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Subcontracting in value chains: the weak link in firm-based training

Subcontracting strategies in labour-intensive industries have escalated over the past forty years. They are reflected in the fragmentation and geographic dispersion of the activities that make up the so-called value chains. It is already known that these strategies tend to influence employees' employment and working conditions. In addition, our results point to the existence of cascading effects in training opportunities, participation and valuable outcomes. The lower down the production chain a company is located, the more its position correlates with low levels of training opportunities, participation and outcomes.



CAPABILITIES
APPROACH

DEFIS SURVEY

SUBCONTRACTING

CORPORATE SOCIAL
RESPONSABILITY

CVT IN COMPANIE

The use of subcontracting is not a recent phenomenon. However, it has increased considerably since the 1970s, essentially as a result of greater production specialisation, globalisation and increased product complexity, all of which have led companies to refocus on their core activities. It is expanding significantly in France, in parallel with channelling strategies, that is the establishment of channels consisting of a number of subcontractors organised around a principal contractor to whose activity they all contribute. The nature of the links between these various actors has changed as a result. In the increasingly common instances of "cascading subcontracting", a dependency chain is built up in which the first-tier subcontractor devolves some of the risk linked to economic activity on to the second-tier subcontractor for whom the former is the principal contractor, and so on down the chain.

Whereas it has been shown that it is the employees of subcontractors at the end of the value chain who most feel the effects of economic dependency and have less good employment conditions and pay [1][2], the effect of subcontracting on training has until now remained a blind spot. And yet the challenges associated with the increased skill requirements confronting these companies have been highlighted [3]. How does the position of subcontractors affect employee training? The training and employee trajectory surveys (le dispositif d'enquêtes sur les formations et itinéraires des salariés/Defis) offer an opportunity to provide some preliminary answers to that question. They identify several dimensions in which the employer's position in the production chain seems to influence training, namely opportunities, the access process and actualisation.

Pure principal contractors: larger companies that employ more managerial staff

According to the "companies" section of the Defis surveys, 16% of companies with at least 10 employees act only as pure principal contractor, 13% are both principal contractors and subcontractors (intermediate subcontractors), 16% are lower-tier subcontractors and 55% are neither principal contractors nor subcontractors. Principal contractors are identified in the surveys by the outsourcing of part of their activity and subcontractors are defined as companies for which the largest proportion of turnover is dependent on a small number of clients or prime contractors (cf. Box 1 p. 2).

Pure principal contractors are usually the parent company of a group. They are twice as likely to be companies with 250 or more employees whose workforce contains higher shares of managerial staff (cadres) and employees in intermediate occupations on permanent contracts.

Smaller in size than pure principal contractors, intermediate and lower-tier subcontractors employ more manual workers than the other companies. Most intermediate subcontractors are active in manufacturing industry and construction, while lower-tier subcontractors are concentrated in manufacturing industry and services. Another difference is that intermediate subcontractors are more likely to be subsidiaries of a group than lower-tier subcontractors. Finally, in companies that are neither principal contractors nor subcontractors, which tend to be smaller, more femi-



* *The Labour Code decrees of 20 February 1992 and 26 December 1994 deal specifically with coordination on health and safety matters. In the event of a workplace accident, the principal contractor may be held liable in both civil and criminal law in situation of co-activity.*

nised and with higher shares of young workers, the employees tend to have white-collar clerical or office jobs. Concentrated in distribution and services, they are less likely to be part of a group.

More limited training opportunities in lower-tier subcontractors

Training opportunities depend to a large extent on the funding companies allocate to it. Lower-tier subcontractors spend less on employee training. All other things being equal, and particularly for companies of the same size and sector, their financial contribution rate is 1.7 times more likely to be lower than 1% of the wage bill than that of other companies (cf. Table 2 p. 3). The need always to submit the best (i.e. lowest) offer in terms of costs or deadlines seems to exert pressures that are difficult to reconcile with investment in training.

The position in the subcontracting chain also seems to influence the quality of training opportunities. Contrary to what is observed among principal contractors, the opportunities offered to subcontractors' employees are directed more towards health and safety. The probability of a lower-tier subcontractor providing this kind of training is 2.2 times greater and that of an intermediate subcontractor 1.7 times greater than it is for a company with comparable characteristics that is neither a principal contractor nor a subcontractor. With regard to safety, the impetus is likely in many cases to come from the principal contractor because of legislation which, in a co-activity situation, makes them liable in both civil and criminal law in the event of a workplace accident*.

Above and beyond the health and safety purposes for which training is obligatory, subcontractors are less likely to provide training for other purposes. They draw up training plans less frequently than pure principal contractors. Most lower-tier subcontractors are small and not always well structured and are less likely to offer their employees the opportunity to acquire new knowledge or to prepare for a move. The situation among intermediate subcontractors is, in practice, not so different. While the training opportunities are a response to regulatory requirements, they are not, according to the employers' declarations, limited to those requirements. They are also intended, according to the employers, to facilitate horizontal internal mobility. From this point of view, differences can be observed between the practices of intermediate subcontractors and those of lower-tier subcontractors. However, the most conspicuous difference is with pure principal contractors who, according to their statements, are 5.4 times more likely to use training for the purpose of preparing for internal mobility and 3.6 times more likely to use it in order to prepare employees for external mobility. This dual purposing is a major differentiating factor.

There are also real inequalities in terms of the modes of training. Employees of pure principal contractors tend to enjoy opportunities to engage in training in different ways: on training courses, through work-based learning or job rotation, in seminars, etc. All other things being equal, twice as many pure principal contractors as the others state that they provide at least three separate types of training.

1 What is subcontracting and how is it measured in the companies section of the Defis surveys?

The relations between principal contractors and subcontractors are not governed by a single item of legislation but by various acts that have evolved over time in order to take account of the changes in subcontracting relations.

Act no. 75-1334 of 31 December 1975 defines subcontracting as "the process by which a general contractor entrusts to another person, known as the subcontractor, on the basis of a subcontractor agreement and on their own responsibility, fulfilment of all or part of a business contract or of a part of a public procurement contract concluded with the contracting authority".

The definition proposed by the Association française de normalisation (French Standardization Association/AFNOR) reads as follows: "all the processes contributing, for a specific production cycle, to one or more of the processes of design, development, manufacturing, implementation or maintenance of the product in question, the realisation of which a company, known as the principal contractor, entrusts to another company, known as the subcontractor, which is required to comply strictly with the instructions or technical specifications issued in the last resort by the principal contractor".

Although the Commercial Code prohibits the abuse of economic dependency through subcontracting, the latter is very often analysed from the point of view of dependency on the principal contractor.

According to the latest information report*, the term "cascade" or "chain subcontracting" is used when the subcontractor company in turn decides to commission another company to carry out part of its own assignment.

* Les relations entre les grands donneurs d'ordres et les sous-traitants dans les filières industrielles, D. Sommer, Information report no. 2076 filed pursuant to article 145 of the Regulation by the Commission for Economic and Social Affairs and registered at the office of the President of the National Assembly on 26 June 2019.

In the Defis surveys, chain subcontracting is measured in the following way (on the basis of definitions remaining as close as possible to the evolution of the law) :

- a principal contractor is defined as such by the fact that it has outsourced part of its activities. It is identified on the basis of the following question: "Has the company's activity been partially subcontracted?" yes/no ;
- a subcontractor is defined as a company for which the largest share of turnover is dependent on a small number of large clients. It is identified on the basis of the following questions :
 - ii) Which customers account for the greatest share of the company's turnover? Private individuals/companies/government or other public bodies.
 - iii) If ii ≠ private individuals "Do annual sales depend on a small number of clients or principal contractors?" yes/no.

On the basis of the answers to these questions, 4 types of companies can be identified :

- 1) **The first-tier or pure principal contractor** is a company that operates solely as a principal contractor and is not itself a subcontractor. This is the top tier of the hierarchised subcontracting network (16%).
- 2) **The intermediate subcontractor** is a company which, although a subcontractor, is also at the same time a principal contractor. This is the intermediate level of the hierarchised subcontracting network (13%).
- 3) **The lower-tier subcontractor** or exclusive subcontractor is a company that operates solely as a subcontractor and is not itself a principal contractor. This is the bottom tier of the hierarchised subcontracting network (16%).
- 4) These three types of company are investigated alongside companies that are not involved in any subcontracting relationship; they are neither **principal contractors nor subcontractors** (55%).

The further down the chain a subcontractor is located, the more the training access processes deteriorate

In order to create the conditions under which training needs can be expressed and acted on, a participatory process has to be put in place. This participation takes two forms. The first is individual, based on the face-to-face relationship between an employee and his/her line manager, which in France manifests itself particularly in the career interview, according to article L. 6315-1 of the labour code. The second is collective representation based on an elective system of participation by delegation.

Prior to any participation, arrangements for sharing information on training have to be put in place. However, the further down the chain a subcontractor is located, the less information employers provide for their workforce. Intermediate and lower-tier subcontractors are almost twice as likely as principal contractors to state that they do not circulate any information. However, among the intermediate subcontractors that do provide information for their employees, middle management is more frequently the channel of communication than among the lower-tier subcontractors, where to a greater extent than elsewhere employees have to find the information for themselves (cf. Figures 3 p. 4).

As far as continuing training is concerned, the career interview may boost participation. However, among the lower-tier subcontractors, the interviews are more likely to represent missed opportunities according to the statements of employees, who report less frequent participation in such interviews than those higher up the value chain. These statements are confirmed by their employers, who report more frequently than their counterparts elsewhere that they gather information on training needs through informal discussions. For their part, intermediate subcontractors are more likely to report that career interviews are conducted only for their managerial and supervisory staff. Finally, it is employees of pure principal contractors who are most likely, regardless of status, to state that they benefit from career interviews touching on a number of different topics, including training needs, work-based learning and career prospects.

Collective participation is captured through a question on the opportunities for workforce representatives to discuss mobility with management. In the eyes of employers, such opportunities turn out to be much more widespread among pure principal contractors than among subcontractors. On the other hand, discussions on training are no more frequent among the former.

Subcontractors' employees are not lacking in aspirations but receive less training

The employees of lower-tier subcontractors do not lack aspirations for the next five years. All other things being equal, the number wishing to see their

2 Training opportunities by position in the subcontracting chain				
[Odds-ratios]				
What the companies report	SC	SC-PC	PC	No PC-Nor SC
Tpf < 1 %	1.7*	ns	ns	Réf.
Health and safety training	2.2***	1.7*	ns	Réf.
Other statutory training	ns	1.8*	ns	Réf.
Statutory accreditations account for virtually all training expenditure	ns	1.9*	ns	Réf.
Training programmes	ns	ns	1.7*	Réf.
Work-based training	ns	ns	1.8**	Réf.
Training by job rotation	ns	ns	2.1**	Réf.
Lectures/seminars for learning purposes	ns	ns	1.8**	Réf.
Periods of self-directed learning	ns	ns	1.8**	Réf.
E-learning	ns	0.4**	2.3***	Réf.
At least three different types of training	ns	ns	2***	Réf.
Drawing up a training plan	ns	ns	1.7*	Réf.
The training policy aims to support technological change	ns	ns	1.6*	Réf.
Training policy responds to statutory requirements	ns	1.8*	ns	Réf.
Training policy seeks to encourage external mobility	ns	ns	3.6***	Réf.
Training policy seeks to encourage horizontal internal mobility	ns	3.3**	5.4***	Réf.
Distribution of companies	16%	13%	16%	55%
Distribution of employees	12%	10%	24%	54%

SC : subcontractor only – SC-PC : subcontractor and principal contractor – PC : pure principal contractor – NoPC-Nor SC : neither principal contractor nor subcontractor.

Note : This table presents the odds ratios of 16 logistic regressions. They include the same set of control variables (size of company, sector of activity, group affiliation, share of men, share of managerial and executive staff, share of employees under 30) that are not reported in the above table. Only the odds ratios for the explanatory variable "position in the subcontracting" are reported.

*, **, *** indicate respectively that the variable is significant at the 10%, 5% and 1% thresholds.

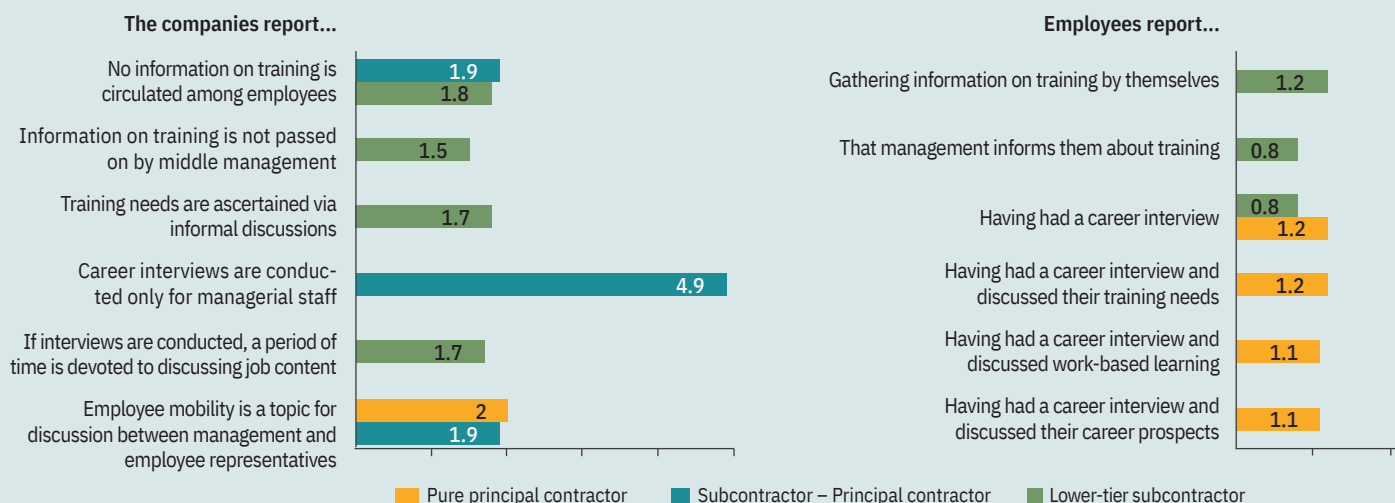
Example : all other things being equal, the probability that a lower-tier subcontractor has a TPF<1% is multiplied by 1.7 compared with that of a company that is neither a principal contractor nor a subcontractor.

Source : Defis, Céreq-France compétences, section "entreprises", 2015. Scope: private-sector companies with 10 employees or more (excl. agriculture).

job content expand is 25% greater than among their counterparts in the other companies and 10% more of them than in the other companies would like to change job or occupation. The employees of pure principal contractors, in contrast, stand out by being more likely to express a desire to have more time for their personal lives.

These differences in career aspirations notwithstanding, and all other things being equal, fewer employees of lower-tier subcontractors enjoy opportunities to undertake training. While aspirations seem to be divided depending on the company's position in the subcontracting chain, fulfilment of those aspirations is equally divergent. Twenty-five per cent fewer employees of lower-tier subcontractors than of the other companies undertook training during the year prior to the survey. And when they do undertake training, 25% fewer of them do so in order to take on more responsibilities. For all that, compared with the employees of pure principal contractors or of companies not involved in subcontracting, the same number

3 Process of accessing training by position in the subcontracting chain (odds ratios)



Note : The graphics present the odds ratios of logistic regressions calculated on the basis of either the “companies” or the “employees” section (wave 1). They include a common set of control variables: size of company, sector of activity, position in the subcontracting chain (reference: companies that are neither principal contractors nor subcontractors), group affiliation, share of men, share of managerial staff and share of employees under 30. The models constructed on the basis of the “employees” section include additional control variables relating to individuals: occupational position in the company in December 2013, age and qualifications. Only the odds ratios for the explanatory variable “position in the subcontracting chain” and significant at the minimum 10% threshold are reported.

Example : all other things being equal, the probability that a lower-tier subcontractor company does not provide any information on training is multiplied by 1.8 compared with companies that are not involved in any subcontracting relationships.

Source : Defis, Céreq-France compétences, section “entreprises” & “employees” (first wave), 2015. **Scope :** private-sector companies with 10 or more employees (excl. agriculture).

→ Further reading

- 1] E. Algava, S. Amira, “Sous-traitance : des conditions de travail plus difficiles chez les preneurs d’ordres”, *DARES Analyse*, n° 11, 2011.
- 2] C. Perraudin, H. Petit, N. Thevenot, B. Tinel, J. Valentin. Inter-firm dependency and employment inequalities: Theoretical hypotheses and empirical tests on French subcontracting relationships. *Review of Radical Political Economics*, SAGE Publications, 2014, 46 (2), pp. 199-220.
- 3] D. Sommer, *Les relations entre les grands donneurs d’ordre et les sous-traitants dans les filières industrielles*, Rapport d’information n° 2076 déposé en application de l’article 145 du Règlement par la Commission des affaires économiques des affaires sociales, enregistré à la Présidence de l’Assemblée nationale le 26 juin 2019.
- 4] J.-C. Sigot, J. Vero, “Subcontracting chain and workers’ participation in continuing vocational training: findings from the French, quantitative, linked employer-employee survey of training and career paths”, *International Journal of Training and Development*, 24:3, September, 2020. Article DOI: 10.1111/IJTD.12197
- 5] J. Drahokoupil, *The Outsourcing Challenge: Organizing Workers Across Fragmented Production Networks*, Brussels: CASE, 293 p., 2015.

had undertaken health and safety training. The same also applies to training aimed at increasing efficiency at work or supporting a change of activity.

Although the employees of intermediate subcontractors, for their part, do not report undertaking less training than those of pure principal contractors or of companies that are neither principals nor subcontractors, they do not seem to enjoy much room for manoeuvre in choosing their training. All other things being equal and compared with the employees of the other companies, 20% more of them had undertaken health and safety training but 25% fewer had received training to support a change in their work, 25% fewer had undertaken training aimed at increasing efficiency at work and 10% fewer had undergone training in order to take on more responsibilities.

Principal contractors’ responsibility for training

Since vocational training is a major asset when it comes to facing the challenges of safeguarding career trajectories or supporting internal mobility, it gives us occasion to turn the spotlight on to the situation of employees in subcontracting companies. An employer’s position in the production chain seems to influence the oppor-

tunities for, access processes to and actual provision of training: the capability for training seems all the more limited if workers are employed in a company located at the end of the chain. These results raise the question of the responsibility of principal contractors for the training of workers in subcontractor companies that are economically dependent on them and prompt us to examine the mechanisms that encourage or hinder solidary responsibility in subcontracting chains above and beyond health and safety training.

Although the asymmetry that characterises principal contractor/subcontractor relations is generally reflected in a reduction in the capability for training of employees lower down the subcontracting chain, as the Defis surveys show, these general results merit further investigation. Do they apply to all sectors? Can companies in the same subcontracting tier opt for differentiated training strategies? These previously unpublished preliminary results are an encouragement to undertake further research on training practices in the subcontracting fabric. More qualitative investigations and the production of more detailed official statistics on training in subcontractor companies would facilitate such research. This is an approach that some of the actors contacted for the most recent information report on subcontracting called for.

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