

The Strategic Use of Temporary Agency Work (TAW)

Functional Change of a Non-standard Form of Employment

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My points

- it is a subject and kind of labor force management that cannot be considered in internal or external labor market,
- or insider or outsider dualizations, because it employers use this kind of employment relationship to exempt themselves
- from paying the costs of firing fixed term workers (that is a high cost for them) and also to reduce their costs and it is not like outsider labor force that is not protected by labor law and social welfare programs at all ... so it is a kind of in between those dual divides and it is a new kind of solution that employers has adopted to reduce their costs

Temporary agency work (TAW)

- Temporary agency work (TAW) has experienced a dramatic development in **Germany** over the last economic cycle.
- **First**, no other industry experienced comparable **job growth** during the boom between 2005 and 2008. The number of workers employed by agencies **more than doubled** to over 800.000 on the eve of the current crisis

- Manpower, Adecco and randstad, all international players, were the three largest growing employers in Germany both in 2006 and in 2007, which reflects client firms' increasing reluctance to directly hire workers covered by statutory dismissal protection.
- **Second**, in the same way the industry benefited from the boom years, it was subsequently hit hard by the economic crisis following the breakdown of the Lehman Brothers Bank in September 2008.
- Between 2008 and 2009, the number of temporary agency workers **decreased** by more than 300.000. Client firms particularly in the manufacturing sector retained their core workforces but laid off a huge number of their so called "**temps**".

- Together, these two developments:
 - the enormous expansion during the boom and
 - the rapid contraction in the crisis,
- demonstrate the TAW-sector's increasing responsiveness to the economic cycle, and moves the German sector closer to its counterpart in the US

- The sector's close link to the economic cycle is a **direct consequence of the reform of its regulatory framework in 2003**. Compared to the Anglo-Saxon countries, **Germany** was traditionally characterized by a **rather rigid regulation of TAW**. In order to protect the **standard form of employment (standard employment relationship (SER))**, regulation constrained agencies' arbitrariness as employers and restricted client firms' use of TAW.
- In its initial version from 1972, the Labour Placement Act limited the period a worker could be hired out to a client firm to **three months**, and **prohibited the use of fixed-term contracts by agencies**

- Despite numerous reforms, the maximum period of assignment and the restrictions on fixed-term contracts remained corner-stones of the German regulation until the end of the millennium.
- However, following a period of intensive lobbying by international agencies as well as powerful German business interests, **the TAW-sector was deregulated in 2003.**
- The **maximum-period of work assignments** and the **remaining restrictions of the use of fixed-term contracts** **were removed**. The reform enforced by the red-green government moved regulation in Germany closer to the traditionally liberal models in the Anglo-Saxon countries

Difference of TAW with traditional assignments

- BMW-plant in Leipzig being the most prominent example, used the **deregulation** to alter their deployment of this **non-standard form of employment**
- The assignments of temporary agency workers in these client firms differ both in **quantity** and in **quality** from traditional assignments
 - **First**, temporary agency workers' share of the client firm's workforce is comparatively high; **thirty percent** of workers in the BMW-plant are far from an exception
 - **Second**, and even more important, temporary agency workers constitute a **quasi-permanent component** of the client firm's workforce. They work side by side with the regular workers employed by the client firm, and both groups mainly perform the same tasks

Are they **peripheral** workforce ? (core & periphery)

- Thus, in contrast to the classical picture of the “**flexible firm**” (Atkinson 1984), contingent workers do not form a peripheral workforce in its narrow definition. Both groups of workers are highly interwoven in the labor process, despite the remaining **status differences**.

- Underlying this new form of assignment is a functional change of TAW closely associated with the **shift to financial market capitalism**.
- This implies a move, from an instrument used mainly reactively to adjust the workforce to short-term swings in work-load, to an instrument of strategic corporate governance.
- By employing a certain share of their permanent workforce **through agencies**, client firms bypass statutory dismissal protection and binding collective agreements in order to establish a “security net” for their short-term profits or rate of return.

Maximizing shareholder value

- Thus, the strategic use of TAW is particularly attractive for a management primarily oriented to the firm's or **corporation's shareholder value**. Permanently maximizing short term profits is one of the basic features of the increasing capital market orientation within corporate governance

beyond the level of corporate governance

- However, the link between the strategic use of TAW and financial market capitalism goes beyond the level of corporate governance.
- The radical deregulation of TAW in 2003 is more or less a direct expression of the general shift in capitalism from post-war Fordist capitalism to financial market capitalism. While the post-war economic success of the Western countries rested to a certain degree on the decommodification of labour, the new economic regime increases market pressures and is thus based on recommodification

Paper's goal

- While the strategic use of TAW and its close link to capital-market oriented forms of corporate governance has been described by business observers and scientists; neither the enforcement of the **changed function of TAW within highly decentralized client firm organizations**, nor **its implications for work and labor relations** have yet been analyzed in detail
- This paper attempts to fill this gap.

- Using evidence from a research project conducted at the University of [Jena, Germany](#), the article explores the consequences of client firm's strategic use of TAW on work and labour relations.

TAW's impact on regular employees & labor relations

- Central management's interest in **stable profits** as independent from market swings as possible might be taken for granted, but the implications for local management and supervisors responsible for production output are not all self-evident.
- A further concern is the impact of the quasi-permanent use of TAW on client firms' regular employees and labour relations. As an employment relation, temporary agency work is associated with a high risk of **precariousness**

In between position of TAW + controlling effect of TAW

- Temporary agency workers occupy an in-between position as they reside inside of the client firm and the external labour market.
- Taken together, the hope to return to regular employment and constant threats of being send back to the agency, have a **disciplining effect** on the temporary agency workers' work behavior.
- Due to rigid regulation, German client firms in the past only used temporary agency workers for short time spans (Noller et al. 2004). But what are the consequences of the long-term, quasi-permanent assignment of precarious workers in the core of client firms? (**exaggerating**)
- Next section of paper: a brief description of the regulatory framework of the TAW-sector in Germany, with a focus on its deregulation in the 2000s

Structure of the paper

- In order to facilitate a systematic analysis of the enforcement of the strategic use of TAW, an ideal-type typology of client firms' deployment is presented.
- The strategic use of TAW is distinguished from two classical forms of client firm's deployment of TAW, namely the **ad-hoc assignment** and the **flexibility buffer** (3). Next is a brief presentation of the research project whose results are discussed in this paper (4). Using two contrasting case studies the consequences for work and labor relations are outlined. The first case, Extruco represents the use of TAW as a flexibility buffer to cope with a short-term peak in workload (5), while the second firm, TransCo, uses TAW strategically (6). The paper will conclude with a summary and a brief outlook into the next economic cycle (7).

a brief discussion of the development of TAW's regulatory framework

- In the direct post-war period, **TAW was banned in Germany**. Hiring out labour to obtain profits **was considered incompatible with the de-commodification of labor** ingrained in the rising Fordist welfare state.
- **Not until 1972 was TAW legalized. However, legalization was not tantamount to liberalization.** Based on a broad political consensus, the standard employment relationship (**SER**) became **the point of reference for the regulation of TAW in Germany**.
- The aim of the Labour Placement Act was to serve German firms growing demands for **flexible labour** without allowing for renting out workers for the generation of profits

- **First**, differing from the UK and the US situation, **German agencies were forced to respect full employer obligations**, such as **statutory dismissal protection, safety provisions at work and workers' co-determination rights**. Furthermore, the use of temporary contracts by agencies was restricted.
- **Second**, client firms' use of temporary agency workers was constrained by the introduction of a maximum period of assignment. In sum, the regulation of TAW in Germany reflected the de-commodification of labour characteristic for the Continental and Northern European welfare states under conditions of Fordist capitalism

- In **2003**, however, the traditional path of moving TAW as close as possible to the standard employment relationship by way of a rigid regulation was **abandoned**.
- In the context of the far-ranging deregulation of the German labour market based on the recommendations of an independent expert commission led by **Peter Hartz**, a former manager of Volkswagen, the TAW-sector was almost completely liberalized. Both the restrictions on the use of temporary contracts by agencies and the limitations on the period of assignment in client firms were abolished

Did liberalization help improve TAW workers' situation?

- The high share of short-term contracts, less than fifty percent of all employment contracts in the TAW-sector **lasted more than three months** indicates that agencies intensively use the new opportunities to **externalize market risks**.
- Equally manifest are the consequences of the abolishment of the maximum period of assignment. **Client firms can now assign jobs permanently to temporary agency workers.** Thus, **the reform opened the way for importing staffing strategies to Germany** formerly only common in countries characterized by a low level of statutory dismissal protection, **such as the UK or the US**

German regulation “role model” for European regulation

- Furthermore, German regulation can be considered as an **implicit “role model”** for European regulation, since **exemptions to equal treatment are allowed**, either by means of a collective agreement for the TWA-sector or social partner consultation at national level (EU 2008). Thus both, German and European regulation, formally prescribe equal treatment but contain several **loopholes** client firms can use to discriminate against temporary agency workers.

- The fact that the reform in 2003 represented a radical path shift from the traditionally rigid regulation protecting the SER to a liberal model resembling regulation in the Anglo-Saxon countries raises the question of political reason.
- Why did the red-green government deregulate the TAW-sector in such an encompassing way?

- Besides conceding to ever-stronger lobbying activities by business representatives the reform was fuelled by two, at least partially, contradictory goals. The government aimed both at **improving the general performance** of the German labour market and at **increasing the competitiveness** of German firms.

- In the field of labour market policy, TAW in its **deregulated version** **should help to reintegrate groups into the labour market** particularly affected by high unemployment such as **young, long-term and low-skilled unemployed**.
- In the eyes of the commission, experience as a “temp” would **increase the employability** of the unemployed and thus constitute a bridge into regular employment. In the field of economic policy, TAW in its deregulated version should “neutralize” the statutory dismissal protection and thereby increase the competitiveness of German firms on international markets.
- Even though empirical evidence indicates that “temping” does not increase one’s labour market chances, as we will see, both objectives still shape the regulatory framework of the German TAW-sector.

- The **quantitative** development of the German TAW-sector following the reform was quite remarkable.
- Although overall employment was still declining, the number of temporary agency workers started to increase immediately after the reform, from 320.000 in 2003 to almost half a million in 2005

- The development in the following boom years was equally impressive. In 2006, the first year of growing employment figures, more than 50 percent of the newly established jobs in Germany occurred in the TAW-sector.
- Many firms were reluctant to expand their workforces and thus **used TAW to build up flexible workforces**. Although the share of overall employment declined in 2007 and 2008, temporary work agencies remained a locus of job growth. No other industry experienced a similar job growth. Until mid-2008 the number of temporary agency workers raised to 800.000
- However, in almost the same manner as the sector benefited from the boom, it was hit by the current economic crisis. Within a few months, employment numbers fell by 300.000. Client firms, particularly from the manufacturing sector, used state subsidies for short-time work to protect their permanent workers while laying off large numbers of temporary agency workers.

Temporary agency work in client firms – a typology

- For client firms TAW is an instrument of external flexibilization.
- However, client firms pursue very different goals by reverting to TAW, and deploy temporary agency workers in very different ways
- A systematic analysis of the different motives of client firms and their impact on work and labour relations is still lacking.

Three types of client firm's utilization of TAW

- Ad-hoc-assignment, flexibility buffer and strategic use.
- The ad-hoc-assignment and the flexibility buffer represent traditional ways to use TAW.
- The strategic use is new and a direct impact of the reform of 2003.
- Two dimensions are distinguished: the *function* of TAW as an instrument of flexibilization, and the *form* of the assignment of temporary agency workers in the client firms. The function of TAW represents the key difference between the 3 types, and refers to the objectives of a client firm's utilization of TAW as an instrument of flexibilization. The form of assignment describes the positioning and use of temporary agency workers in the client firm's labour process.

Table 1: A typology of client firms' deployment of TAW

	Type 1 Ad-hoc Assignment	Type 2 Flexibility buffer	Type 3 Strategic Use of TAW
<i>Function of TAW as an instrument of flexibilization</i>			
Flexibility	substitution of absent staff	increase of workload	"security net" for profits
Cost reduction	search and hiring costs (wages)	search and hiring costs (wages)	lay off costs (wages)
<i>Form of work assignment in client firm</i>			
Intensity	minimal	medium to high (>5%)	medium to high(>5%)
Scope	punctual	limited to fringes	encompassing
Duration	temporary	temporary	permanent
Relationship regular staff – agency workers in labor process	punctual interactions	segmentation	Interwoven

Peculiarities (1)

- The three ideal-types are not mutually exclusive.
- The ad-hoc assignment is frequently combined with the other utilization types.
- In almost all client firms strategically deploying TAW there temporary agency workers whose assignment had the function of a flexibility buffer.
- In each client firm there appears to be a dominant utilization mode shaping the positions occupied by temporary agency workers.

Peculiarities (2)

- The principle “form follows function”
- Shop floor supervisors play a key role in translating the function of TAW into the form of assignment.
- Of the client firms, not one of the management teams exercised any influence on job assignments.
- Supervisors responsible for production output determine which positions workers took, regardless of whether they were the client firm’s regular employees or workers employed by work agencies.

The project – the strategic use of temporary agency work in the German metalworking sector (2007-2008)

- Case selection based on the topic of the project: the functional change of TAW
- Targeted companies with strategic use of TAW
- 12 company case studies
 - 6 were analyzed in detail by interviewing regular workers (RW), temporary agency workers (TAW), supervisors (SV), managers and works councils (WC)
 - union and agency representatives were interviewed as well, leading to a total number of interviews of 83

Table 2: The intensive case studies

Case	Sector	Workforce	Share of TAWs	Utilization Type	Interviews
ExtruCo	Mechanical engineering	850	9%	Flexibility Buffer	1 HR, 2 WC, 2 SV, 4 TAW, 4 RW
	Electrical engineering	220	15%	Strategic Use	1 HR, 1 WC, 1 SV, 4 TAW, 4 RW
TransCo	Mechanical engineering	660	18%	Strategic Use	1 HR, 1 WC, 2 SV, 4 TAW, 4 RW
	Electrical interconnections	950	21%	Strategic Use	1 PA, 1 BR, 3 SV, 4 LA, 4 RW
	Car maker	30.000	5%	Strategic Use	1 BR, 2 SV, 4 LA, 4 RW
	Automotive supplier	230	30%	Strategic Use	1 PA, 1 BR, 2 SV, 4 LA, 4 RW

ExtruCo case

Temporary agency work as a flexibility buffer – the divided workforce (1)

- The deployment of TAW as a flexibility buffer
- A machine building company specializing in the production of large machinery for the chemical and plastic industry
- The plant is the original location of a family-owned business that had a long tradition in machine building, but for more than a decade it belongs to an international corporation owned by shifting investment funds.

Temporary agency work as a flexibility buffer – the divided workforce (2)

- During this time the workforce has been reduced to a minimum of 650 after the turn of the century.
- In 2006-2007, workforce was expanded through the recruitment of more than 100 new regular employees.
- 50 temporary agency workers were hired through various agencies and brought into the firm. However, they were laid off in the course of the current crisis.

Temporary agency work as a flexibility buffer – the divided workforce (2)

- At the end of 2009 only a handful of temporary agency workers were still present in the plant.
- The majority of the workforce including the former temporary agency workers consisted of skilled workers, most of them trained in the company.
- Production is dependent not only on formal qualifications, but also on workers' experience and tacit knowledge.

Temporary agency work as a flexibility buffer – flexibilization as a response to shop floor problems (1)

- Extruco used TAW to cope with the shifting order volume during the boom years. Due to the firm's dependence on large and long-term construction projects, the future development of the firm's key markets was, and still is, more or less predictable. Expecting a sharp decrease of demand after the boom years, the firm switched to recruiting temporary agency workers instead of regular employees.

Temporary agency work as a flexibility buffer – flexibilization as a response to shop floor problems (2)

- Due to the frequently shifting workload resulting from the customer-oriented production process the number of temporary agency workers employed varied frequently even during the boom years.
- Temporary agency workers were constantly recruited and laid off to adjust the firm's monthly workload.
- The management of the external relationship with the agencies became an important focus of local HR-department.

Temporary agency work as a flexibility buffer – flexibilization as a response to shop floor problems (3)

- The form of work assignment was characterized by a deep segmentation of the workforce in the labour process.
- Management did not exercise any considerable influence on the division of work within the departments. The decisions underlying the placement of workers, whether they were hired directly or through temporary work agencies, were made exclusively by the supervisors responsible for production. They decided which worker would be put onto which position.
- Instead of integrating temporary agency workers in the normal task rotations, supervisors in most departments created new positions for the temporal agency workers. The regular staff concentrated on core operating activities requiring experience and tacit knowledge. The temporary agency workers were assigned standardized tasks with minimum training requirements.

Temporary agency work as a flexibility buffer – flexibilization as a response to shop floor problems (4)

- By segmenting the workforce along the core-periphery axis, supervisors attempted to achieve 2 goals.
- The output of the department as a whole was increased as quickly as possible. The temporary agency workers assisted the regular workers, who then could concentrate on tasks of strategic importance.
- The prospective functionality of the unit was guaranteed, as proven by the smooth cutback of temporary agency workers in the second half of 2009. When the temporary agency workers were laid off, the regular workers returned to their traditional positions.
- Only in areas where the qualification requirements were low, such as logistics and internal services, both groups performed the same tasks.

The divided workforce – distinction and exclusion (1)

- ***For the temporary agency workers*** there was a high risk of precariousness in terms of wages, social integration, work content, participation and societal recognition.
- Wages were low, the pay level amounted to hardly more than 50% of regular workers pay.
- The limited time span of the assignment impaired the temporary agency workers' social integration into the client firm's workforce and their participation in qualification schemes. Even the most skilled temporary agency workers performed only standardized tasks, neither meeting their own expectations concerning the quality of work, nor improving their labour market chances.
- "Being a temp" continued to be associated with a low social status. However, it was regarded as the only chance to enter temporary labour market.

The divided workforce – distinction and exclusion (2)

- Even though the temporary agency workers did not constitute a personal threat to the job chances of the ***permanent workers*** their presence still had an impact.
- The same closure of the labour market that hampered the re-entry of temporary agency workers, conveyed through the use of temporary agency workers, also had a disciplining effect on the regular workers.

The divided workforce – distinction and exclusion (3)

- The division of workforce was reinforced by the behaviour of the works councils who had a lot of power.
- Due to the temporally limited work assignment and the relatively slow increase of the number of temporary agency workers, they did not use their bargaining power to improve the situation of the temporary agency workers.
- In order to protect the company's knowledge base works councils bolstered the supervisors' decisions to assign just simple tasks to the temporary agency workers, thereby reinforcing the segmentation between both groups.

Case: TranCo

- TransCo is part of one of Europe's major engineering corporations operating globally and listed at the stock-market.
- High skilled personnel, low skilled were outsourced
- Regular workers 550+120 temporary agency workers, number of temps fallen from 2009.
- Main training was inside firm.

flexibilization as a “security net” for profitability

- Use of work-cap policy.
- Changing in supply-chain management by outsourcing.
- 20% of employees are TAW.
- TAW as an instrument to bypass German statutory dismissal protection.
- The status differences constituted a specific challenge to the supervisors, as they had to guarantee that members of both groups cooperated in the labour process and exhibited the same performance.

The interwoven workforce discipline and solidarity

- equal position in the labour process by use of TAW reduced the level of precariousness associated with non-standard employment.
- Regular payment guaranteed and also benefits.
- Long term TAW are quasi permanent.
- Self view as second category workers.
- Collaboration between regular workers and TAW through councils to improve benefits of TAW.

Conclusions

- First, evidence collected confirms the hypothesis that management's main objective for using TAW strategically is to de-couple property from market risks.
- In contrast, supervisors in firms utilizing TAW as a *flexibility buffer* exhibit some bar gaining power over the employment status of their workers.
- Disciplining effect is not the primary reason for utilizing temporary agency workers quasi-permanently, management in most client firms is aware of this "beneficial side-effect".
- Strategic use of TAW is particular attractive for management oriented towards short-term profits or rates of return, displaying its affinity to a corporate governance unilaterally prioritizing the interests of the shareholders.
- As in case of TransCo *individual risk of substitution* increases significantly.
- TAW are marginal.



THANKS FOR YOUR ATTENTION ☺

Questions ?