increase illegally market share and cash flow to themselves as soon as possible. Profitability seekers’ only motive is profitability in business by disguised employment. The availability of information increases possibilities to act as a profitability seeker in some industries.

Theme 4 (“Transferring risks to employees”) types are greedy employers and risk avoiders. Greedy employers want to recruit unemployed persons and take immoral advantage of disguised employees who are looking desperately for job and income. Risk avoider wants to also transfer risks and costs to employees. This kind of employer does not care about employees’ well-being. Job regulations are not followed and employees can not handle the financial and personal risks they must take. They do not have any rights entrepreneurs have, because they are against their will disguised employees.

Theme 5 (“Social problems: loss of wage level and tax incomes”) types are unfair competitors and tax avoiders. Unfair competitors want to recruit disguised employees to achieve competitive advantage against other companies. They affect to loss of wage level and tax incomes by acting against labor laws. Tax avoiders can be both employees and employers. Employees are willing to work in unclear conditions of disguised employment and at the same time avoid the tax paying. This has got an impact to pensions and the tax incomes society will have. At the same time employers are just trying to illegally maximize the profits by avoiding the tax payments they should do when contracting employees.

Theme 6 (“Consequences for employers: The level of quality and services will suffer”) types are unskilled disguised employee and uncommitted disguised employee. Unskilled disguised employee is recruited irresponsibly to take some duties without needed experience and expertise. In these cases disguised employees cannot find any other job and they may have a risk to become disguised employees by irresponsible employers. Unskilled disguised employees cause inefficient and poor results in quality of services and products. Uncommitted disguised employees are not motivated for disguised and unclear working conditions. They work only when they are monitored by the disguised employers.

Theoretically, forced entrepreneurs in disguised employment can be seen as a result of employers’ economic responsibility (Carroll, 1991), when companies are trying to compete on the global market with minimum costs. Disguised employment goes against legal, ethical and philanthropic responsibilities. Forced entrepreneurship can be defined as a form of disguised employment in a nature of avoiding employers’ corporate social responsibility. Disguised employment is employer’s actions and decisions against employees’ rights.

Society’s norms (Laporta, 1996) make decision making and working legitimate and while firms are typically very closely connected to local circumstances they can achieve more legitimate responsibility. An employer has to set goals in terms of credibility and profitability. They are based on accountability (Gray, 2001) to the stakeholders. Forced entrepreneurship is a result of avoiding responsible employing and recruiting (Kaler, 2002). Employers have causal responsibility for decisions concerning human resource management and staffing. Employers are taking responsibility for success and failure and for economic welfare as economic responsibilities. Doing business morally and ethically is basically analyzing what is right and wrong in the terms of virtue-ethics (Stocks & Phillips, 1974; Smart, 1984). Capacity to work and to make decisions about employment is moral and ethical if it is based on goodness (Smart, 1984)
which is based on truth. The aim of increasing flexibility (including flexible staffing) is natural from the employer’s point of view (Stanworth & Stanworth, 1997; Cooper, 1999). Outsourcing, networking, down- or rightsizing are fashionable and popular wisdoms in doing so. If these strategies are used in a responsible manner they are congruent with the demands of good ownership, governance and management in the business. But if they are used in an unethical (or even illegal) way, they reveal that owners and managers have not internalized corporate social responsibility. However, at the same time, we should not underestimate the positive effects of outsourcing in encouraging new start-ups, in improving overall competitiveness and for instance in creating business networks.

Practically, results show that employers should be aware of corporate social responsibility and stakeholder democracy. More attention to corporate social responsibility must be paid in educating new entrepreneurs. Politically, more attention to labor laws must be made in order to prevent disguised employment and forced entrepreneurship in global competition. Employees must be informed more on the rights they have in making contracts. At the same time, society can reward responsible employment through taxation.

References


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