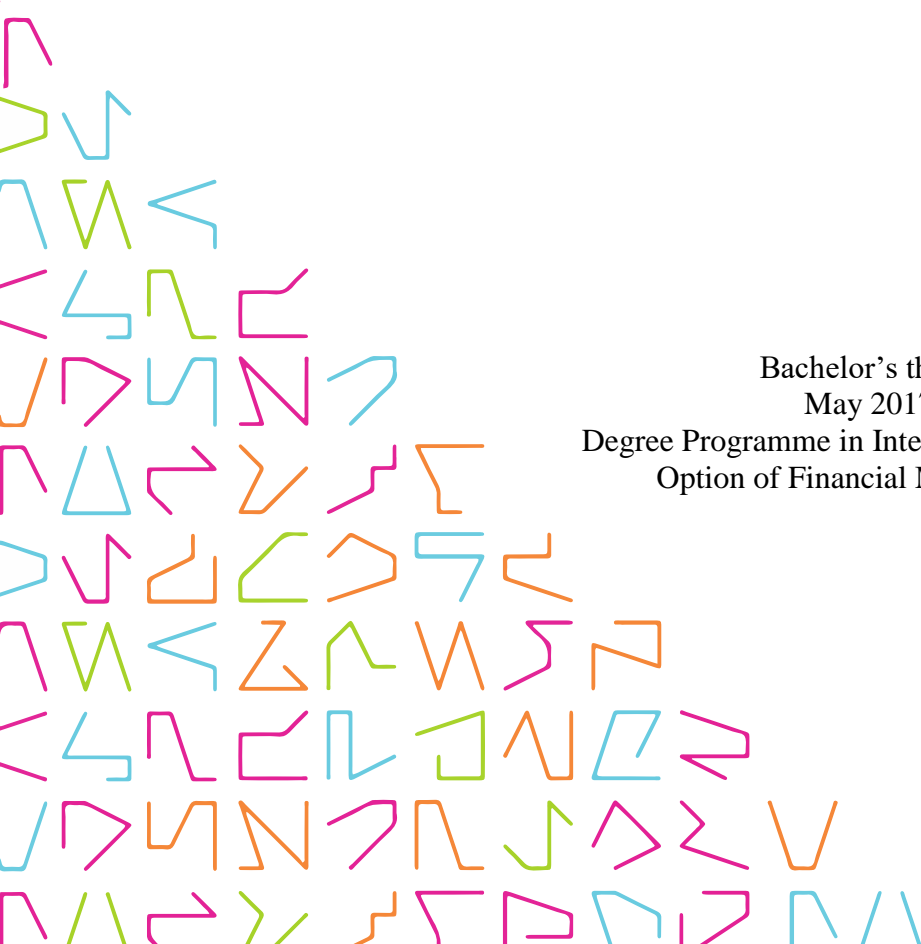


DEVELOPING BUSINESS RESPON- SIBILITY AND TRANSPARENCY IN THE CONSTRUCTION SECTOR

From Limited Business Opportunities to
Fair Competition

Mikko Sierla

Bachelor's thesis
May 2017
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ABSTRACT

Tampereen ammattikorkeakoulu
Tampere University of Applied Sciences
Degree Programme in International Business
Option of Financial Management

SIERLA, MIKKO:

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From Limited Business Opportunities to Fair Competition

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This thesis concerns measures to fight grey economy and to harmonize the prevailing practices regarding responsible procurement processes in the construction industry. The purpose is to examine how people in the Baltic Sea region currently perceive grey economy, responsibility and transparency issues and how Suomen Tilaajavastuu Oy (Tilaajavastuu Ltd) could expand its business in the Scandinavian and Baltic countries.

Since preventing grey economy is an agenda that concerns the whole EU it is beneficial to study how the measures taken in the Finnish market could be exported into other countries. Gathering information to understand how much resistance towards change exists is one aim for this study. Another is to find out if the market economy could create proactive solutions leading to a situation where the extensive creation of laws and regulations could become unnecessary.

The study was implemented by doing a participatory observation work and interviews with a semi-structured expert-driven method. The current situation and prospects were surveyed through 24 authority, organization and company interviews. A constructive approach and PEST analysis (Political, Economic, Social and Technological) structure was used to build a frame of reference. Document analysis and previous research were used to ensure a reliable knowledge base.

It was found that political tradition and bureaucracy are still a rather difficult area to study and a major issue since people in the Baltic states do not have the same working culture as in the Nordic countries. EU legislation and free movement of workers help the development of the construction sector and are a good base to develop business and cooperation internationally. From a technological perspective, collaborative economies and platform economies enable faster development and adaptation of innovative solutions.

The findings indicate that the main factors affecting the reliability of the construction business are legal acts created to fight grey economy, health and safety regulations and corporate social responsibility. When goals related to these factors can be promoted by proactive solutions, an ecosystem can be created where added value is present and extra cost accepted. In this context, transparency is a prerequisite for fair competition, and in the long run, benefits all parties and helps to develop the construction business in a sustainable way.

Key words: business responsibility, transparency, construction sector, internationalization, grey economy, bureaucracy, my data

CONTENTS

1	INTRODUCTION	5
1.1	Background	5
1.2	Objectives and Purpose	6
1.3	Structure and Methodology	7
1.4	Scope and Limitations	8
2	ECONOMICAL, SOCIAL AND JUDICIAL FRAMEWORK	10
2.1	Special Characteristics of the Construction Business	10
2.2	The Role of Tilaajavastuu Ltd	13
2.3	Competence, Quality and Safe Site	15
2.4	Related Laws, Concepts and Requirements	18
3	TOWARDS RESPONSIBLE CONSTRUCTION BUSINESS	23
3.1	Grey Economy and Transparency	23
3.2	Trust and Humanity	26
3.3	Challenges in the Baltic Sea Region	29
3.4	Business Potential in the European Single Market	32
4	FIELD STUDY IN THE BALTIC SEA REGION	34
4.1	The Plan and Funding	34
4.2	Practical Implementation	35
4.3	Country Specific Remarks	39
4.4	Overview of the Findings	42
5	CONCLUSIONS AND DISCUSSION	45
	REFERENCES	47
	APPENDICES	51
	Appendix 1. Study of Developing Transparent Business in Poland	51
	Appendix 2. Contractor's Obligations Act Information Sources	58

Prologue

While I was travelling and working for a year in New Zealand, and another in Australia, I became interested in world economy – how different countries cope with deep changes in the economy, labour market and immigration issues. At the same time, collaborative economies and platform economies are in rapid development. One way or another these changes affect every corner of the Earth and so these diverse experiences feed my interest to have a closer look at the business side of life.

When I was wandering around South East Asian countries a good half year it brought another kind of understanding of the small village economies and how people can have a decent life within informal economies. Yet another aspect was presented to me during my exchange studies in Latin America at UADE (Universidad Argentina de la Empresa) in Buenos Aires. The way business was conducted in this part of the world gave answers and explanations to complicated economic situation with blue market and corruption, behaviour models and culture.

From this background, it was almost a stroke of luck to get a thesis topic that made it possible to explore international business from a new perspective: focusing on the development of responsibility and transparency in the construction sector. The Scandinavian welfare states and the Baltic states with a fast development history out from the Soviet era and parallel markets give a perfect framework for the study.

1 INTRODUCTION

1.1 Background

Combating grey economy and promoting equal and fair competition are key objectives when the aim is to develop responsibility and sustainable procurement and contracting processes. Many studies and common sense indicate that undeclared work causes tax losses, has a demoralizing effect, increases negligence in health and safety issues and distorts the competitiveness of honest companies.

The construction industry is one of the sectors where higher risk for non-compliant behaviour is known to be present since the contractor chain is usually rather long and contains many small operators and subcontractors. Also, in the field of the household services industry (repair, conversion, extension and maintenance), there is a culture of using undeclared work. The tax credit for domestic help scheme has been introduced in Finland to tackle this problem in 2001 (the Finnish Tax Administration).

To properly and transparently manage obligations and avoid economic crime in long subcontractor chains, plenty of analysed and structured information is needed to prove that all companies are working honestly. With the help of analysed information, also small household operators could improve their responsibility and transparency, and by market demand, shift to the formal market.

The positive development in combating grey economy in Finland in the past years have raised international interest towards the practical solutions behind this development. The purpose of this study is to understand and identify the market potential that lies in the construction industry sector in the Baltic Sea cooperation framework. Another purpose is to study the feasibility of the services used in Finland in other EU countries. Cooperation with neighbouring countries Estonia and Sweden act as a natural starting point for the study.

The countries selected for this study are in various stages as for methods used to prevent grey economy. Depending on the stage of development transparency and the fight against grey economy is either an opportunity hampering extra cost for businesses, or a possibility

to create added value in terms of better practices, less faultiness and improved competitiveness. The fast development of network, collaborative and platform economies have created interesting prospects for accelerating change in present working environments.

The main interview research method and most time-consuming part of the study was to organize and conduct expert interviews. First, to find relevant persons, then to formulate the content for the interviews and present the case, then to book the time and prepare presentation material, to travel to the target countries, to analyse and report the results, and to conduct follow ups. Documents analysis, previous research and PEST analysis (Political, Economic, Social and Technological) were no less important methods, and since the selected subject is broad, it took a lot of time to properly understand factors affecting current practises.

1.2 Objectives and Purpose

The aim of this thesis is to survey countries in the Baltic Sea area regarding how much effort is put towards the fight against grey economy, what is the development stage and which measures are taken. In this context, the Russian Federation is left out of the scope because of its complex structure and demanding culture. Furthermore, the purpose is to survey how fair, responsible and transparent working methods and procurement processes can be adapted to the existing business environment and practices in specific countries. Could digitalized processes help the development and enable innovative ways of utilizing the information available to benefit the whole ecosystem? Is it possible to create a platform economy where network and sharing can happen in a trusted manner?

The Baltic Sea region acts as a natural cooperation area since all selected countries' internal markets are rather small, but with combined power form an alliance that matters. To achieve improved cooperation in the Baltic Sea area, country specific policies should be harmonized together and best practices promoted. Also, the usability of market oriented proactive solutions and public-private cooperation is one topic of this study. Moreover, to understand if a better ecosystem could be created, together with all stakeholders, where more responsible business decisions are present both in private and public sectors.

The objectives come from the purpose of understanding the role of Tilaajavastuu Ltd and its service concept in Finland as well as the need for international cooperation in line with the EU Single Market Strategy (EU Single Market). To understand how compatibility requirements of different national systems and good practise could be promoted and how the Baltic Sea cooperation can act as a positive use case for wider EU dimensions in turbulent times (EU Strategy for the Baltic Sea Region).

The EU and its moving workforce create problems and possibilities where ICT (Information and Communication Technology) solutions and platform economy (Parker, Van Alstyne & Choudary 2016) can play an important role. Could seamless information flows managed and distributed to parties with access rights enable the shift to the modern platform era? How could a regulatory framework in EU and local markets in collaboration with all market participants, companies, confederations, association and other stakeholders, together lead to a creation of more coherent Europe? Could the EU Digital Single Market strategy, focusing on three pillars – access, environment and growth – support the creation of new service ecosystems?

1.3 Structure and Methodology

The research process is based on qualitative interviews with representatives from both private and public sectors, a participatory observation work, previous research and document analysis. PEST analysis (political, economic, social and technological) structure is used within the selected methods to ensure the knowledge base and focus.

The implementation of the interviews uses a qualitative judgment-based sampling method to select the most suitable interviewees of the target markets. Sampling is expert driven and participants are given more freedom to disclose their experiences and attitudes because of their expertise, hence the semi-structured method with constructive approach chosen. Four different sectors are of special interest: large construction companies that lead the market, authorities who control the regulatory environment, influential organizations or associations and small companies.

Participatory observation work is a natural process during regular working trips to collect information and experiences. Previous research is used to understand the contexts of the

broad research area and to gain necessary in depth knowledge. Document analysis is an iterative process encompassing examination, reading and interpreting different unpublished materials in the study context (Bowen 2009). As a method, document analysis was a very suitable addition for this thesis, because of the qualitative character of selected subjects. It also furthered my understanding of the larger context of the subject.

1.4 Scope and Limitations

The challenge in defining the scope for this thesis is how to find the right angle in the study since the selected topic is wide and complex. At the core lies the regulatory framework that drives the development of reducing undeclared work, authority cooperation regarding smooth exchange of information and the possibility of using public-private cooperation methods, but after that it is more complicated. How market economy sees authority cooperation in so called trusted third party field is one important question to have. Because of the topic complexity, it is not possible to go to a very detailed level of many aspects, but the intent is to make a more general overview of the issues.

In practice the scope is limited to the construction sector in the Baltic Sea region with understanding of the EU dimension. The construction sector is interesting due to e.g. specifics of health and safety issues and skill requirements and because undeclared work and preventing measures are usually applied there first. Corporate social responsibility (CSR) also plays a vital role in this study in the same manner that, for example, fair trade works to give companies and individuals tools to make better choices.

The Baltic Sea region acts as a natural cooperation area since the moving workforce and big construction companies have presence in many of the countries in this region. In this context, main countries studied are Finland, Sweden, Estonia, Latvia and Lithuania. Some emphasis is but towards Poland because of its size and importance in Europe. Denmark and Norway (even if not situated in the Baltic Sea region) and Northern Germany are mentioned and examined roughly. The Russian Federation is left out of the scope because of the complexity of the economy, policies, cultural norms and political environment.

Many unknown limitations exist since the topic is wide and complex. It is obvious that the more complex issues are left for further studies and more narrowed specialist approaches. Several factors, e.g. uncertainties in the political environment, may affect the findings and make broader generalizations limited. Also, many subjects are left out that could have been potentially interesting and relevant for this subject because of the time available. From a business and international opportunities perspective, the degree and nature of limitations are in acceptable level and do not reduce the quality of this study.

2 ECONOMICAL, SOCIAL AND JUDICIAL FRAMEWORK

2.1 Special Characteristics of the Construction Business

Throughout its history, the construction sector has been one of the most male dominated sectors consisting of a wide variety of players in the field. Its strategic importance in the society to provide infrastructure make the construction sector an important contributor to the wealth of nations. In the EU, construction generates roughly 9 % of gross domestic product (GDP) and provides employment for circa 18 million people (European Commission 2016). Figure 1 below found from the European Builders Confederation (EBC) website visualises the current situation and statistics available quite well (EBC 2016).

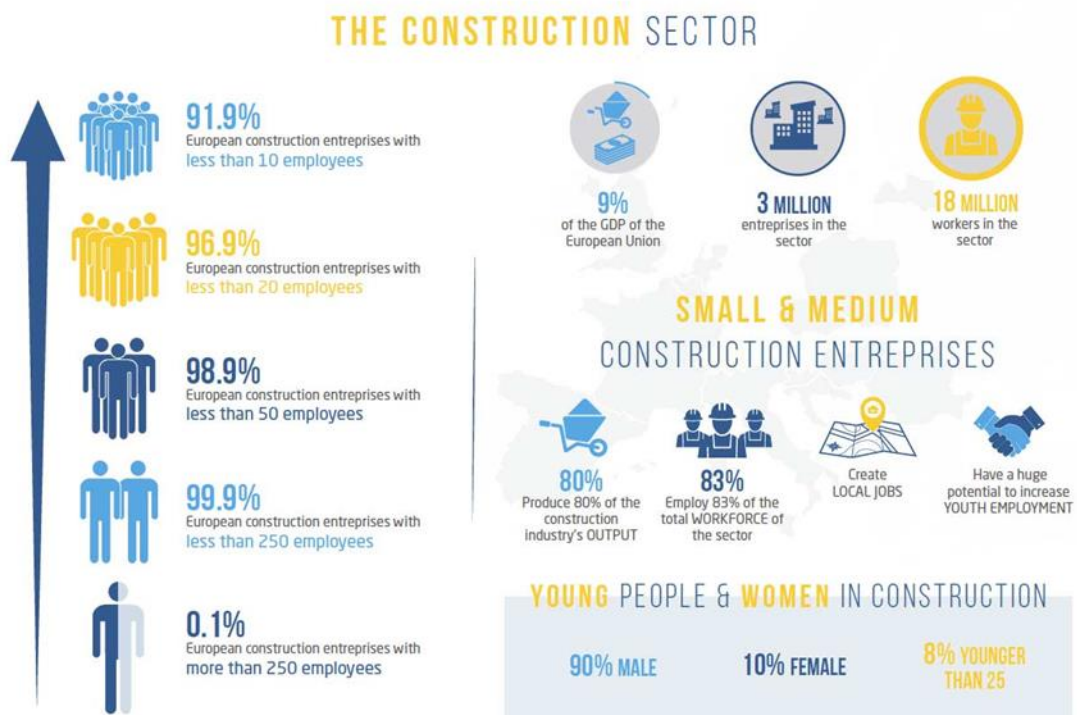


FIGURE 1. The construction sector in the EU (EBC 2016)

The construction value chain includes a wide range of economic activities with project oriented nature. This project orientation creates impact to operations, logistics, supply chain management and financial decisions, and make the construction sector quite unique compared to other industries. Managing a complex supply chain requires experts and con-

sultants to handle the processes professionally. Also, since construction work is very labour intensive, the financial part is important. A strong focus on price is present which is problematic since quality and maintenance are difficult to measure in the procurement criterion. Figure 2 below demonstrates various parts of the construction value chain.

Project Orientation of a Construction	
Market Functions	Market Actions
Demand	→ Scope
Feasibility	→ Concept
Design	→ Specification
Procurement	→ Construction
Inspection	→ Acceptance
Operations	→ Maintenance
Disposal	→ Demolition

FIGURE 2. Construction value chain

Long term orientation in short term projects is not a trivial task and requires professionalism and commitment from all suppliers in the value chain. Short term contracts with minimum price procurement could result in reduced quality and higher maintenance costs. Innovation and renewal in this context can be difficult without common solutions and collaboration among all stakeholders.

The construction sector has been traditionally very slow in adopting innovative technologies and a major transformation is still waiting in the future. Based on the studies and statistics available the productivity of the construction business has not increased over the past 40 years and in some cases even declined (World Economic Forum 2016). Digitalization, advanced technologies and the way people use different platforms today have increased the speed of change and this creates a fantastic opportunity for the construction sector.

The Finnish government programs supporting digitalization, such as the Real Estate and Construction (ReCo) digitalization project (KiRaDigi) together with the increasingly harmonized building information modelling (BIM) systems, enable ubiquitous connectivity, integration and tracking. To be able to benefit from the technology the cybersecurity part is naturally very important to consider. The increased complexity of construction projects

has led to delays and budget overruns which the digital technologies can help to manage. Productivity, safety and quality are likely to increase after the implementation of innovative technology and after adaptation to current working culture and to everyday usage.

In the construction business legislation drives the economy towards a more transparent culture throughout Europe where work against grey economy is crucial. In this context, short term reliability and long term added value play more important roles than direct expenses. There are numeral quantitative ways to calculate direct expenses. What usually is forgotten are lifecycle costs and indirect impacts of the decisions taken. The Social Partners in the European Sectoral Social Dialogue of the Construction Industry, the European Construction Industry Federation (FIEC) and the European Federation of Building and Woodworkers (EFBWW), are promoting construction as a solution industry. These umbrella organizations drive the construction sector towards a brighter future in areas of social dialogue, labour market policy, health and safety, and social policy. Naturally, fair competition with prompt payments creates sustainability and reduced bureaucracy allow innovation to flourish.

The construction industry in Finland is regulated by many laws and regulations with the purpose of preventing accidents, preventing grey economy and creating standardized methods of work. What comes to this study, key acts are those intended to ensure safety at the workplace and sound competition, namely in Finland the Occupational Safety and Health Act (738/2002), the Act on the Contractor's Obligations and Liability when Work is Contracted Out (1233/2006), and the Tax Number Act (1231/2011, HE 58/2011). Safety at work is one angle but safety for the end users is also important to avoid problems during the lifecycle of the building. Inside air quality problems in the buildings are today one essential example of consequences of poor building practices.

Following correct building practices is crucial to reach sustainable construction safety for both the workers and future users during the lifecycle of the building. The Act on 'The contractor's obligations and liability when work is contracted out' requires that the party responsible for a construction project obtains guarantees that subcontractors will fulfil their obligations. This law in Finland has been in effect since 2007, but obligations in the construction sector were amplified in 2012. This can be regarded as starting point in Fin-

land for guiding activities in the worksites. It is proven to be an effective control mechanism to prevent grey economy and increase visibility to the supply chain (the Finnish Tax Administration 2017).

2.2 The Role of Tilaajavastuu Ltd

This thesis was commissioned by Tilaajavastuu Ltd which started as an ICT start-up in 2006 and transformed to its current form in 2010. The main purpose of Tilaajavastuu Ltd is to develop solutions that enable contractors to fulfil legal and information reporting requirements, as well as to promote good practices in the construction sector. During the difficult first years Tilaajavastuu Ltd managed to grow and reach a position where the social partners in the construction and real-estate sectors saw the potential of ICT in their work and decided to acquire the company. This allows Tilaajavastuu Ltd to operate between the market economy and authorities – essentially to promote public-private cooperation. Today the company is wholly owned by the social partners of the real-estate and construction sector.

The cooperation of the organizations representing the real-estate and construction sector in Finland jointly managing Tilaajavastuu Ltd fully started in 2010. Working closely together with partners and other industry actors a positive impact has been made on the effort to prevent grey economy by making it clearly visible in society. Public procurement and big corporate clients with hundreds of subcontractors needed a solution for interoperability and collaboration to enable comprehensive monitoring of the suppliers. This need combined with the Tilaajavastuu Ltd services is an innovative way to achieve trust between companies and to help companies work honestly with less bureaucratic burden.

Internationally Tilaajavastuu Ltd is closely cooperating with its sister organization in Sweden, ID06 AB. Together these two companies are creating a framework for international cooperation in the construction sector. ID06 organization has been established in the same year, 2006, as the predecessor of Tilaajavastuu Ltd. It has been part of the Swedish Construction Federation (BI) for ten years and just recently, in 2016, transformed to a company with broadened ownership like Tilaajavastuu Ltd. ID06 Ltd is mainly focusing on the compulsory ID and attendance reporting on the building site, to prevent economic crime and to make it more difficult for unauthorised persons to enter the site. Even if the

cooperation is just beginning there has been many discussions during recent years and there are positive signs that developing ICT systems together increases the chances to create useful and secure solutions for common needs.

The objective of all activities within the cooperation is to ensure fair and transparent competition, to minimize administrative burden, to promote safety and quality, and to let businesses focus on what is important. The figure below describes service components and illustrates the ecosystem around a worksite. This model combines the public-private cooperation and the business to business relations (figure 3).

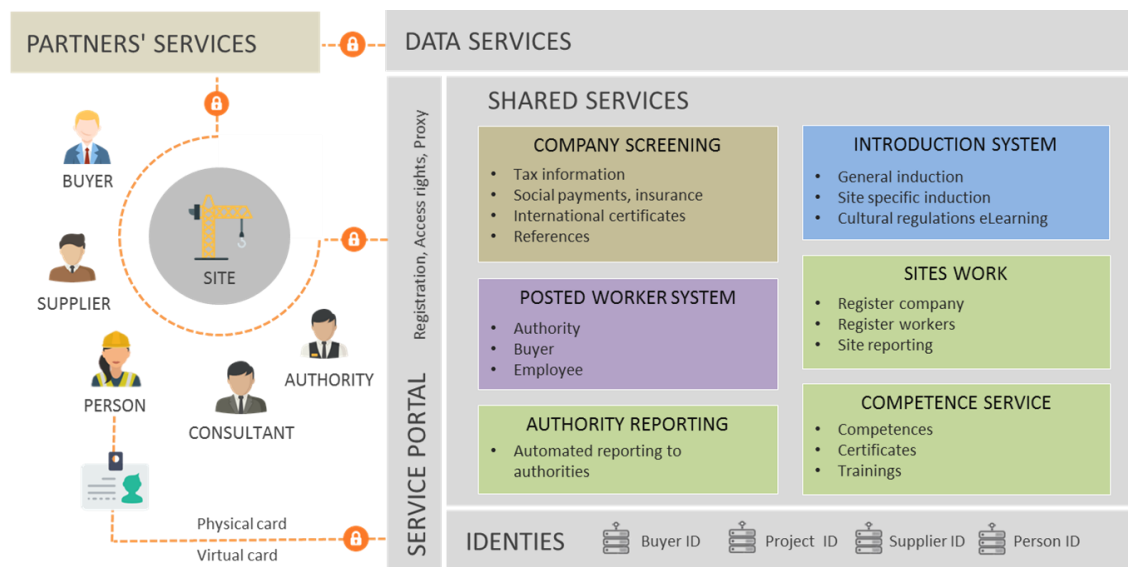


FIGURE 3. Collaboration and interoperability components at the worksite

Currently activities are focusing on companies, employees and their relations in the construction sector. In Finland company related services consist of the Reliable Partner program, the Reports service, the Building Site Register and the Suppliers Monitoring. Employee related services consist of the Employee Management service, the Social ID Cards and the Professional Competence Register. In Sweden, the focus is on the Social ID Cards, the Electronic Contractor Registration, the Attendance Records and the Professional Competence Register.

Ongoing digitalization in the construction sector is one of the key focus points. To achieve competitiveness, a need for common solutions and interoperability is present, and public-private cooperation and standardization needed. The theme 'Together', the official theme

of Finland's centenary celebration year in 2017, describes the needed actions and solutions very well. In this context Tilaajavastuu Ltd together with ID06 Ltd is working on three primary areas, safety, competition and contracts. Digitalizing the construction sector in these three focus areas is illustrated below (figure 4).

Digitalizing the Construction Vertical

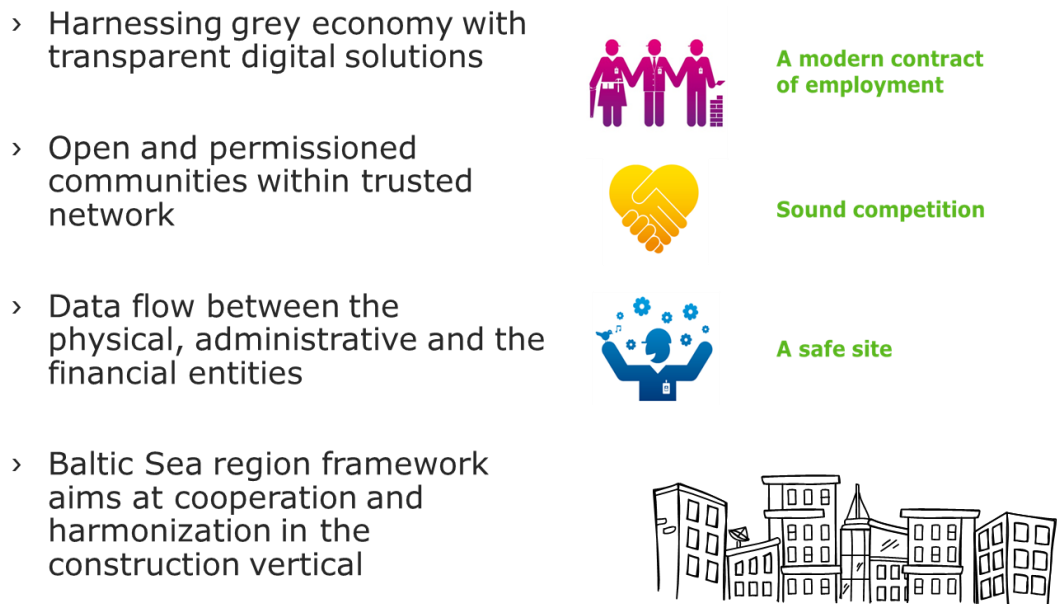


FIGURE 4. The construction sector digitalization focus points

2.3 Competence, Quality and Safe Site

Workers with an adequate level of competence is a prerequisite to properly carry out construction projects with a quality conscious attitude. There are various competence requirements in the market required by law and regulations (e.g. detonation). Additionally, companies have their own set of qualifications, internal competencies and standards. There is ongoing work in the construction sector in Finland to electronically verify the required level of competencies and to manage competencies in a central register. This reduces unnecessary trouble from the workers and the administrative burden of the worksite management. Cooperation with authorities and professional qualification pro-

viders enables the integration of enriched professional identities for the benefit of all authorised parties. When the information is centrally available, required competencies can be easily and securely checked and current processes improved.

In Finland, the requirement for education has long roots and it is considered important to develop competencies of the employees. The overall quality of operations in the construction site is dependent on skilled workers and is regarded as one of the key success factors in the construction sector. For these reasons, accurate training and quality systems are widely used in the construction sector.

Central elements of quality systems are the development and implementation of work processes, the reporting of faults and deficiencies, the planning and implementation of corrective measures and the rotating of improvements back to system. The quality systems have many names, but are usually called the Shewhart Cycle, the Deming Wheel or Cycle, and the PDCA (Plan-Do-Check-Act) Cycle. Also, the evolution of the processes has led to the PDSA (Plan-Do-Study-Act) Cycle (Moen 2009). Figure 5 below demonstrates the circular nature of the quality systems.

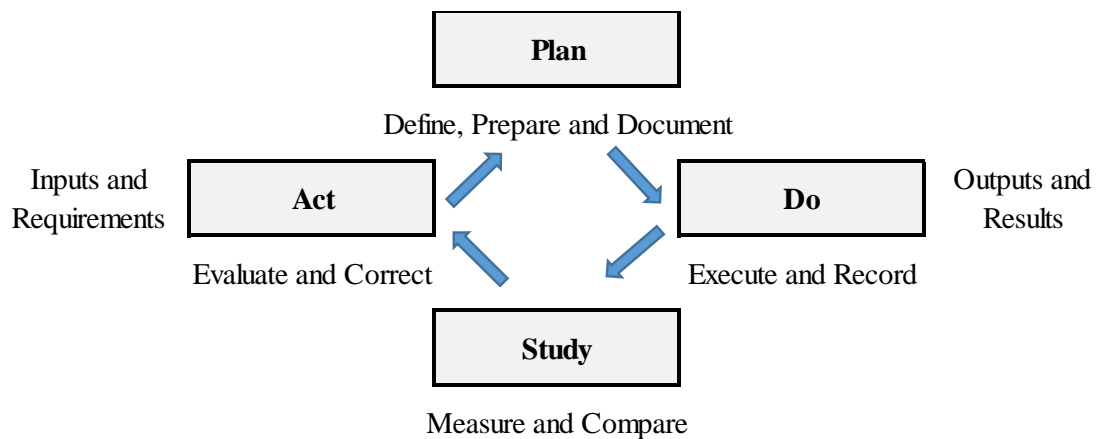


FIGURE 5. Quality system model for improvement

The idea with these quality systems is that a cycle goes step by step ahead continuously, and after each iteration the quality has improved a little. In the occupational health and safety management the same type of approach is used. The Occupational Health and Safety Assessment Series (OHSAS) Standard 18001, compatible with ISO 9001 (Quality) and 14001 (Environmental) standards, is trying to combat work-related accidents, injuries

and diseases. Currently ISO (International Organization for Standardization) is developing a new standard, ISO 45001 Occupational health and safety management systems, to continue promoting the preventing actions with a general framework (ISO 2017). This framework is illustrated below (figure 6).

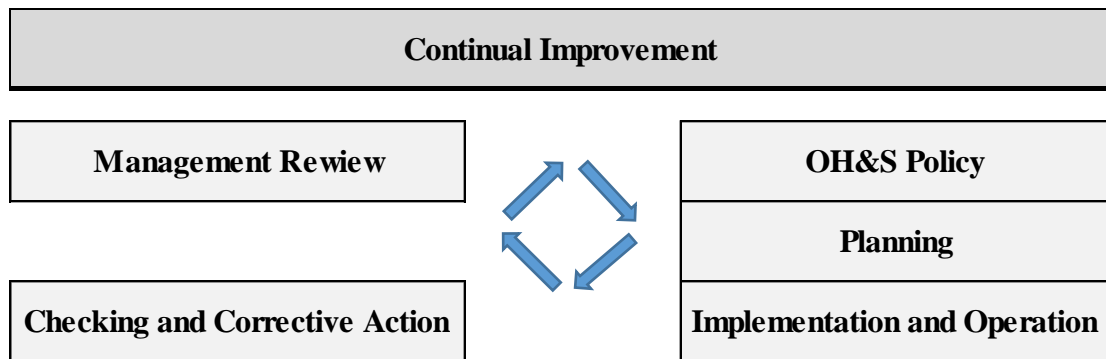


FIGURE 6. Occupational health and safety management

One of the problems related to the international cooperation regarding competencies in the construction sector is that a strong national focus is present. The study focusing on the individual certification of competence conducted by Sandberg and Polesie (2014) is trying to find solutions to this issue. This EU funded project, Scandinavian Infrastructure Competence, is providing examples of how clients can set up demands on competencies using individual certification. Project based industries need generic and common competence requirements to increase and support the mobility of labour between countries. This study was in line with the ESCO project (European classification of Skills, Competences and Occupations) and tried to find mutual understanding of terms such as expertise and knowledge, since these are perceived differently depending of the role of a person. To achieve a higher level of safety and quality in the construction sector, a transnational certification is necessary with measurable requirements. Knowledge, skills and behaviour, all parts of competence, are needed to achieve this goal.

2.4 Related Laws, Concepts and Requirements

In Finland, there are six Regional State Administrative Agencies (AVI) with executive, steering and supervisory roles. One of the regional roles is to supervise and direct occupational safety and health. Also, the enforcement of the Act on the Contractor's Obligations and Liability when Work is Contracted Out (1233/2006) is a nationwide responsibility of AVI Southern Finland. The purpose of the Contractor's Obligations Act is to promote fair competition and compliance with constitutional terms and conditions of employment (Occupational Safety and Health Administration 2016).

According to the Contractor's Obligations Act contractors need to ensure that their partners and subcontractors are complying with legal requirements and obtain all the reports and certificates specified in the Act. In Finland, these reports and certificates come from the Prepayment Register, the Employer Register, the Value-Added Tax Register, the Trade Register, the amount of the Tax Debt, the Pension Insurance Certificate, the Pension Insurance Premiums, the Collective Agreement and the Occupational Health Care. Also, a General Liability Insurance and an Accident Insurance are important.

Fulfilling these requirements can be tricky for foreign companies and compliance with the obligation creates administrative burden, which is the case also for local companies. The occupational safety and health division has collected information on how to pursue contractor's investigations abroad. There are currently 15 countries in the list and based on demand more countries are added (Occupational Safety and Health Administration 2016).

Of these 15 countries, seven were selected as relevant to this study: Estonia, Latvia, Lithuania, Poland, Sweden, Norway and Germany. The information sources of these countries complying with the Contractor's Obligations Act are listed in the appendix 2. In addition to the selected countries Russia, Hungary, Czech Republic, Slovakia, Romania, France, Iceland and United Kingdom are in the Occupational Safety and Health Administration list. It is noteworthy, that Denmark is not included in the list.

The pension and accident insurances for a foreign company are dependent on the posted workers. In principle, all work conducted in Finland must be insured in Finland. If the workers are only conducting temporary work and are belonging to the social security of

their home country, a posted worker's certificate is sufficient. The Posted Workers Act (447/2016) is quite complicated but generally a posted worker is employed in one EU Member State and sent on a temporary basis to carry out work in another Member State.

Temporary work between two EU countries is increasingly important feature of employment for companies and for workers in the construction industry. The EU legislation, Posting of Workers Directive (96/71/EC), is designed for protection of workers throughout EU to avoid social dumping effect since 1996. Social dumping is related to equal rights (social protection), equal pay (wages) and equal treatment (working conditions) for all workers. Measures taken in EU to avoid social dumping are preventive, control and sanctions (European Commission 1996). Also, the social partner in the construction sector EFBWW established a website designed for informing and educating workers (www.stopsocialdumping.eu).

Despite the good aims of the directive the rules do not apply very well in practice. Problems are emphasized in the construction sector, as it is the biggest sector with posted workers and long subcontractor chains and so called letter box companies, which are not existing in the sense of normal business. To tackle these problems Posting of Workers Enforcement Directive (2014/67/EU) came into force in 2014. It clarifies and improves e.g. cooperation between national authorities, certifications of posting and responsibilities to verify compliance with the rules (European Commission 2014).

All employees are entitled to health care regardless of the nature of the employment. Supporting the worker's ability to work is mandated by legislation and designed to ensure safe working conditions. Occupational Health Care Act (1383/2001), Occupational Safety and Health Act (738/2002) and Health Insurance Act (1224/2004). This is one of the areas where EU has achieved a major impact, a legislation that covers risks with solid regulations (Directive 89/391/EEC on measures to improve safety and health at work). Furthermore, a strategic framework aims to ensure the high-quality standards for working conditions, improving the implementation of existing health and safety rules, the prevention of work-related diseases and tackling the ageing of the EU's workforce (European Commission 2014).

The Finnish Tax Administration established the Grey Economy Information Unit in January 2011 to reduce grey economy by producing information and bringing it to the public's attention. This was a continuation of the work started in 2007 with the Contractor's Obligations Act, moreover to move towards up-to-date information on construction sites, workers and contracts with a special reporting procedure.

The new legislation promoting safer sites, fair competition and preventing grey economy, the Tax Number Act (1231/2011, HE 58/2011), was introduced in September 2012. This meant that everyone working on a shared construction site must wear an identification card with a photograph and an individual Tax Number (Finnish Tax Administration 2011). The public Tax Number Register and legislation objective is to ensure that construction workers have been registered as taxpayers before they start working. Furthermore, an information reporting requirement in the construction industry was introduced in July 2014. This requires buyers to collect information on their contracts, and project supervisors to collect information on employees, and to report the information collected to the Finnish Tax Administration monthly. For foreign companies and employees, the new Tax Number regulation means that before starting work in Finland in the construction sector they need to obtain a Finnish personal identity code and a Tax Number at a tax office.

The EU General Data Protection Regulation, GDPR (EU) 2016/679 strengthens and unifies the data protection for individuals. This new regulation updates and modernizes the former Data Protection Directive from 1995. The goal of the legislation is to simplify the regulatory environment and to harmonize data protection. Companies need to be compliant for the new rules by May 2018 (European Commission 2016).

The EU GDPR follows the OECD (the Organisation for Economic Cooperation and Development Guidelines) Guidelines on the Protection of Privacy and Transborder Flows of Personal Data. Protection of Privacy and Transnational Flows of Personal Data originally adopted on 23 September 1980. The eight basic principles for the processing of personal data are still there, the Collection Limitation Principle, the Data Quality Principle, the Purpose Specification Principle, the Use Limitation Principle, the Security Safeguards Principle, the Openness Principle, the Individual Participation Principle and the Accountability Principle (OECD 2013).

The three leading requirements behind the legislation that push ITC development and digitalization forward are the security need (i.e. information must be protected adequately), the control need (i.e. the owner of information must have the control and access), and the portability need (i.e. the owner must be able to use the information). Together these three elements create ecosystems where mobile devices and social media services can be used in a more sophisticated, flexible, privacy-protecting, and user-controllable way. As the Internet was built without a standard way of identifying people or organisations, the EU GDPR creates a possibility to move from a silo-based approach, where every service need user names and passwords, to a more harmonized model where people can maintain their identities for every service they interact with. Concentrating control around a small number of providers such as Google or Facebook, creates privacy concerns of losing the actual control over the information which EU GDPR is coming to help with.

The new regulation is a crucial step towards digital rights in the areas of an easier access, portability, the right to be forgotten and the right to know when your data has been hacked. It is a missing fundamental right for people to recover control of their personal data. For businesses EU GDPR creates clear rules, one continent with one law, and a risk-based approach appropriate for innovation. Simplifying rules removes current fragmentation and costly administrative burdens, and promotes the development of the Digital Single Market. In the European Commission survey, more than 90 % of Europeans wanted to have the same data protection rights across the continent (European Commission 2015).

Figure 7 below demonstrates the path from the OECD Guidelines to the EU GDPR and furthermore towards more My Data oriented services. The My Data framework is a model for a human centric approach for managing and processing personal information. It is based on the right to access the data collected. The core idea with My Data model is that people should have control over their own data. In this context, digital human rights could create new business opportunities and support innovation of personal data based services (Poikola, Kuikkaniemi & Honko 2015).

OECD Principles, EU GDPR and Personal Data Rights		
Collection Limitation Principle	Data Minimisation	Right to Know
Data Quality Principle	Accuracy	Right to Correct
Purpose Specification Principle	Purpose Limitation	Right to Audit
Use Limitation Principle	Lawfulness, Fairness and Transparency	Right to Remove
Security Safeguards Principle	Storage Limitation	Right to See
Openness Principle	Integrity and Confidentiality	Right to Share
Individual Participation Principle	Access and Use	Right to Obtain
Accountability Principle	Accountability	Right to Ask

FIGURE 7. Principles of handling and processing data, including the legal framework

3 TOWARDS RESPONSIBLE CONSTRUCTION BUSINESS

3.1 Grey Economy and Transparency

The Grey economy or the shadow economy has many different words and expression to describe the phenomena of not declaring monetary income to the state. Taxes, social security payments and labour law commitments are the basis for transparent and fair competition. The grey Economy and the shadow economy are the most commonly used expression of the work that is not formally declared. Many sources describing this subject are available and lots of studies have been made. Defining the phenomena is difficult since more than 45 different adjectives and ten different nouns are used. Adjectives like black, cash-in-hand, informal, irregular, hidden, invisible, subterranean, undeclared, underground, unobserved and unregulated, and nouns like economy, sector, work, employment, activity, sphere and realm are used (Williams 2014).

The many existing expressions are all seeking answers to questions like what is absent, insufficient and missing from the transparent picture. There are three distinctive approaches to take a closer look at the grey economy: through a lens of enterprises, jobs or activities. In terms of the national economy it is a question of activity which falls out of the official GDP statistics (Williams 2014).

The Slippery Slope Framework (Williams 2014, Kirchler, Hoelzl & Wahl 2008) combining the direct and indirect control for tax compliance, is a model where both the power of tax authorities and trust in the tax authorities are relevant dimensions for understanding the enforced and voluntary compliance. Interactions between power and trust and conceptual tools like fines, audit probabilities, tax rate, knowledge, attitudes, norms and fairness are all part of the power and trust dimensions. Figure 8 below illustrates the Slippery Slope dimensions and shows the importance of two regulation tools: coercive and persuasive power. Prevailing norms, strategic interaction and the dynamics of the market are all important to consider.

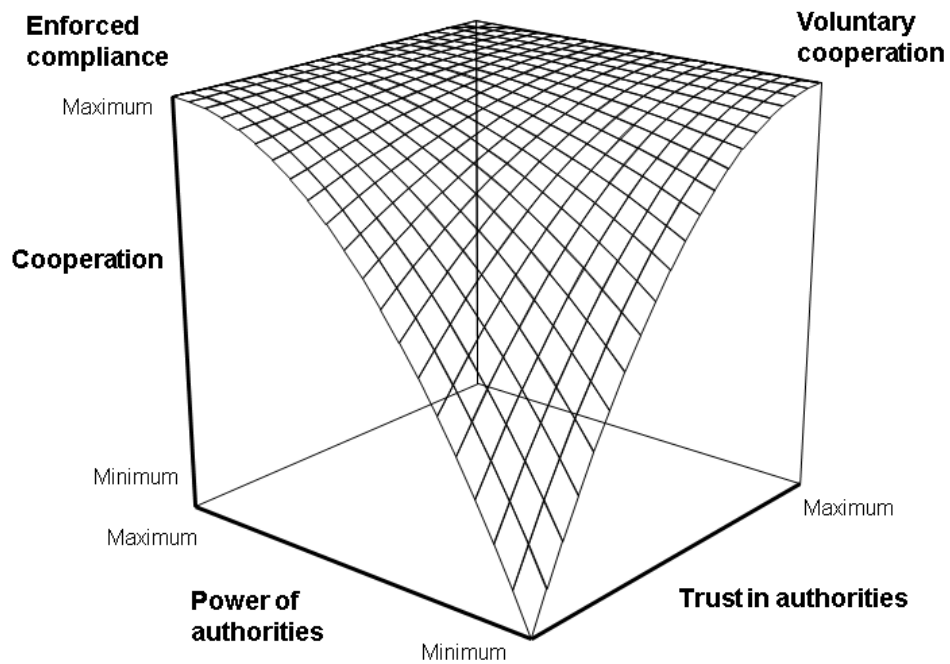


FIGURE 8. The Slippery Slope Framework (Williams 2014)

In the Nordic countries and Estonia, the tax authority is the leading authority responsible for tackling the grey economy. In Latvia, Lithuania and Poland it is the labour inspectorate. In both cases the angle towards preventing measures is a little bit different but is based on direct and indirect measures. Deterrents, incentives, tax commitment and wider economic and social development are all possible approaches. As for methods used improved detection, increased penalties, increased perception of risk, fostering culture of commitment or alignment of citizens with state policy integration. To see how well approaches and methods are working measures are important. Data matching and sharing, joint operations, increased penalties for evasion, advertising the penalties for undeclared work and effectiveness of detection procedures, simplification of compliance, direct and indirect tax incentives, supply chain responsibility, support and advice to start-ups, supply-side and demand-side incentives, promoting benefits of declared work, education and awareness-raising, tax fairness, procedural fairness and justice, redistributive justice, social protection, equality, growth strategies for quality employment, entrepreneurship support and active citizenship (Williams 2014).

Corporate (Social) Responsibility, CSR or CR is an incentive that in many cases drives solutions forward faster than traditional regulatory approaches as companies have a need for new and effective tools. This concept is used to describe voluntary measures to include

responsibility elements to the daily business operations of a company and its relations with various stakeholders.

In this study, CSR refers to companies acting responsible towards positive impact on society. The European Commission has been active in the field of CSR since the start of the 2000's. At the same time member states have created their own plans and measures on a national level to encourage companies to comply with CSR principles. Sustainability, competitiveness, and innovation are all part of the benefits that responsible practices enhance. Not to forget is the risk management perspective, cost savings, improved access to capital, customer loyalty and HR (human resource) practices (European Commission 2011).

These actions have been successfully coordinated in the commission with measures such as peer reviews, education, training and research projects. A set of values on which more connected and sustainable society and economic system can be created with efforts and national activities were completed in 2014 by Directorate-General for employment, Social affairs and Inclusion of the commission. To evaluate the CSR strategy, the Commission launched a Public Consultation on CSR 2011-2014: achievements, shortcomings, and future challenges in 2014.

EU's action plan to support CSR measures includes enhancing the visibility of CSR and dissemination of good practices. Among these are improving and tracking levels of trust in business, improving self and co-regulation processes, enhancing market rewards for CSR, improving company disclosure of social and environmental information, further integrating CSR into education, training, and research, emphasizing the importance of national and sub-national CSR policies and better aligning European and global approaches to CSR.

Also, ISO 26 000 guidance standard on Social Responsibility gives guidelines and principles for developing corporate social responsibility at enterprise level. It has been approved in many countries as a national standard. In Finland, national action plan on CSR was adopted by the government in 2012. It emphasises assessment of environmental and social impacts as well as human rights and improving responsibility of Small and medium-sized enterprises (SMEs).

Transparency International as well as many national organisations such as FIBS ry (Finnish Business & Society), are committed to promote measures to improve reliability and transparency in construction business. FIBS ry is the leading corporate responsibility network promoting financially, socially and environmentally sustainable business in Finland.

3.2 Trust and Humanity

Humanity and trust are key words that describe the current trends on EU and national levels. This is especially true since the beginning of the internet era. The main elements that are present in the discussion when it comes to digitized information is the mistrust of systems and the companies operating these. Big data can be seen vulnerable from the privacy point of view. My Data approach address this issue and has been selected as one of the Finnish Government strategic priorities.

One of the key issues related to social responsibility is privacy protection. Personal data is managed in digital form and data protection must be on adequate level. Easy access to personal data is a necessity in for instance modern health care but personal data is also increasingly used in various data-based businesses. One of the key measures outlined in the Finnish Government resolution for strategic priorities is promoting the use of data in business activities. These activities should be based on benefit for citizens, consent and privacy protection. One of the measures promoted is My Data – a Nordic Model for human centred personal data management and processing.

The basic idea in My Data is to change the paradigm of personal data management and processing from organization centric system to human centric system. This change is demonstrated in figure 9 (Poikola et al. 2015). For individuals that means primary the right to access and use their personal data. My Data approach shows the way from current ecosystem of application programming interfaces (APIs) with no infrastructure to infrastructure based approach with common infrastructure that enables interoperability. Well working human centric control requires transparent data flows and consent based data management. In the next phase the aim is to develop functional design for My Data by carrying out service pilots.

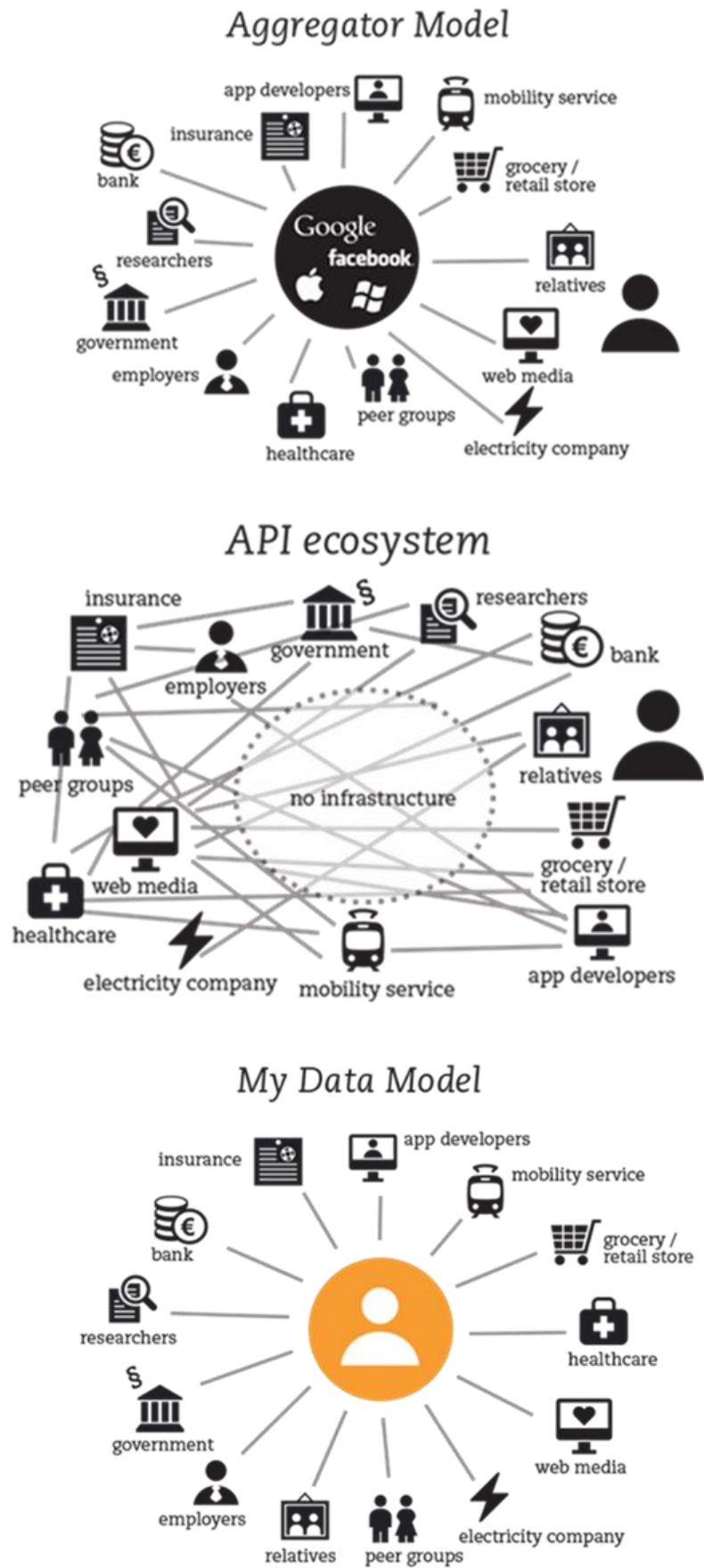


FIGURE 9. Models for managing personal information (Poikola et al. 2015)

In the current structureless API economy, if the number of services grow, then the number of connections between them grow at a faster rate. Aggregating data control would make life easier for organizations and individuals, but different aggregators do not have a built-in incentive to develop interoperability between them. Compared to the aggregation model, My Data is a resilient system because it is not dependent on a single organization or technical infrastructure (Poikola et al. 2015).

My Data principles and Open Source ideology are elements that help organizations to achieve trusted status. When humanity is fostered there should be trust elements visible for the market. Data security is crucial and natural part of the bigger picture and without investments put into development the profit from opportunities arisen would not be possible to reach.

Public-private cooperation and the Public Private Partnership PPP model together with platforms and collaboration can be seen as an effective and agile method to gain trust in complex ecosystems. There are good examples of the results using the whole network of capable enterprises instead of applying huge bids approach where only the biggest players in the market can participate. Especially from the point of view of SMEs this approach supports and enables development of proactive solutions. At the EU and national levels there is a need for collaborative platforms where all parties and stakeholders can share their knowledge to create better services and bring added value to the EU and national ecosystems.

Cooperation, trust and humanity are leading the way towards better societies and more coherent EU. There are many conferences and workshops held in EU where best practises are promoted. Information exchange may lead to the innovative solutions needed. For example, a conference held in Amsterdam 8-9 February 2016 is a good example of tri-party cooperation where main stakeholders, government organizations and both sides of industry could sit together and find solutions.

The conference was very well focused on promoting decent work, better compliance and enforcement. Issues like posted workers and undeclared work got quite a versatile treatment as participants represented government organizations and both sides of industry. Productive discussion showed that this kind of platforms are something Europe needs.

The issues most discussed were posting and its definition and coordination of social security. It was pointed out that these issues are relevant especially in the construction sector.

One of the findings was that posted workers are often too automatically associated with social dumping. The rules must be clear and well enforced to retain legitimacy among the citizens. Many examples to prevent undeclared work were reported and among these the use of Social ID cards in the construction sector in Sweden and Finland was welcomed. The adoption of Social ID card system is voluntary but the use of it is growing fast as it offers reliable information (The Inspectorate SZW February 2016).

3.3 Challenges in the Baltic Sea Region

All Nordic countries face the same challenges regarding grey economy and promoting equal and fair competition. Setting the same rules and criteria for local and international actors is crucial. Sooner or later this applies also to Baltic countries. The culture of combating grey economy in this group of countries, however, is at this moment still very different. To ensure positive development, the needed actions and the order of their implementation must therefore be adjusted to the conditions in each country.

Free movement of labour and services in the EU has brought the demand and possibility to increase the competitiveness of the market. The whole business environment has been in an ongoing reform which has both positive and negative influences depending of the approach one likes to take. Supporting the positive side of the development and removing negative effects by creating infrastructure which prevent and eliminate exploitation and foster fair and transparent opportunities particularly in the construction sector.

In the context of this study the countries receiving a moving workforce are Finland and Sweden but the same is applicable to other high GDP countries in the EU as well. These countries are selected because workers are coming from abroad to find opportunities in the local construction sector with lower costs than local companies. When procurers make decisions, there is several things that they need to consider.

For the statistical purpose the Statistical classification of economic activities in the European Community (NACE, Nomenclature statistique des activités économiques dans la Communauté européenne), is used. Structural business statistics (SBS), describe the structure, activity, competitiveness and performance of economic activities within the business economy. SBS cover the business economy, which includes industry, construction, distributive trades and services. The data are collected within the context of Council Regulation 58/97 on structural business statistics (Eurostat 2016).

Figure 10 below (Eurostat 2015) illustrates the amount of construction companies in the construction sector in the Nordic countries. There are around 230 000 companies working in the construction sector in the Nordic countries were Sweden is the leading market if analysed by the amount of companies present in them market.

Country	Companies in the construction industry
Finland	41 543
Sweden	98 327
Norway	56 553
Denmark	31 580
TOTAL	228 003

FIGURE 10. Companies in the construction industry, Nordic countries 2015

Finland, Sweden, Norway and Denmark have the same interest to promote safety at workplace, responsible health and safety practices and improving the quality of work with using skilled labour. There are more and more companies and workers from abroad that try to find opportunities from growing markets. In this scenario, it is important to find basic principles between local and international players so that fair competition is ensured. EU free movement and free competition in internal market is fostered with right solutions to promote equal opportunities and responsibilities.

At the same time, Finland and Sweden could promote best practices and help growing markets inside EU to learn to respect EU values and principles better. The business culture in Estonia, Latvia, Lithuania and Poland are actively developing and many positive initiatives are present. This situation is a fertile ground for operating towards better practices and transparency in all business actions. Today Estonian companies are mostly coming to Finland and Lithuanian companies to Sweden among others. Poland is also part of the study because of its size and importance in EU level regarding moving workforce and posted workers.

Modern IT solutions that are based on trust, EU GDPR and My Data principles are keys to improve worksite management and supplier control. Effective service solutions with ecosystem thinking allow construction industry to form best practices by using digitalized information flows. Developing industry standards involves quite many different actors and stakeholders and all need to be actively involved to create a solution that fits to the various needs of different countries. The Baltic Sea framework is a natural working area for cooperation. Following the movement of money and putting emphasis into responsible procurement is important success factor.

Countries which are covered in this study regarding posted workers are Estonia, Latvia, Lithuania and Poland. In the whole EU, there is a much wider scale of countries where workers leave to find opportunities to the countries which provide those opportunities but still quite similar measures are applicable. An emerging trend to cover is that a supplier country can become also a receiving country when development occurs. This is happening for example in Poland where workers come from South East Europe (e.g. Ukraine) to seek better work opportunities. Here it is important to notice that workers can move from one country to another as posted workers or as immigrants.

Concrete ways to harmonize the practises that are used to combat grey economy are essential. Competition is good when it is equitable in terms of quality of work and best service offer wins. To achieve the very ambitious goal to prevent grey economy in the construction industry new digital solutions and information flows are needed. In the Baltic states and Poland there are around 300 000 companies working in the construction sector (Eurostat 2015). The country specific figures are illustrated in figure 11 below.

Country	Companies in the construction industry
Estonia	9 602
Latvia	11 159
Lithuania	27 772
Poland	244 177
TOTAL	292 710

FIGURE 11. Companies in the construction industry, Baltic states and Poland 2015

3.4 Business Potential in the European Single Market

Lots of ICT solutions and programs are already in use, both in national and international businesses. A large part of these systems is used in many business sectors. One such application is the personal identity card system, with which is possible at the construction site quickly to identify not only personal data but also the tax registration status and verified competence to perform duties to which the person has been employed. With comprehensive solutions, it is possible to monitor the transparency of the whole production value chain and that the companies belonging to it operate properly.

For developing international business, the central issues are the reliability of the system and applications, user friendliness and adjustability to required country specific special conditions. In practice, a modular system structure is economical as various modules can be taken in use in the tempo that the legislation calls for.

In the international ecosystem of construction industry there is a considerable number of different actors and in addition many systems are not limited to any business sector. Actors see the needs, benefits and challenges to join the ecosystem of securing operations and transparency. This applies to the producers, procurers and authorities alike. Key factors relate to the scope of activity, the phase of development, business environment and

goals of directing business to new markets. These issues among many others are normally included in the so called due diligence process which is a standard inspection procedure used in acquisitions.

Development towards transparent and responsible constructions continues in any case in general and at company level among other things to fulfil EU legal requirements and to maintain competitiveness. Again, it comes back to the question of whether one responds to the development reactively and implements changes only when forced to do so or proactively when changes are a possibility to improve the competitiveness of the company and to develop new business domestically and internationally.

The current state and development of both countries and individual companies can be considered using the PEST analysis (political, economic, social and technological). Political dimensions include democracy, elections, decision making and lobbying. Economic, social and technological dimensions are considered according to the state of development of the business environment, challenges and possibilities of the subject under the analysis. PEST analysis has been used in country specific studies.

4 FIELD STUDY IN THE BALTIC SEA REGION

4.1 The Plan and Funding

The project plan describing the internationalization strategy of Tilaajavastuu Ltd, explaining its main elements, was made for Tekes (the Finnish Funding Agency for Innovation) to get external funding for studying and developing business in the Baltic Sea region. The funding decision was based on the work conducted by Tilaajavastuu Ltd in Finland and its relevance for export to other countries. Tekes is the most important publicly funded expert organisation for financing research, development and innovation in Finland with the focus to boost innovation activities in research communities, industry and service sectors.

Tekes is mainly focusing on innovation in technological breakthroughs, service design, business, and social innovations. Tekes finances around 1500 research and development projects and around 600 public university research projects yearly. Research, development and innovation funding is targeted to projects that create long-term benefits for the society. In the Team Finland network, Tekes offers innovation funding and services to internationalizing companies, promotes the internationalization of companies and supports efforts to attract foreign investment in Finland (Tekes 2017).

According to the project plan an essential step of the work was to create conditions for cooperation in the first instance with Sweden and Estonia and when successfully completed broaden the cooperation to Norway, Denmark, Latvia and Lithuania. In addition, the plan included the introduction of cooperation with Poland as it is by far the largest country in Europe as a source of migrant labour.

Cooperation with Sweden and Estonia have decisive importance as they lay groundwork for the widening of operations and for the success of the entire internationalization project. Expanding cooperation to the Baltic Sea region framework will gain more credibility towards the EU and after each new collaborating partner enables more efforts to Poland and beyond. In Poland, the plan calls for researching the possibilities of developing a pilot system applicable even elsewhere in Europe which could be used to control the transparency and quality of operations and to improve work safety in the construction sector. The

main part of work was to go to the field and study the realities of different people in different working roles.

4.2 Practical Implementation

In practice, the work started with an analysis of the needs which indicated that there were several actors and angles of consideration. Large construction companies, politicians, authorities, social partners and small companies all have different approaches. To get a full picture it was important to look at the issues from different angles for each group separately. The questions and the framework of the study were sent in advance to the interviewees. The agendas of the interviews got more precise and expanded in the preparatory stage and with the email conversations held. Informal discussion and exchange of experiences was highlighted.

To find the right people it was necessary to gain knowledge and find information to complete preparatory work in Finland. Decision makers and experts were preferred targets, people working in procurement or in leadership positions. Among authorities, people having influence on procurement or mobility of the work force. Among politicians, persons dealing with finance and education. Among interest groups, the most relevant were the social partners in the construction industry.

Contacts were made by e-mail, telephone/skype and through existing networks. The value of existing networks for carrying out meetings and their logistics in a sensible way was very appreciated. Without this help the practical implementation would not have been as productive as it was. Both social partner networks and Tilaajavastuu's own associates were very helpful in contacting people and in having them to allow time for the meetings. An explanation and the reasons for a meeting was sent by e-mail, including a list of questions and a basic framework of the study. Free discussion and cooperation were emphasized.

A total of 24 interviews were made with five politicians or ministries, five authorities, six large construction companies, three small construction companies and five organizations representing construction industry. Trips to Estonia and Lithuania were in the principal role – there were several visits to both countries for study and business reasons. Half of

the interviews were performed in Estonia and Lithuania. Finland, Sweden, Latvia and Poland shared the remaining interviews. Norway, Denmark and Northern Germany were left for general study.

In these discussions, it became very clear how different the conditions are compared to Finland. To start with, Estonia and Lithuania are, at least for the time being, supplier countries so that their interest in systems focuses on the possibilities to operate in the Finnish market and to fulfil the requirements of the bureaucracy as smoothly as possible.

It was found in the discussions that there is already awareness in the Baltic countries about the problems associated with competitive bidding based on price only. Competition is increasingly focused on the best price/quality relationship instead of just price. Increasing the transparency of bidding processes as well as making them smoother and more efficient are also timely topics. Also in these countries, it is seen that competition must be understood to take into consideration not only direct project costs but those covering the entire life cycle.

In meetings, it was interesting to notice that development work carried out by Tilaaja-vastuu and the results of it are widely appreciated in Sweden. The country invests considerably in infrastructure construction and many foreign contractors have been operating there for a long time. The outlook in the Swedish construction industry is positive and cooperation with Finnish actors is constructive. One proof of this is a newly launched pilot project visualizing supplier trees of the Swedish transportation authority.

Trips to Poland and Latvia were made primarily to get familiar with the functioning of the authorities and exchange information. The need to combat the grey economy has been observed especially among the various interest organizations. In the European Commission (2014a) survey of the variable magnitude of the shadow economy, Latvia was on the highest of the EU-28 countries with 26,2 %. Estonia with 21,6 %, Lithuania 20,4 % and Poland only 11 %. Finland only 6,4 %, Sweden 10,2 % and Denmark 15,6 %. Good preliminary discussions were carried out with Polish representatives on lifting the cooperation to a more concrete level, e.g. as a part of the project financed by EU to combat the grey economy. The most interesting findings from Latvia concerned plans to change laws to prevent the grey economy and that interest organizations were supporting such developments.

The interviews were particularly interesting and eye opening experiences since mostly I was lucky enough to get quite a good sampling of important level authority persons as well as company leaders. Expert interviews with semi controlled method were used and some smaller companies that work at the end of the supply chain gave their perspective on the same issues. The interviews represented quite a range of actors in society, such as political and governmental representatives, representatives of professional organizations and company owners.

The broad interview subjects and preliminary topics are demonstrated in figure 12 below. In most cases, questions were chosen out from the broad subjects and the qualitative part was emphasised more. The semi-structured method was a good selection and gave more room for meaningful and educational discussions.

Broad subjects for semi-structured qualitative interviews

Background and input angle

Procurement and supply chain

Integration of supply, quality standards and collaboration

Risk management, security and due diligence

Collaboration, partnership, tiers and integration

CSR – Social responsibility measures

Grey economy – Good or bad (there are always many shades of grey)

Control and power

Fairness, social and economic transparency

Social dumping – Does it exist in Baltics

Work safety measures – How important

Contractor's liability

Social ID cards

Long supply chains with many subcontractors / How to control

Data exchange, technical abilities and money

What is the need: The whole supplier chain, the main contractors or not at all?

Use for an system where measures are easily available and the amount and willingness to pay for it?

What percentage of the contract goes to unknown or grey activities?

Example of a site where an apartment cost 10 000 € more because of the responsible measures

Regional administration office's requirements in order to fulfil the law in Finland

Process description, list of countries and similarities in different countries

Challenges in changing practises used

How long does the money stay "clean"?

FIGURE 12. Semi-structured qualitative interview questions

4.3 Country Specific Remarks

It turned out that there are surprisingly many differences between the Baltic countries in many ways of doing things. This can be noted both in legislation and in how the authorities act as well as on business level. At the same time, many practical and cultural similarities could be found. The process of combating grey economy at the EU-level as well as international competition are essential driving forces to enhance transparency of construction business in each country.

In Estonia only tax authorities and the biggest construction companies have traditionally been at least to some extent interested in subcontractors acting responsibly – still smaller main contractors continue doing business in the old ways. To combat this problem the reversed value added tax model of Finland could work also in Estonia where subcontractors may leave taxes unpaid and thus the main contractor may end up in having to pay them.

Main contractors have an interest that their subcontractors don't go out of business. This can now be checked as Estonia's tax administration's real time system data makes it possible – thus to this need there is already an existing solution. Unpaid taxes are reported directly by e-mail – income tax and social costs in 10 days and value added tax payments in 20 days. Furthermore, a new mobile phone application allows checking company background information and any reported problems during the last 9 months. This together with the employment register and a new VAT system have reduced the share of the grey economy in Estonia significantly.

The Estonian employment register established in 2014 and since then the tax collection is improved. This system is used for determining the employment related social guarantees (health insurance, pension, and unemployment insurance premiums) and for supervisory purposes. All workers need to be registered into the employment register before they start working. This has created more honest competitive environment, less unofficial use of labour and increased tax revenue. Also, administrative burden was reduced and operational efficiency increased. From the tax supervision point of view the new system is much better. Figure 13 below demonstrates the positive change happened.

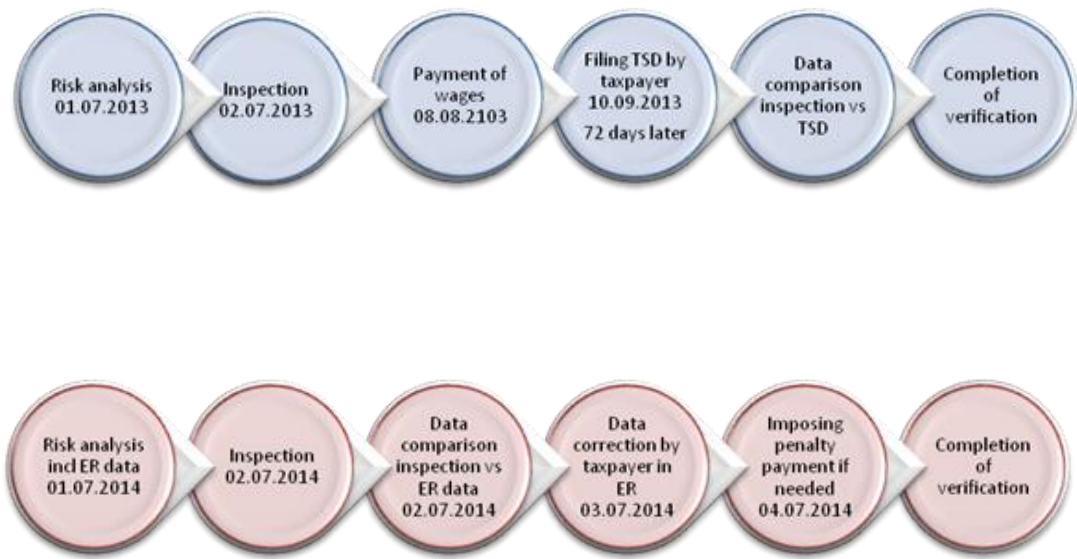


Figure 13 Verification of declaration of labour taxes before and after the new system

The lowest price wins' principle dominates Estonian governmental biddings. Only if very specific skills or expertise is needed the cheapest price mentality doesn't apply. Lifecycle approach is yet slowly winning acceptance and inexperienced users. The system of verifying work competencies is still poorly developed in Estonia. Interest and motivation to study for a proficiency exam could be increased if passing the test would show in more demanding work duties and higher pay.

The Estonian government works to reduce required bureaucracy to cut the time that customers must use to fulfil their requirements. A certain value must be calculated for this time and attention must be given to it in the preparation of new laws and regulations. Contractors' obligation law is considered a good thing in Estonia but so far contractors have not demonstrated interest in accepting the responsibility associated with such obligations.

An important discussion topic in Latvia was the question of how the quality of operation and finished products can be improved. For companies constantly competing with exceptionally low prices alarm bells should start ringing. On the other hand, there are situations where even for good operators there are good reasons to cut the price significantly from their normal level, for instance if their resources are temporarily not in full use but their costs are fixed.

Means of competition were also discussed in Latvia. How can competitive bidding be won during current complicated economic times? If price is of the leading issue – then it is of secondary interest if the terms fall into the grey area. Many aspects related to these questions have been identified but not fully recognized. So far, the criteria of winning public bidding is rather narrow – little attention to many of the aspects that may influence e.g. the quality of work. Signs of positive progress in business policies were clearly observed.

Grey economy features such as improper salary payment and work safety practices still exists and special arrangements must be figured out to keep the projects on schedule and the good guys at work. Latvia is an easier business environment than Estonia and Lithuania and operating across border can easily remain undetected by the investigations. This may save time for such operators but most likely at the expense of quality.

In Lithuania, many interviewed persons had a clear view about the speed of current change. The impact of international education and experience as well the realities of the unfamiliar environment are even higher as many changes are mandated by harmonizing ways of operation on EU level. Services as well move more than they used to. A Norwegian school in Lithuania with teaching in English by visiting international lecturers is an illustrating example.

The geographic location can be for its part a reason why own methods and a global view are emphasized more in Lithuania than in Estonia. A wider outlook helps to understand strengths of being different, although EU will unify ways of operation. One example is a quality assurance application which allows a client to monitor the progress of its project even on the other side of the globe. Already in use is a phone service to which citizens can report illegal work and hazy money transfers.

Bureaucracy in Lithuania is noticeably tighter than in Estonia and it shows for example in the number of required documents. On the other hand, the activity of labour unions is on a low level. Drinking alcohol during working hours is a major problem which is now tackled with tough measures. To prevent accidents the aim is zero tolerance but the problem remains that all responsibility is delegated down the chain to subcontractors.

In their interesting publication, Poland Transparent Business Feasibility Study, Matlevicius et al. (2015), appendix 1, discussed how difficult it is to change old traditions associated with grey economy without a strong commitment from society. They summarized the key requirements in the following way:

- Seeking to significantly decrease the scope of the shadow economy and move to transparent business one must change the society's attitude to it radically;
- it is not the politicians, business people and the media but also all the residents of the country without exception that must change their attitude to the shadow economy;
- one must understand that the archaic, old-fashioned, negative phenomena of the shadow economy unavoidably stops and will stop scientific and technical progress and the transition to the stage of creating the states of well-being, and it is only exponentially growing scientific and technical achievements that can provide such possibilities;
- therefore, the business community must understand its mission, which is to be the first to start making business more transparent and disseminating these ideas all over the state, and later in the region and all over the European Union.

This is a very good summary and it is clearly applicable quite universally to all countries and different businesses. A united strong will and transparency are the key elements. Clearly the tools and services that Tilaajavastuu is offering and developing further fit to this effort very well and can offer considerable help to all those in the construction industry who have the goal of winning the fight.

4.4 Overview of the Findings

As a general conclusion, it can be said that this research of the target market was carried out with good timing. The study serves the preparation of the strategy for Tilaajavastuu Ltd with the goal to map the commercial possibilities and capabilities primarily for the longer term or for a period of the next 5 to 10 years. On the other hand, just for this reason it is important to establish in appropriate time functioning relations with the most important potential cooperation partners.

Scandinavian countries and Finland are all receiving countries and similar also in terms of the development state of their domestic markets. In these countries, it is therefore possible to introduce common ideas without problems caused by cultural differences. If successful, the Scandinavian cooperation serves as a good reference for expanding the business. The study revealed, however that despite of many similarities there are also many differences in the national level legislation and processes and therefore it is always necessary to tailor the services case by case.

The Baltic countries are supplier countries whose interests and points of view are significantly different from those of the Nordic countries. However, a key positive observation was that transparency and reliability were already well known and improving their state was considered necessary as such and even unavoidable with time. In this context, it was still emphasized that enough time will be needed to be able to phase the process properly and to keep its advancement under control. The representatives of these countries generally also brought up their view that the market is still not ready for deployment of sophisticated systems.

The positive tone of the conversations in the Baltic countries was in any case a pleasant surprise. It is possible to talk about a phase if initial interest where silent signals are clearly to be sensed for those who can listen to them. Many interviewees thought that things “move with their own tempo” and they should not be pushed but at the same time people express willingness to cultivate long term cooperation – even this may be part of the culture. Culture may also be the reason why it was difficult for many to see the role of a company in the field of operation – between various authorities yes, but what is a company is needed for? Perhaps there is reason to state that the application of public-private cooperation has taken a long time in Finland as well.

In connection of the field study and the interviews, many themes and matters emerged also outside the actual research topic. Some of them can directly be used in development work and others may offer interesting cooperation possibilities for others in Finland. Because of good contacts and neutral content of the questions only two interview appointments were cancelled. The fact that people wanted to find time and sit down with a student was positive and motivating. All in all, the interview portion of the study succeeded over expectations although a breakthrough could not perhaps be found.

This field study and its results strengthen for their part cooperation between the countries and create favourable conditions for the development of commercial exchange. In the interviews, many such case related topics were also brought up which illustrated nicely situations and problems that are met in the daily life of the construction industry. In addition, examples were mentioned of country specific ways of operation and solutions of which both sides could learn from each other. In the following, some of these questions will be mentioned in short.

In the domestic Finnish market Tilaajavastuu is well known and respected. It has reached a position as the leading actor and its company name refers directly to the laws forming the basis of its operation. It is obvious that on discussion level it is yet worthwhile to tackle the question of the name of the company for a moment.

From a national point of view changing the company name doesn't seem attractive. However, in an international context the situation appears different. It would obviously be beneficial if the name of the company would in some way describe its business field in English. A proposal to what this name could be falls outside the scope of this thesis but it would be useful to consider the issue in connection of the preparation of the internationalization strategy.

There are examples where the market position, prominence and visibility have made it unnecessary to consider changing an originally Finnish language name (e.g. Kone, Vaisala – other than eliminating letter ä-dots). On the other hand, there are cases where the change hasn't taken hold so well and the old name has been taken in use instead again (e.g. Posti – Itella – Posti).

A possible solution addressing both needs could be to continue with the original and present name in the domestic market and consider the launching and adoption of a new name for the international business and the products and services being developed for its growth.

5 CONCLUSIONS AND DISCUSSION

This thesis study was a huge learning experience. In the beginning one addressed the work mostly as a technical proposition – let's find out about the situation and after that produce an analysis and the report. However, the interviews brought to this work a very new kind of interest. Through them it was possible to learn much more than what was strictly connected to the thesis.

The most basic question and finding relates to the existing cultural perception – are the rules required to guarantee fair play in the market seen as additional cost or as a set of tools to improve quality and competitiveness. Having the right mindset in business, it is possible to achieve better quality and competitive advantage and added value. Digitalization and ITC have brought new possibilities to solve problems that seemed to be unsolvable. With cooperation, transparency and ecosystem thinking it is possible to create a system for international trade in the construction sector where companies and people can find opportunities without the barriers that exist today. Collaborative and platform economies help the harmonization of current practises and support responsible procurement processes.

Should EU and local governments and authorities make legal decisions or could the market be proactive and reach the same goals or even surpass them? This is not a black-and-white situation. With the right balance of legislation, CSR and social partners the share of grey economy can be diminished. Then fair, responsible and transparent measures are easier to achieve. An ideal mixture could be found by increasing the proportion of proactive elements and by simplifying legislation. Public-private cooperation and networking are the key words for success. Building confidence and getting to be known through continuing work and lasting results is important especially for those who operate in a new and developing business.

One perhaps surprising but also encouraging finding was how much interest was found almost from all those who were contacted over the course of the study. One explanation for this may be that construction industry is in a big structural change almost everywhere. This brings new actors into the industry for whom it is not enough to follow the old guidebook and do things same as before. The positive development in Estonia, Latvia and Lithuania is encouraging even if it takes time before major change happens. Collaboration

and joint operations with Sweden support the Baltic Sea region goals and help with discussions in Norway and Denmark. Poland and Germany are more difficult but since digitalization and ITC services do not know national borders opportunities exist.

The set of Tilaajavastuu Ltd tools and governmental programs in Finland to combat the grey economy and promote responsible construction has proved to function well and are getting better with time. The biggest credit for this goes to the fact that the relevant authorities, employers' organizations and labour unions as well as major contractors and construction companies have decided to work for common goals and continuing development work.

During the thesis work a lot of effort was needed to learn and understand the rather complex environment that prevails overarching any single measure to improve responsibility, quality and transparency in construction business. Business, legal, social and other aspects had to be considered as comprehensively as possible to reach solid ground. Legislation and other preconditions are also changing continuously. Main findings evolved from the field study and field trip discussion. Through them it was possible to understand present state and prospect of the market. One process that became quite essential related to this study was MyData development project which can if successful change personal data management and processing approach thoroughly. The ideology behind MyData is significant as it is based on human-centric approach and thus contribute to enhance humanity, trust and responsibility.

There are potential suggestions and research topics that merit taking forward. Some of these are rather small and easy to tackle but others earn more comprehensive discussion. It is important to maintain and develop international collaboration and connections since the market potential in the Baltic Sea region is very promising. When markets mature it is well worth to establish connections rather much early than too late.

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APPENDICES

Appendix 1. Study of Developing Transparent Business in Poland

1 (7)

Matulevicius, Olenskij, Belkindas, Vebra and Matulevicius 2015. Poland Transparent Business Feasibility Study. Vilnius & Warsaw.

Preconditions

- ✓ An ever-greater part of society is beginning to understand that negative, illegal and non-transparent economic relations in the state create many interrelated problems
- ✓ The younger generation, which is coming to the labour market, does not want to work receiving their wage in envelopes and not be sure of receiving sickness benefits, or benefits in case of accidents, or a normal old-age pension
- ✓ The ruling social layer, which is losing its positions because corruption scandals ever more often, understands willy-nilly that the shadow economy does not only distort the economic – financial relations between business and the state – but also influences the economic abilities of the criminal world and increases social exclusion and social tension in the country
- ✓ The business elite, realizing the significance of science and technologies, begins to understand that business transparency is becoming one of the most essential constituent parts of progress
- ✓ Intellectuals of different social layers understand that with 4.0 industrial revolution going on and with creative society being formed, transparency of business and all interrelations overall, like fair, honest publicity (which is not distorted by scandals) is becoming the key to success

Analysing the development of transparent business and transparent relations in more detail, it is common not only in Poland but also in the western world that

- ✓ The deep-rooted old traditions, which are difficult to give up, hinder the development of positive changes towards transparency

(continues)

- ✓ Inertia of political institutions and unwillingness of bureaucratic organizations and even their silent boycott of the implementation of all kinds of innovations that can increase transparency of relations between politics and business, between business and society. For example, a passive, sometimes even criminally negligent unwillingness to digitize as many as possible procedures such as public procurements, different tenders announced by the government to digitize, to increase the possibilities of electronic cash operations, to equalize interaction between the digitized systems themselves, etc.
- ✓ “Engagement” of a large part of the media in publicizing cheap scandalous stories, and sometimes even making them up (seeking to do harm to a rival), a marked decrease in their intellectual level and an ever-spreading large scope of corruption, which is not analysed or publicized between the owners and employees of the media do not give them any desire to become actively involved in propagating and developing transparency ideas. Having in mind the impact of the mass media on the formation of public opinion, this is perhaps one of the most serious and complicated obstacles posed in the way of implementing transparent business ideas
- ✓ Unfortunately, a large part of business people understands their personal mission and the mission of their companies in a general economic and social process of the state in a rather narrow sense. The large part has still failed to understand that a striving for profit/benefit at any cost is already becoming the thing of the past and brings them closer to negative results in the near future

Practical actions

To create organizational, information, infrastructural and moral public organization, the Transparent Business (TB). To help the development of the transparent business idea with the major objectives of

- ✓ The activity, work and creative work of every citizen capable for this of the country must be based on moral, noble and high principles, which, it stands to reason, is quite natural and acceptable to the intelligent, wise and honest people. These principles should become the norm rather than an aspiration and should be of use to everyone
- ✓ To prove to the country’s society, the ruling and business elite that transparency in the relations of different social groups is beneficial to all

3 (7)

- ✓ The implementation of the transparency principle in business and life will solve a substantial number of maladies that torture a modern society, will reduce the criminal medium, corruption markedly and will improve interrelations, understanding and cooperation in society
- ✓ Business transparency will create preconditions for a wider use of creative powers of the employees, will create modern business model of a new type, which corresponds to the reality and will bring not only material wellbeing but also happiness that is common to all human beings
- ✓ The development of transparent business of a new type on the national scale will create the state of Wellbeing and will bring the communities closer to the economy of happiness

On the national level of Poland, the establishment of a non-profit Transparent Business ideas dissemination organization

- ✓ Following Lithuania's example, it is possible to establish a non-profit organization, the Institute of Transparent Business (TBI). It can be an agency or a monitoring centre
- ✓ The second possibility is to establish the Polish Transparent Business Monitoring Confederation (PTBMC)

The second variant is attractive but taking into consideration the realistically existing split of business organizations it becomes clear that this process would take a long time. It takes less time to implement the first variant and it can start work sooner and rather effectively. To strengthen the authority of TBI setting up the TBI Expert Council. It is made on the voluntary principle and it would consist of the representatives of the associated business organizations of Poland and famous business people in Poland, as well as the individuals of other specialties supporting the transparent business idea. Namely the Council of Experts will formulate and develop the strategy of TBI and will act as a Program instigator. All practical work will be done by the authorities of TBI, specialists and volunteers. This stage encompasses the creation of minimum material-technical facilities of the Institute, the selection of the minimum number of the employees, consultants and experts of the Institute, their hire and conclusion of employment contracts with them, as well as conclusion of other agreements.

Designing the Internet website of TBI which, apart from the information of general nature, will contain the following headings

- ✓ “Poland’ pillory” which would publicize the offenders, and representatives of non-transparent business
- ✓ “Poland’s honour” which would announce transparent, open business people and their enterprises
- ✓ Special programmes would be created in which TB citizens could inform about dishonest business, illegal employers or any other violations

Forming the staff of the Expert Council of TBI: selection of the representatives, coordination of the candidatures with the associated structures and the members themselves.

Working measures

- ✓ Preparation of the public sitting of the Expert Council of TBI: coordination of the date, the agenda and preparation and adjustment of draft documents, their advance sending to the members of the Expert Council of TBI
- ✓ Two parts of the sitting of the Expert Council are proposed. The first part of the sitting shall be held in the first half of the day and the second part of the sitting shall take place in the second half of the day
- ✓ The Transparent Business Idea is presented and TBI and TBI EC is created. This could be done in a larger conference hall with the representatives of TBI EC and business, as well as those of the representatives of the state’s politics and the public
- ✓ To invite people to take part in the meeting with the rights of guests and ask the Prime Minister of the Government of the Republic of Lithuania, other ministers, representatives of the Seimas, heads of the associated business structures, famous public figures to make welcoming speeches
- ✓ The Register of Transparent Business (RTB) is established and its functioning is maintained. This is the Register of the companies declaring and following methods of transparent business, recording their efforts and real activities in seeking to achieve the aims of the organisation

5 (7)

- ✓ It is expedient for TBI to prepare and sign bilateral agreements with the help of which it is possible to determine stable mutually beneficial relations and ways of exchanging information with the State Tax Inspectorate; the Social Payment Agency; the State Labour Inspectorate and other public authorities seeking to make relations between business and the state as transparent as possible and put forward proposals based on partnership
- ✓ TBI creates a standing expert-consultants group whose aim is to carry out monitoring of the companies included in TBI and to put forward reports of the Expert Council of TBI and proposals about how to eliminate the violations discovered to the Transparent Business authorities
- ✓ Prepares a plan and rallies financial and human resources for digitizing TBI and RTB and transfer to eTBI and its connection to the data basis of other institutions responsible for business transparency
- ✓ In cooperation with URBIS Union analyses the possibilities to create an electronic curriculum vitae of an employee and the establishment of the construction workers register. When this possibility arises, it rallies financial and intellectual resources to implement this objective
- ✓ The plan for publicizing the activities of TBI, preparing conferences, seminars and workshops, attracting volunteers and their training, as well as work with the media is designed
- ✓ Measures favourable to forming public opinion about transparent business and develop intolerance to the shadow business are discussed and provided for
- ✓ A specific sphere of TBI activity is created in cooperation with the scientific institutions to educate the youth
- ✓ In cooperation with the Polish schoolchildren self-government organizations, together with the Expert Council of TBI to discuss education and teaching peculiarities in preparing for working and doing business in a transparent way and honestly. With the help of this event, to contribute to the creation of the volunteer corps of transparent business
- ✓ Within the bounds of possibility, to initiate a special course in the educational institutions of Poland, a discipline on the perspectives of transparent business and its benefits to society

6 (7)

- ✓ Within the bounds of possibility to organize the opinion poll of the Polish public about its attitude to shadow business and the perspectives of transparent business. Having received the consolidated survey results to present them to the broad public
- ✓ In cooperation with the universities of Poland, the Polish Student Union to organize constantly operating, once per year the Round Table Discussion: We are Learning to Work transparently. Theory and Reality. To use this event to train supporters of transparent business and volunteers
- ✓ Together with territorial business self-government subdivisions, other organizations, administrations of Polish voivodstvos and municipalities, to organize meeting with the business community and the public in all municipalities of the country seeking to disseminate the objectives of TBI. Within the bounds of possibility to create TBI representations in the regions of Poland
- ✓ Using a special system to organize distance training for volunteers. To devise a special program and choose the lecturers

Poland's impact on promoting transparent business ideas on the international scale. Non-profit organizations of Poland, Lithuania, Latvia and Estonia are developing the project of Developing Transparent Business Ideas together

- ✓ Start consultations whose aim is to perceive and absorb practical experience of the Scandinavian countries in the sphere of business transparency
- ✓ With this end in view to organize a seminar – conference and invite Expert Councils of not only TBI institutions but also managers of associated business structures to take part in it
- ✓ Consultations are begun, and further project guidelines of coordinating the International Council of Transparent Business (ICTB). Material, intellectual, information, methodical and any other assistance is prepared and provided
- ✓ The project is begun to be prepared – these are all the initiatives of digitalizing, uniting the databases seeking to make use of the possibilities provided by IT
- ✓ A number of scientific – practical conferences about the economic harm done by non-transparent business and the benefits of TB initiatives are organised in the states, which are members of the organisation

7 (7)

- ✓ Poland, together with its neighbouring and Scandinavian countries, starts the activity seeking to develop the International project The Transparent Business Environment to the Baltic Sea Region. It provides for the possibilities and the implementation measures
- ✓ The international website SVI.com is designed
- ✓ Scientific research work about non-transparent business, illegal work, losses incurred by it (material and moral) is organised
- ✓ A broad educational campaign is prepared making use of the mass media, social networking, documentary films, visual agitation and all other possible measures
- ✓ A movement of volunteers acting in the sphere of TBI, their selection, training and use are organised
- ✓ After TBI has been established and started operating in Poland, Lithuania, Estonia and Latvia, with the participation of Sweden and Finland, to organize the international conference under the conditional title Possibilities to create the international project-initiative: The Transparent Business Environment to the Baltic Sea Region (the alternative Transparent Business is the Model of New Modern Business). To invite the representatives of the transparent business structures of the countries of the Baltic Sea Region and the representatives of the European Parliament and the European Commission to take part in the event

Appendix 2. Contractor's Obligations Act Information Sources

Country / Source	Prepayment Register, Employer Register and Value Added Tax Register	Trade Register	Amount of Tax Debt	Pension Insurance and Premiums	Collective Agreement	Occupational Health Care
Estonia	Maksu- ja Tolliamet, www.emta.ee	Registrite ja Infosüsteemide Keskus (RIK), www.rik.ee	Maksu- ja Tolliamet, www.emta.ee	Sotsiaalkindlustusamet (A1/E101), www.sotsiaalkindlustusamet.ee	Contracting partner statement	Maksu- ja Tolliamet, www.emta.ee
Latvia	Valsts ieņēmumu dienests (VID), www.vid.gov.lv	Latvijas Republikas Uzņēmumu reģistrs, www.ur.gov.lv	Valsts ieņēmumu dienests (VID), www.vid.gov.lv	Valsts sociālās apdrošināšanas aģentūra (VSA), www.vsa.lv	Contracting partner statement	Valsts ieņēmumu dienests (VID), www.vid.gov.lv
Lithuania	vaistyne mokesciu inspekcija prie Lietuvos Respublikos finansu ministerijos (VMI), www.vmi.lt	Juridinių asmenų registras, www.registrucentras.lt	vaistyne mokesciu inspekcija prie Lietuvos Respublikos finansu ministerijos (VMI), www.vmi.lt	Valstybinio socialinio draudimo fondo valdybos (A1/E101), www.sodra.lt	Contracting partner statement	vaistyne mokesciu inspekcija prie Lietuvos Respublikos finansu ministerijos (VMI), www.vmi.lt
Poland	Urząd Skarbowy (US), www.urzad-skarbowy.pl	Główny Urząd Statystyczny (GUS), www.stat.gov.pl	Urząd Skarbowy (US), www.urzad-skarbowy.pl	Zakład Ubezpieczeń Społecznych (ZUS), www.zus.pl	Contracting partner statement	Urząd Skarbowy (US), www.urzad-skarbowy.pl
Sweden	Skatteverket, www.skatteverket.se	Bolagsverket, www.bolagsverket.se	Skatteverket, www.skatteverket.se	Pensionsmyndigheten, www.pensionsmyndigheten.se	Contracting partner statement	Skatteverket, www.skatteverket.se
Norway	Skatteetaten, www.skatteetaten.no	Enhetsregisteret, www.altinn.no	Skatteetaten, www.skatteetaten.no	Arbeids- og velferdsetaten (NAV), www.regjeringen.no	Contracting partner statement	Skatteetaten, www.skatteetaten.no
Germany	Finanzverwaltung, www.finanzverwaltung.nrw.de	Handelsregister, www.handelsregister.de	Finanzverwaltung, www.finanzverwaltung.nrw.de	Deutsche Rentenversicherung, www.deutsche-rentenversicherung.de	Contracting partner statement	Finanzverwaltung, www.finanzverwaltung.nrw.de