

Staffing Services in Recession and Recovery

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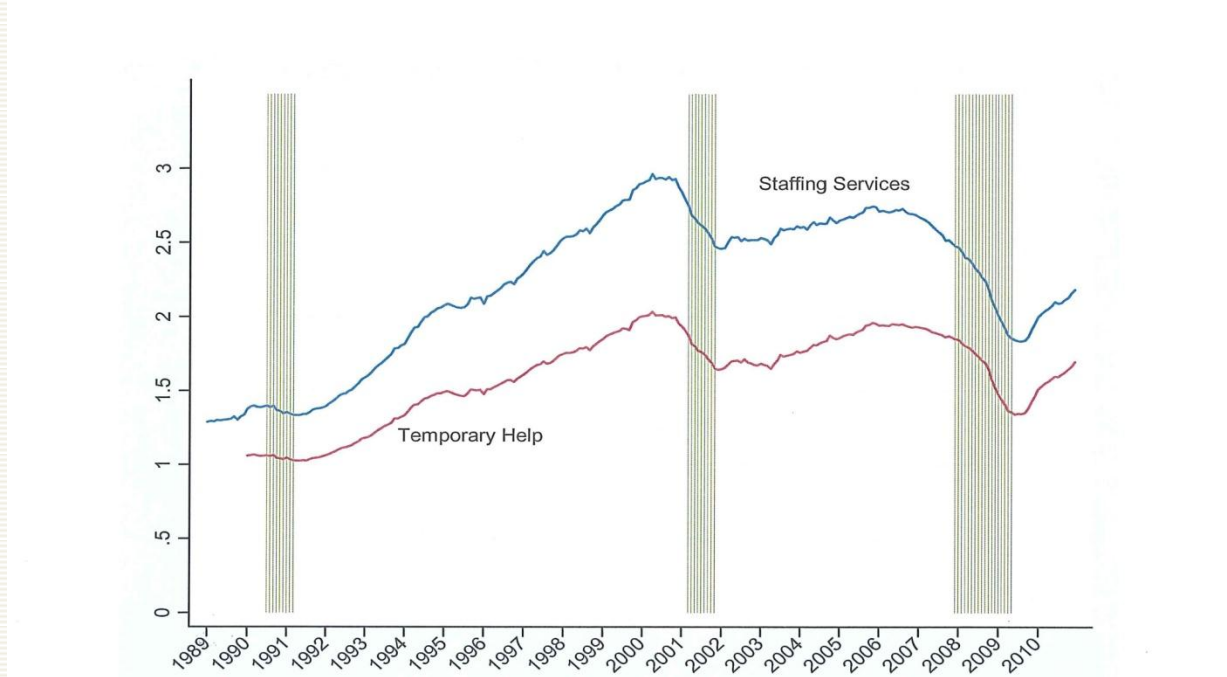
Staffing Services in U.S.

- **Staffing services one type of flexible employment—other types include employees of contract companies and independent contractors (self-employed)**
- **Why focus on staffing industry?**
 - Numerically important—account for 2-3% of average daily payroll employment
 - Only type flexible staffing for which good data exist in US
- **Staffing services comprised of 3 industries:**
 - Temporary help: 77% in 2010
 - Professional employer organizations (PEOs): 15 % in 2010
 - Employment placement agencies: 9 % in 2010
- **Workers in temporary help agencies and PEOs perform work for client companies at clients' workplace.**

Overview

- Evolution of staffing industry in the United States
- Why employers use staffing agencies
- Implications for workers
- Role of staffing agencies in recovery

Staffing Services and Temporary Help as Percent of US Nonfarm Employment, 1989-2009

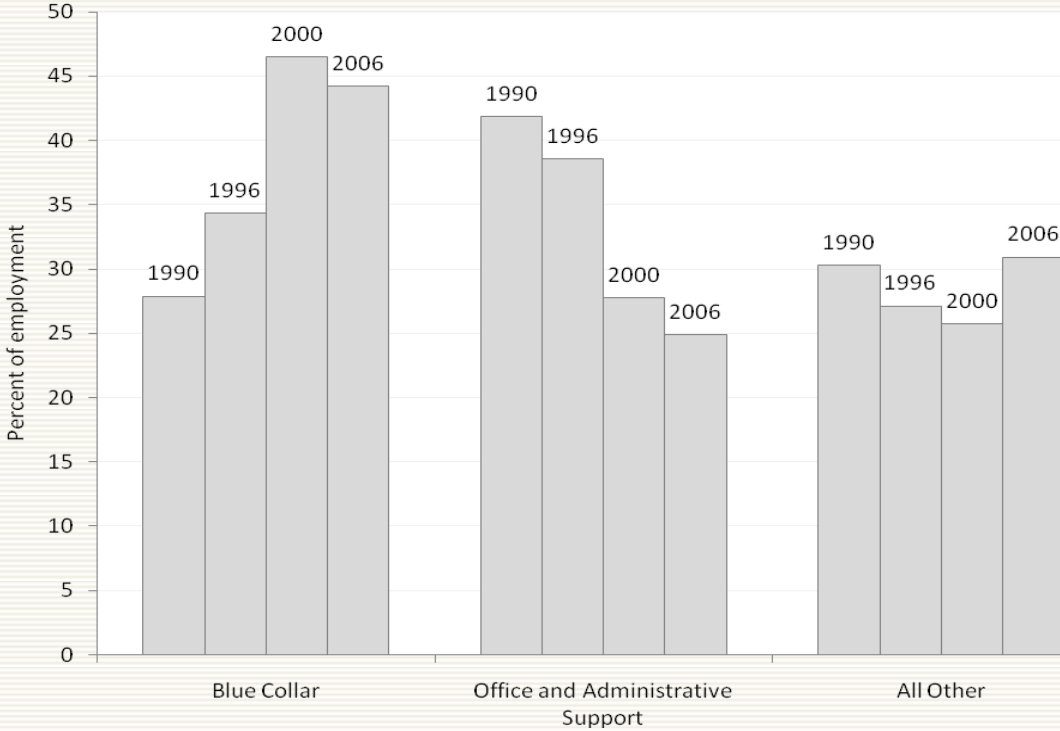


- Staffing services expanded dramatically in 1990s—accounted for 1 in 10 net new jobs in that decade—stagnated in 2000s
- In recessions, absorbed disproportionate amount of job loss, esp. 2000s:
 - 1990-91, staffing services declined by 3.1%, accounted for 4% aggregate decline in employment
 - 2000-2002, staffing services declined by 15%, accounted for 40% of aggregate decline in employment
 - 2007-09, staffing services declined by 30%, accounted for 16% aggregate decline employment.

Manufacturers' Outsourcing to Staffing Services

- **Staffing services industry something of a “black box.”**
 - Most employees assigned to jobs in other industries, but no systematic data on where they work.
 - US doesn't have good time series data on employment by occupations (just employment by industries)
- **In “Manufacturers' Outsourcing to Staffing Services” with Matt Dey & Anne Polivka (BLS), we**
 - Construct time series data on occupations by industry from Occupational Employment Statistics (OES) program—allows us to see how occupational structure of staffing services changing
 - Use these data in conjunction with 5 waves from Contingent Worker Supplement to the CPS to map staffing services employment by occupation into user industry. Allows us to see which industries using staffing services.
 - Document dramatic growth in US manufacturers' use of staffing services in last 20 years. Examine effects on measurement of productivity & employment volatility.

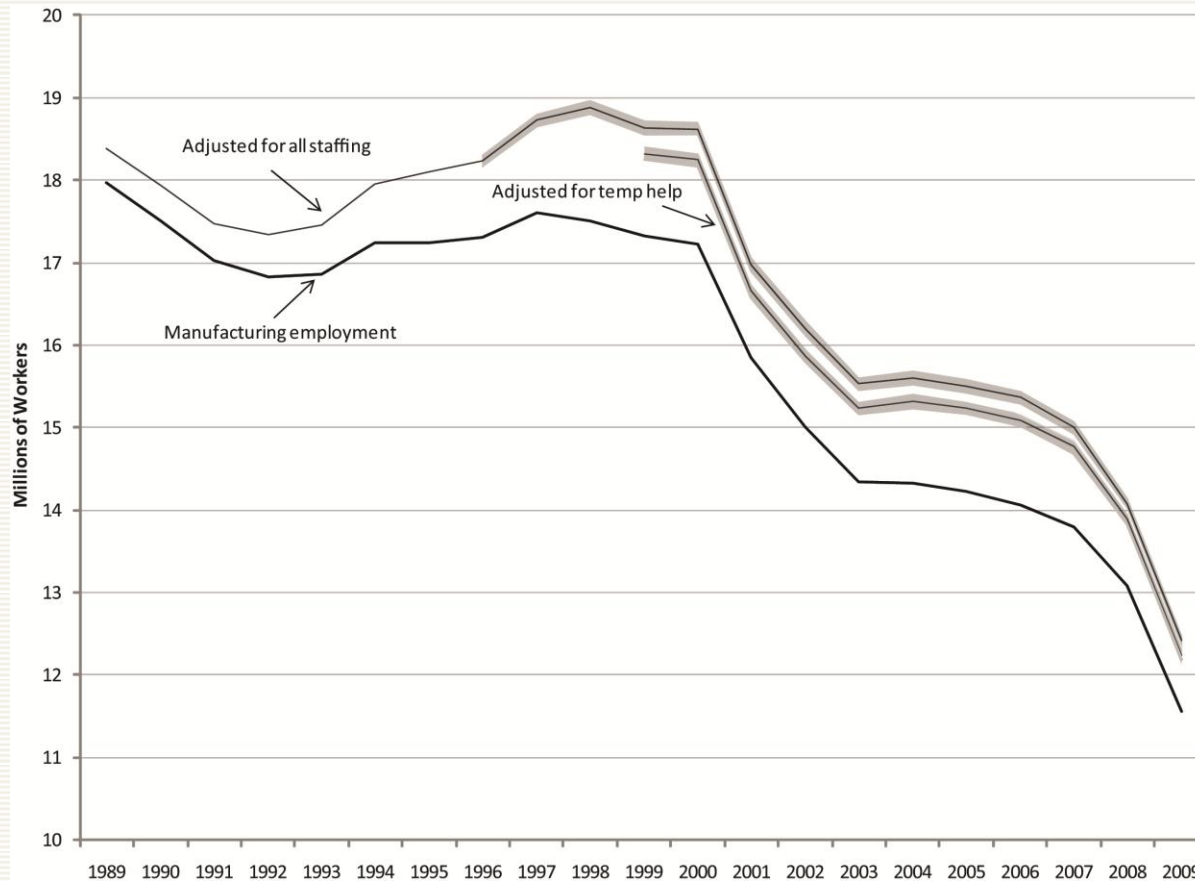
Growth of staffing services in 1990s associated with change in relative importance of blue-collar & clerical occupations.



Share of Employment in Staffing Services, Selected Occupations (percent)

	1989	1996	2000	2001	2006	2009
Production	0.9	3.6	6.1	3.9	6.1	4.7
		(0.05)	(0.06)	(0.05)	(0.09)	(0.10)
Helpers, laborers, hand material movers	6.4	9.5	15.6	19.0	16.8	14.1
		(0.15)	(0.21)	(0.16)	(0.20)	(0.24)
Office and administrative support	3.1	4.9	4.7	3.3	4.1	2.6
		(0.04)	(0.05)	(0.04)	(0.04)	(0.04)
All occupations	1.5	2.3	2.9	2.5	2.7	2.0

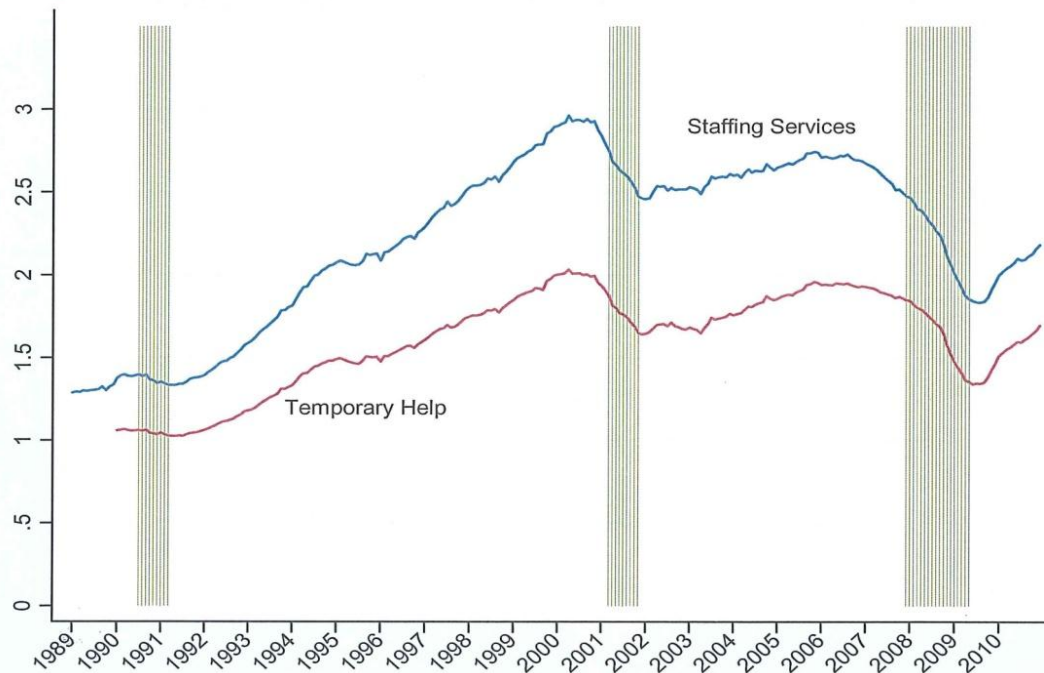
Manufacturing Employment, Unadjusted and Adjusted for Staffing Services



- In 1990s, staffing services added ≈ 1 million workers to mfg. Measured mfg. employment fell by 4% in 1990s, with staffing services workers, employment actually rose by 1.3%.
- In 2000's, mfg. employment fell dramatically; staffing services as share of mfg. employment grew.

Staffing Services as a % of Manufacturing Employees by Selected Occupation

	1989	1996	2000	2001	2006	2009
Production	1.0	4.2	6.9	4.8	7.2	5.6
Helpers, laborers, hand material movers	9.0	16.2	33.0	33.9	35.0	28.9
Office & administrative support	6.3	14.2	14.8	11.6	13.4	9.6
All Occupations	2.3	5.4	8.2	7.0	9.2	7.5



- Growth manufacturers' outsourcing to staffing services helps explain
 - Growth staffing services in 1990s
 - Stagnation of staffing services in 2000s
 - Greater cyclical volatility of staffing services in 2000

•“In US manufacturing, 1990s was all about outsourcing; 2000s was all about offshoring.”

Why Employers Use Staffing Services

- **Growth staffing services in manufacturing and other sectors raises questions as to why employers using these 3rd party intermediaries.**
 - Why rapid growth staffing services in 1990s in US?
 - Why staffing services concentrated in certain occupations (and by implication certain industries)?
 - We assume employers use staffing services because it is cost-effective for them to do so—but exactly how does staffing services lower labor costs, and does this differ across types of workers?

Main Reasons Enumerated in Literature

- **Use to accommodate fluctuations in demand for labor (e.g. seasonal, cyclical, special projects)**
 - Our data and other studies clearly show staffing services workers bear brunt of job loss in recessions, job growth in recoveries in US
 - Esp. in Europe, companies use to avoid firing costs. Deregulation EPLs in Europe since 1980s primarily involved relaxation of restrictions on use of fixed-term contracts & temp help, → growth.
 - Staffing agencies also may enjoy economies of scale or other comparative advantage in supplying short-term staffing needs.
- **Screen workers for permanent positions**
 - Why do companies use staffing agencies during probationary period?
- **Save on wage and/or benefits costs**
 - What exactly is the regulatory or human resource mechanism by which employers may save on wage and benefits costs?
- **Reasons may not be mutually exclusive**
 - e.g. company may hire temp workers during probationary period in order to save on labor compensation, delay provision of benefits

Using Staffing Services to Screen Workers for Hire

Evidence from large temporary help firm on its North American placements:

Outcomes of individuals receiving temp assignment,
selected occupations, 2007-2009

	Performance problems			Employee initiated termination	Other
	Hired	Hard skills	Soft skills		
Manufacturing	10.0	8.5	23.7	19.8	38.1
Office	16.9	6.2	9.2	17.8	50.0
All occupations	12.4	6.9	16.0	17.8	46.9

Hiring rates only slightly higher in 2007 (pre-recession) than subsequently.

Temp-to-Hire Contracts

- 5-6% people in temp help firm 2007-2009 on “temp-to-hire” contracts

Outcomes of Individuals with Temp-to-Hire Contracts

Performance problems

	Hired	Hard skills	Soft skills	Employee initiated termination	Business reason	Other
Manufacturing	27.8	10.0	28.8	20.4	3.3	9.7
Office	45.3	8.7	9.9	17.9	1.9	16.3
All occupations	35.4	9.4	20.9	19.9	2.9	11.5

- Majority not hired—performance problems, especially on “soft skills,” impediment to securing job
- Why do organizations use temp help firms to screen job candidates?
 - Temp agencies may enjoy comparative advantage in screening
 - Large number of “other” reasons suggests firms may often reject job candidates whose performance less than stellar
 - Save on wage & benefits costs during probationary period

Using Staffing Services to Save on Wage and Benefits Costs

- **Benefits costs: In US may be legally difficult to offer benefits to one group of employees, but not to another**
 - Substitute teachers & benefits costs savings
 - Parallels broader use of contract workers in US
- **Wage costs: Establish 2-tiered wage systems**
 - Hiring lower paid workers through 3rd party intermediary may mitigate morale problems
 - Evidence on wage differentials mixed: hourly wages slightly lower or about the same as comparable direct-hire workers, on average (Segal and Sullivan 1997, Hamersma and Heinrich 2010, Autor and Houseman 2010)
 - Some temp workers earn significantly more (e.g. some professionals in high demand/short supply) and some less, (e.g. blue-collar) (Houseman, Kalleberg and Erickcek 2003).
- **Survey & case study evidence suggests savings on compensation can be important:**
 - E.g., Auto supplier saved \$1 million per year for every 5 percentage point increase in temp help production workers (Houseman 2001; Houseman, Kalleberg, & Erickcek 2003)

Suggestive evidence of wage cost savings

- Using micro data for large staffing firm, find some evidence of employer use to save on wage costs in manual occupations.
- Nationally, ratio of temp wage to mean wage for production assembly workers higher than almost any other occupation
 - Growth of staffing services employment in 1990s driven to large degree (25%) by growth in production occupations.
- Within detailed occupations across state/metro areas, large significant association between temp-prevailing wage differentials and use of temp services, controlling for overall employment in the occupation for leading production & material moving occupations
 - Especially strong association for production workers and in pre-recession years (2007 and 2008)

Long duration of many staffing assignments consistent with a wage or benefits cost-savings story

Distribution of Orders and Hours Paid by Assignment Length in Days (percent)

	< 30	30-90	90-180	180-360	360+
By order	80.2	10.0	5.3	2.8	1.7
w/o teachers	58.2	20.2	11.5	6.4	3.8
By hours paid	11.2	17.6	23.4	22.9	25.0
w/o teachers	7.9	18.0	24.2	23.9	26.0

- 80% of orders last less than one month.
- But almost half of all hours paid are from orders lasting more than 6 months.
- A quarter of hours paid come from orders lasting over 1 year.
- Pattern holds for all occupations, except substitute teachers.

Implications for Workers: Wages, Benefits, Job Security

- **Wages**
 - Evidence mixed, but on average lower
- **Benefits**
 - Significantly less likely than regular direct-hire employees to receive health insurance or retirement benefits from employer (temporary help agency)
- **Job security**
 - Jobs typically short-lived
 - Temp help workers bear a disproportionate share of adjustment during downturns

Are Temporary Help Jobs Stepping Stones to Permanent Employment?

- **Does Temp Employment Help Low-Skilled Workers Advance?**
 - Temp help not “great” jobs—lower job security, benefits, and often wages
 - Majority of workers on temporary contracts are looking for permanent employment (OECD 2003)
 - Because temp agency positions typically short-term, more relevant question is the effect on workers’ labor market trajectories.
- **The causal question:**
 - Do temporary help assignments facilitate transitions to permanent work? Do workers with temp assignment than do better than could on own?
- **Two views:**
 - Augmenting job search: ‘Stepping stone’: Temporary help jobs connect low-skilled workers with potential employers, build skills, and gain work experience.
 - Prolonging instability: ‘Stumbling blocks’: Offer few chances for advancement or skills development. May crowd out productive job search, hamper long-term advancement.

Little Evidence of a Stepping Stone Function

- **Difficult to answer the causal question**
 - Hard to distinguish consequences of taking a given job type from the factors that cause person to take that job initially, e.g., skills, motivation, life circumstances
 - Descriptive evidence shows that individuals initially in temp jobs more likely to transition to permanent jobs than those unemployed initially—doesn't mean temp job helped them obtain permanent assignment.
- **Having credible way to control for selection critical for establishing causality**
 - Autor and Houseman (2010): Use quasi-experimental study design with welfare-to-work program in US. Find no evidence of stepping stone function.
 - Kvasnika (2007): Uses detailed matching temp to non-temp workers to argue no stepping stone function for temp agencies in Germany.
 - Unemployed workers may benefit from employment with temp agencies?

Role in Recovery: Do Temporary Help Agencies Raise Aggregate Employment?

- **Confluence of factors → large influx workers into world economy**
 - Rapid pace of technology;
 - Political and economic reforms in former Soviet bloc, China, other countries;
 - Liberalization of trade
- **Advanced countries experiencing high unemployment, low labor force participation, slow growth → Severe downward pressure on labor costs**
- **Labor costs, including labor compensation, may need to fall to mitigate unemployment—temporary help agencies and other forms of flexible labor may be a mechanism for reducing labor costs:**
 - Increasing efficient allocation of labor
 - Lowering wages, benefits
 - Shifting economic risk onto workers

A Role in Recovery?

- **Case of Japan**
 - Stagnant economy since 1990s
 - Dramatic growth various types of flexible labor, including temp help and part-time employment—accounted for much of increase in employment
- **Case of American auto industry**
 - American companies under intense global pressure—Two companies saved through government. bailout.
 - Companies & unions negotiated 2-tiered wage systems
 - But, companies have used temp help agencies & other forms of contract labor to implement 2-tiered wage systems in industry for many years.
 - Is alternative offshoring—loss of jobs?