

Labour Mobilisation in the Construction Industry

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Abstract

The practice of engaging labour through intermediaries (often referred to as ‘outsourcing’) is widespread in the construction industries of developing countries. The outsourcing of labour is generally believed to lessen the degree of control that the main contractor can exert over the labour force and hence over the quantity and quality of output. However, a review of recent studies commissioned by the author in sub-Saharan Africa and South Asia reveals a variety of forms of engagement of both the intermediaries and the individual workers. It is shown that workers are commonly associated in groups where they acquire skills and are hired through their leaders. A distinction is drawn between the gang leader and the labour contractor. Both are well developed in Asian countries and currently emerging in sub-Saharan Africa. It is suggested that the particular form of engagement adopted will depend upon the nature of the project, in particular the extent to which close direct control by the main contractor is required, but also by the level of development of the local contracting industry.

Keywords

Employment, labour, construction, Africa, Asia

INTRODUCTION

The basis on which labour is engaged in the construction industry has profound implications for productivity, quality and skill development. These are issues of direct interest to construction managers, as well as to those concerned with the broader development of the industry. This paper looks at the mobilisation of labour in construction in less developed countries, with a focus on a small number of countries in Asia and Africa.

A review of the literature reveals that construction labour is most commonly engaged in these regions through intermediaries. Employing labour through intermediaries offers many advantages. But it may lessen the degree of control that the contractor (or the client where there is no contractor) can exert over the labour force, and hence over the quantity and quality of output. Control over output can be exercised directly through close supervision or indirectly through a contract with a labour supplier that has appropriate incentives written in. The particular form of engagement of the intermediary, as well as the terms on which the labourers are employed, will affect the nature and

extent of the control that the contractor can in practice exercise. These are therefore key issues in the management of the construction process.

The paper first documents the predominance and growth of the practice of outsourcing labour in the construction industry in the developing world. The literature is then scanned for evidence of the different forms of engagement of the subcontractors and other intermediaries. Attention is focused on a study of construction labour in Korea and more recent empirical research in Nepal, Kenya and Tanzania. The concluding section summarises the alternatives and comments briefly on the implications.

THE PERSISTENCE AND GROWTH OF LABOUR OUTSOURCING

The recruitment of labour through intermediaries (often referred to as labour contracting) is a long established practice in the construction industry in many developing countries. The intermediaries who recruit and control the workforce are known by a variety of names: *mistri* or *jamadar* in India, *kepala* in Malaysia and Singapore, *oyaji* in the Republic of Korea, *Naikea* in Nepal, *gato* in Brazil, *maestro* in Mexico etc. Although they may take on varying levels of responsibility, their function is essentially the same. They bring labour to the construction site when it is needed and take it away when it is no longer required. Thus they constitute a bridge between the labourers seeking work and contractors or subcontractors who can offer work [Vaid (1999)].

A report prepared by the author for the International Labour Organisation [ILO (2001)] documents the predominance of labour outsourcing in the construction industry in a large number of developing countries. Drawing on an extensive literature, it is shown that the practice is deeply embedded in India [Vaid (1999), van der Loop (1992)] Malaysia [Abdul-Aziz (1995)] Korea [Yoon and Kang (2000)] Singapore [Debrah and Ofori (1997)] Philippines [Yuson (2001)] Egypt [Assaad (1993)] Nepal [Jha (2002)] Brazil [Saboia (1997), Zylberstajn (1992)] and Mexico [Connolly (2001)]. It has also developed in China following the launch in 1984 of a reform programme in the construction industry entitled ‘*Separation of management from field operations*’ [Lu and Fox (2001), Sha and Jiang (2003)].

Evidence is presented in the same report of an increase in the practice in some countries in recent years, as workers who had previously been employed directly on a more permanent basis, have been laid off and re-employed through subcontractors [ILO (2001)]. For example, analysis of data from the national household survey in Brazil shows that construction employees registered with the Labour Ministry (assumed to be the permanent staff of contractors) fell from 41% of the construction workforce in 1981 to 21% in 1999, while unregistered and self-employed workers rose from 57% to 75% during the period. At the same time there was a big expansion in the number of employers, most of them believed to be labour contractors or *gatos* [PNAD (1999)].

More recent studies in sub-Saharan Africa show a similar decline in the permanent, directly employed workforce and a corresponding increase in the number of workers employed through subcontractors. A study of construction labour in Cape Town found that almost all of the workers on construction sites around the city were employed by subcontractors and two thirds of the employers were labour-only subcontractors [English (2002)]. The third who were supplying both labour and materials were in turn outsourcing their labour requirements to labour only subcontractors. Further evidence of contractors having recently shed their directly employed

labour in favour of outsourcing lay in the fact that many of the employers of labour had previously been employed themselves in larger construction companies and had been retrenched . They are now supplying labour to their previous employers [English (2002)].

Similar developments can be detected in other countries of sub-Saharan Africa. Published data in both Kenya and Tanzania show employment in the construction sector to have stagnated or declined, while informal sector surveys have picked up a large and increasing number of construction workers in enterprises with less than five or ten employees [Wells (2001), Wells and Wall (2003), Wachira (2001)]. This apparent shift in employment to very small enterprises suggests that the larger contractors operating in these countries also have shed their directly employed workers and resorted to subcontractors and other intermediaries for their labour supply. Recent studies from both countries confirm that construction workers with some skills (known locally as *fundis*) are now acting as labour suppliers to larger firms, with whom they may once have been employed and from whom they learned their skills [Mitullah and Wachira (2003), Mlinga and Wells (2002), Jason (2005)].

DIFFERENT FORMS OF ENGAGEMENT OF LABOUR

Although the brief summary above demonstrates the importance to the construction industry of the practice of outsourcing labour, there are very few studies which delve in greater depth into the details of outsourcing arrangements. This section draws on a study of labour outsourcing in Korea and on three studies commissioned by the International Labour Organisation (ILO) in Nepal, Kenya, and Tanzania. The ILO studies focus on labour in the building industry in major cities where the *informal construction system* prevails. In the informal system no contractor is involved and the client provides the materials [Wells and Wall (2003)]. However, the practice of outsourcing labour is well established in these countries and the methods of engaging labour are believed to be similar in other sections of the industry. Hence the findings reflect the general patterns of construction employment and not just in the building sub-sector in the cities.

Labour outsourcing in Korea

A study by Yoon and Kang [2000] of construction labour in the Republic of Korea examines the various ways in which labour can be controlled and compares ‘bureaucratic’ forms of control of directly employed labour with control through external contracts. The authors argue that it is difficult to develop an internal labour market and bureaucratic control system in the construction industry, owing to the dispersed nature of sites, the craft basis of production and need for flexibility. In this context, the Korean construction industry has developed a unique system of labour control. The system has two tiers with a bureaucratic control system for the core labour force of white collar workers and a temporary employment strategy and ‘commission control system’ for the blue collar workers. While some general construction firms do hire manual workers directly, most sublet the construction work to specialist firms according to the type of work. These specialist firms then itemise the work and sublet the items again to small construction companies. The process may go through 4 or 5 stages, creating a multi-layer contracting system. The last contractor in the system, the one who supplies the labour, is generally a skilled manager-cum-worker and is called ‘*Oyaji*’, meaning ‘*father*’ [ibid].

Most *Oyaji* have a number of workers more or less permanently attached to them. Their number may be expanded as required by drawing on neighbourhood and kinship ties. Additional workers

can also be mobilised through the on-the-spot labour markets which exist in all towns. Skill is acquired informally within the group. Those without attachment to a group generally remain as unskilled labourers and may drift in and out of the construction industry [*ibid*].

There are broadly two types of contract between the subcontractor and the *Oyaji*. The most usual is for the subcontractor to pass the responsibility for completing the item of work, including responsibility for supervision and management, to the *Oyaji*. The contract with the *Oyaji* may include responsibility for material supply, but is more often confined to the supply and management of labour. The terms of the contract are usually a fixed price for an item or package of work. The *Oyaji* mobilises the workers, manages their output and pays them on a daily basis until the work is finished. His reward is the difference between his costs and the contract sum. In this situation the *Oyaji* is acting as an entrepreneur, (or a true labour contractor) in that he is taking a risk and hoping to make a profit. He tries to maximise his profit by controlling his labour costs and other expenses and getting the best possible price from the subcontractor. In good times the profit can be almost double the wage of a skilled worker, but substantially less (or even a loss) in bad times [*ibid*].

Under the second alternative the contractor pays the *Oyaji* a monthly income for supplying the labour but retains the responsibility for managing the work. The *Oyaji* may be responsible for paying the workers or they may be paid directly by the contractor. The *Oyaji* is serving as a mobiliser of the required number of workers, as well as the leader of the group or gang. But he is not working as a labour contractor. The essential difference is that his reward comes in the form of a wage or a fee rather than a profit. The authors do not explain the circumstances in which this system is preferred. But it can be conjectured that it may be when contractors need to manage the labour force directly in order to control the quality of the work and/or if the *Oyaji* is inexperienced in the particular techniques that are adopted.

Labour Outsourcing in Nepal

A study of building labour in Nepal [Jha (2002)] provides further detail on the alternative forms of contract for the supply of labour. The intermediaries who supply labour in Nepal are known as *Naikeas*. The *Naikeas* mobilise and supply labour to construction clients, ranging from class A contractors to individual house owners. As in Korea, most *Naikeas* have a number of workers permanently attached to them. Participants usually come together through family or friends and form a socially cohesive group, ranging from 5 to 50 members. If additional labour is required, unskilled labourers may be picked up from the designated pick-up points in the towns, but they also may eventually become permanent members of the group and have a chance to acquire skills, albeit informally [*ibid*].

Because of their central role as suppliers of labour, *Naikeas* are often referred to as ‘labour contractors’. However, the *Naikeas* sometimes do more than what would normally be expected of a labour contractor and sometimes they do less.

Instances where they do more can be found in the private house-building sub-sector. In Nepal it is estimated that 90% of private owners of residential or non-residential buildings do materials management by themselves. However, the *Naikea* may advise the client on materials, coordinate material supply, provide and manage tools and basic equipment, as well as assuming responsibility for general supervision. On larger building projects the client may assign responsibility for the entire construction to a gang headed by a *Naikea*, while still retaining materials management to

him/herself. In this case the client would enter into a verbal agreement on the rates for various items of work, so payment would be on a task rate basis. Payments are made by the client to the *Naikeas* as each item is completed, minus a retention which is only paid after the completion of the work. The *Naikeas* were reported to pass on the retention to the labourers, who are usually employed on a daily basis. Both *Naikeas* and labourers complained of overdue payments by the client. Sometimes the money owing is never paid [*ibid*].

The arrangements can be very different from the above, with the *Naikea* undertaking far fewer tasks and less responsibility. For example, on infrastructure projects in rural areas, especially projects involving large quantities of earthworks, it is common for the *Naikea* to serve merely as a middleman, mobilising and leading a gang of unskilled workers but taking no responsibility for work supervision (or any other aspect of construction) unless specifically asked to do so. The research found that contractors and subcontractors have an extensive network of contact persons (*Naikeas*) in all parts of the country, some of whom are on their permanent payroll. There are two alternative forms of engagement. The first is where the contractor pays the labourers directly and pays a commission to the *Naikea* for mobilising the labourers. In such instances it is normal for the contractor to retain full and direct control over the workers. Alternatively, the *Naikea* may undertake to pay the labourers and take on some of the responsibility for their supervision. In this instance it is normal for him (there are no women working as *Naikeas*) to take, in addition to his own wage, a cut from the wages of the labourers. If he is paid on a task or piece rate basis, he has a direct incentive to complete the work in the allotted time. Even if his pay is not related to output he still has some incentive to perform well and complete the work to the contractor’s satisfaction in order to win work from the contractor at some future date [*ibid*].

The organisation of building labour in Kenya

Similar patterns of recruitment of labour through intermediaries have recently been found in two separate studies in East Africa. A study of labour in the building sector in Nairobi (Kenya) revealed that the majority of buildings are now constructed using the ‘*informal construction system*’, whereby the materials are provided by the building owner and no contractor is involved [Mitullah and Wachira (2003)]. The field research focused on the suburb of Kayole which is characterised by a large number of high rise low income residential developments. Interviews with 100 respondents working on 20 sites found that 80% of clients buy materials and supervise construction themselves. But in 17% of cases the client appointed a *foreman* to buy and manage materials and supervise the work on site on. Occasionally the *foreman* would also be authorised to hire workers but more generally, especially on small sites, workers would be hired directly by the client. In 14 of the 20 sites covered in the study the owners of the development were the employers of the workers on the site and 60% of the workers interviewed said they were hired and paid directly by the building owners [*ibid*].

However, even when labour is hired and paid directly by the client it is generally recruited through *gang leaders*. *Gang leaders* are usually artisans of many years experience, good reputations and good contacts with potential clients, who lead a group of skilled and unskilled men who usually work together. The gang leaders have the responsibility of getting jobs to keep the gang employed. They have control over their gangs and earn more than the gang members. The study found that most workers aspire to be *gang leaders* who are considered to be making more money. However the assumed benefits are not always realised because of the difficulty of finding work, particularly in hard economic times [*ibid*].

A minority (only 28%) of the workers interviewed said they were hired by *labour contractors*. The authors attempt to draw a distinction between *gang leaders* and *labour contractors*. Although it is not always clear cut, the distinction seems to be based on the payment arrangements and allocation of risk. A labour contractor would normally provide a lump-sum quotation for completing a particular task or item of work. On smaller projects this may be the complete building. The labour contractor would then recruit, supervise and pay all of the operatives required to complete the work. Operatives are usually paid daily on the basis of time worked, any difference between the lump sum labour payment to the subcontractor and the labour costs being the contractor's profit. A *gang leader* on the other hand would normally be responsible for mobilising workers and possibly for exercising some degree of supervision, for which he would receive a specific payment from the client. But he and the other labourers would still be paid directly by the building owner, hence limiting the amount of risk that he takes on. The gang leaders are essentially wage workers rather than entrepreneurs [*ibid*].

Informal workers in the construction industry in Tanzania

A two year ‘Participatory Action Research’ project undertaken by United Nations Volunteers (UNV) in collaboration with the ILO in Dar es Salaam (Tanzania) confirmed some of the findings from the Kenya study but also added other dimensions [Jason (2005)]. The project focused on 42 groups of construction workers, 31 of whom were supplying labour. The vast majority of labour suppliers indicated that the groups were formed for social security purposes and not for work or business development. The groups (which may have up to 100 members but more typically 8-30) accumulate funds from contributions which are then used to make payments to members when hit by adverse circumstances. Hence, the fact that workers are associated in groups does not necessarily mean that they always work together.

However, a few groups said they came together as a way of seeking ‘identity’, meaning recognition by clients and ability to promote their services. Some of them are specialised in particular trades, including one concrete gang, and in a number of groups members do work together for much of the time. While some (about a quarter of those interviewed) had sometimes worked for contractors, most find work with private clients who are building or repairing their houses using the *informal construction system*.

When hired as a group the person that gets the contract becomes the *gang leader* for the duration of the project. But the gang leader is not necessarily the leader of the group. Any member of the group may obtain an offer from a customer and bring others in the group to work with him [*ibid*]. Contracts are informal and payment may be by time, task or piecework depending on the preference of the client and the type of work. When a group of workers is recruited and payment is by task, the normal arrangement is for the *gang leader* to take the payment and share it among the group according to their contribution. The gang leader may get an additional payment from the client. But very few instances were found of a *gang leader* (or a group leader) acting as a *labour contractor* in the sense of negotiating a price with the client, employing the workers and making a profit or loss on the deal. Although labour contractors are known to exist in Tanzania and do undertake contracts for both private clients in the *informal system* and contractors in the formal construction industry [Mlinga and Wells (2002)] the groups of labourers in the project function more like worker cooperatives than small businesses. It is possible that the leaders of the groups, or any of the members who have good contacts with clients and a continuous flow of contracts, may

eventually consolidate their position as *gang leaders*. They may also eventually accumulate sufficient capital to go on to develop into labour contractors. But at the present time these roles are embryonic.

CONCLUSION

A number of conclusions emerge from this brief review of recent research into the methods of recruitment of construction labour.

First, there is little doubt that ‘outsourcing’ is now the normal method of mobilising labour for construction projects throughout the developing world. The practice of engaging labour through intermediaries is well established and growing in a large number of countries.

Secondly, the research has revealed two basic patterns of labour engagement. In the first the contractor, subcontractor or client enters into a contract with an intermediary to mobilise, pay and supervise the number of workers required to complete a task. In the second the contractor, subcontractor or client engages an intermediary to mobilise the labour, while retaining the responsibility for their payment and their supervision. In the first case we have called the intermediary a *labour contractor* and in the second case a *gang leader*. The difference between the *labour contractor* and the *gang leader* lies in the work that they do, the method of payment and the allocation of risk. The *labour contractor* manages his workforce, takes on a large share of the risk involved in the work and if successful he is rewarded in the form of a profit. The *gang leader* works alongside the other members, takes little risk and is paid a wage or a fee. The first is an entrepreneur the second a wage labourer.

There are of course many variations in the detail of the arrangements and no hard and fast dividing line between the two alternatives. The particular form of engagement that is chosen by the contractor, subcontractor or client is a question for further research. It may be hypothesised that key variables influencing the decision might be the type of work to be carried out, in particular the level of technology and degree of complication in relation to the skill and experience of the workforce, as well as the level of development of the local industry. If the workforce or the labour contractors are inexperienced and/or the work complicated the contractor/ client might wish to retain more direct control.

The roles of *gang leader* and *labour contractor* are distinct. Although *labour contractors* may sometimes accept work as *gang leaders*, the reverse is unlikely as the labour contractor requires additional skills and capital. Both are well developed in the two Asian countries involved in the study. They are also evident, in the two studies in sub-Saharan Africa. However, amongst ‘informal construction workers’ in Dar es Salaam the position of *gang leader* is not yet consolidated and is distinct from that of leader of the group. Some group leaders may consolidate their position and become *gang leaders* or even *labour contractors* in time, but this opportunity is also open to any other member of the group and not just the group leader.

Finally, the research has indicated (although not fully demonstrated due to lack of space) the importance for construction workers of being associated with a group of workers. Association with a group provides the means to obtain work, acquire skills and some degree of social security and support. These factors are particularly important to those construction workers (often a majority) who are new migrants to the city from the countryside. The group also serves as a place for gaining

experience and a seedbed from which future gang leaders and labour contractors might emerge. Programmes to improve skills, productivity or quality in the industry need to recognise this fact and engage with the labour contractors and the gang leaders as much as with the contractors.

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