

Orchestrating the evolution of **Private Employment Agencies** towards a stronger society

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The International Confederation of Private Employment Agencies (CIETT) has been reflecting on the current and potential contribution of the Private Employment Agency¹ (PrEA) industry to the economic and social fabric of Europe. According to CIETT, there is a need for a comprehensive fact base on, and overview of, the PrEA industry's role in Europe's changing labour markets. Therefore, CIETT has commissioned this study into the evolving economic and social value of the PrEA industry, to act as a platform for initiating a discussion towards the re-regulation of the European PrEA industry.

The study was commissioned to McKinsey & Company, while Deloitte & Touche Bakkenist conducted a European Union data gathering exercise. Additionally, ten external advisors, with outstanding reputations in their fields, kindly contributed their views on the subject and on the study's findings. These advisors, who are not responsible themselves for the content of this report, are:

- Prof. Christian de Boissieu, University of Paris I – Sorbonne, Advisor to the Chamber of Commerce of Paris;
- Mr. Innocenzo Cipolletta, Director General of Confindustria Italian Employers Association;
- Mr. John Martin Evans, Expert on Employment Analysis & Policy, OECD;
- Dr. Peter Hartz, Director of Human Resources, Volkswagen, Germany;
- Mr. Bill Lewis, Director of the McKinsey Global Institute;
- Prof. Karel van Miert, University of Nijenrode, former European Commissioner;
- Mr. Bill Morris, Secretary General of the T&G Union, United Kingdom;
- Mr. Manuel Pimentel, former Minister of Labour, Spain;
- Mr. Zygmunt Tyszkiewicz, former Secretary General of UNICE;
- Mr. Lodewijk de Waal, President of the Dutch Confederation of Trade Unions, FNV, the Netherlands.

A database and further information on the study will be available on the CIETT website (www.ciett.org), which also contains information about CIETT itself as well as links to other useful websites.

¹ Traditionally, private employment agencies have been defined as private enterprises that employ workers to make them available to a third party that assigns and supervises their tasks. In countries where this is not allowed, private employment agencies act as brokers between workers and companies. However, private employment agencies are evolving as they increasingly offer more comprehensive services beyond these basic staffing services.

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Introduction

One of the aspirations of modern society has been the attainment of full employment, that is, making available appropriate work under appropriate conditions for all who desire to engage in productive activity. While factors such as economic cycles and labour costs influence the degree to which full employment is attained, the mechanics of the human resource market are also of critical and increasing importance. Unfortunately, in Europe these mechanics – or the interaction between the supply of and demand for workers – are far from perfect.

A key challenge in this regard is to balance the increased need and desire for flexibility in employment relations – both on the part of workers and employers – with the basic human need for continuity and certainty. While the latter need has always been present, the need for flexibility is relatively new and can be expected to increase in importance in the future. Workers, on the one hand, are seeking more flexibility in their employment through part-time or temporary work, mobility between companies – and between functions – sabbaticals and other such work arrangements. Employers, on the other hand, are increasingly interested in greater economic flexibility which, more generally, is critical to ensuring Europe's competitiveness in the global economy.

Private Employment Agencies (PrEAs) have long complemented the traditional employment market, which is based on bilateral employment contracts of indefinite duration. This complementary role could be enhanced significantly. Although PrEAs accounted for 1.5 per cent of total European employment in 1998, their further evolution into full human resource management

firms, if properly guided, could contribute to full employment while also increasing the flexibility of Europe's economy.

Flexibility is often associated in the public mind with precarious working conditions. However, the PrEA industry could act as a catalyst in shaping new forms of employment relations that engender more flexibility and better working conditions. PrEAs could contribute to the career development of workers in such a way that an optimum balance is found between their needs and those of employers.

For this to happen, what is needed is a new understanding of the PrEA sector and a re-evaluation of the regulations governing it. Current practices among PrEAs differ widely across Europe. In some countries, agencies have begun to offer full human resource management services. In others, the industry still offers basic services and is viewed with suspicion by workers. If PrEAs are to make the contribution to Europe they are capable of, then any future reform of the industry should be based on a European-wide understanding of its potential, together with national adjustments of practices and self-regulation, where appropriate.

The objective of this study is to provide a platform for the discussion of the re-regulation of the European PrEA industry, which will allow it to meet the needs of European workers and contribute to the social and economic future of the continent.

Executive Summary

1. Changes in European Union labour markets

To evaluate the role of the PrEA industry in Europe, it is important first to understand the current and future requirements of the European (or 2.2 million people on an average day) labour market. Currently, about 1.5 per cent of the European Union's working population is employed in the fast-growing PrEA industry. Looking ahead, the PrEA industry can contribute to addressing three challenges facing European labour markets.

The first is the need to reduce overall unemployment levels. Following the March 2000 Employment Summit, and on the recommendation of the European Commission, all European Union Member States have agreed to try to raise the European Union's employment rate from 60 per cent to 70 per cent, and to reduce its unemployment rate from 10 per cent to 4 per cent by 2010 (the Lisbon Objectives). However, despite high unemployment, there are millions of job vacancies in Europe. While resolving this paradox, Europe particularly needs to create opportunities for specific disadvantaged groups of 'outsiders' – such as young people, the long-term unemployed, women and older people – who do not fully participate in the labour market.

Second, workers are demanding more flexibility in their employment relations. This trend is visible across the entire population, although it takes on different forms for different groups of workers. For example, the young are often actively looking for temporary work; women frequently prefer part-time work; and older workers increasingly want 'post-career jobs' that meet their financial and time considerations.

Third, companies have a clear and growing need for flexibility in the supply and deployment of their workers. This is because product lifecycles are shortening, consumer demand is changing at an ever-faster rate, and new technologies are causing seismic shifts in the economic landscape. Small and medium sized enterprises (SMEs), have an especially strong need for labour flexibility. These enterprises account for two-thirds of European union employment and function as a seedbed for innovation.

2. The role and impact of the PrEA industry

The PrEA industry makes a significant contribution to the social and economic fabric of Europe. It is our belief that an orchestrated evolution of the industry can greatly increase this contribution in the years to come.

From a social point of view, PrEAs enhance employment opportunities for workers. A survey of PrEA workers in the European Union, conducted for the purposes of this report, indicates that many agency workers are 'outsiders' to the labour market and typically spend little time between enrolling at a PrEA and being assigned to work. Furthermore, a significant number of agency workers move to longer-term jobs after agency work, and many have a genuine preference for agency work because of the flexibility it offers.

From an economic point of view, PrEAs meet companies' flexibility needs mainly by providing workers to deal with temporary variations in output or workforce. The results of another survey, also conducted for this report, of European Union companies that use PrEAs, indicate that the service

1. Changes in European Union Labour Markets

To appreciate the significance of the PrEA industry, it is essential to understand the current and future requirements of the European Union labour market. In our view, this market faces three particular challenges. First, unemployment must be reduced. Second, the growing demand by workers for increased flexibility in their employment relations must be met. And, third, the clear and evolving need of companies for flexibility in the supply and deployment of workers has to be addressed. These issues are explored in the first half of this chapter.

The evolving labour market in Europe clearly calls for new solutions. The PrEA industry's ability to offer flexible employment provides part of a solution to the increasing flexibility needs of workers and companies. The various forms of labour flexibility provided by PrEAs

are described in detail in the second part of this chapter.

REDUCING UNEMPLOYMENT

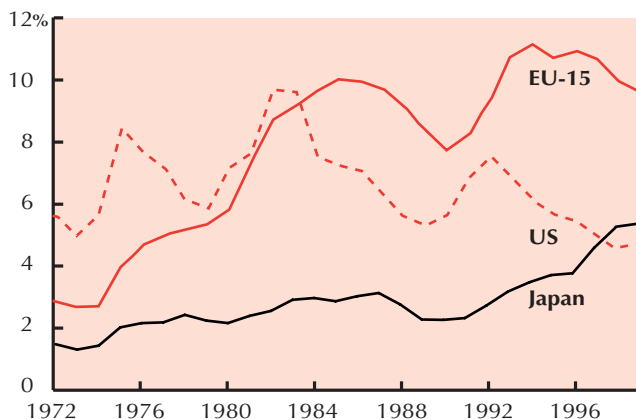
Despite some improvement in recent years, European labour markets are not creating sufficient jobs, in particular for certain disadvantaged groups. It is beyond the scope of this report to provide comprehensive reasons for Europe's unemployment problems. However, it is important to note some of the issues relevant to the debate on the role of the PrEA industry in reducing unemployment.

The employment problem is a priority for Europe

The average European Union unemployment level more than tripled from around 3 per cent in the early 1970s to around 10 per cent in the 1990s (Exhibit 1). These

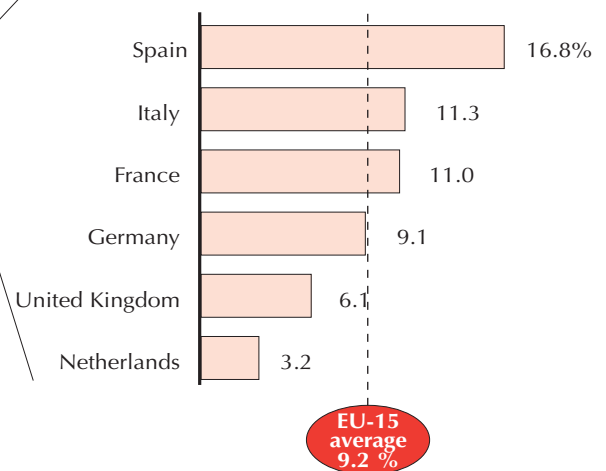
1. The unemployment problem in Europe

Europe, United States and Japan, 1972-1999
Unemployed as percentage of active workforce



Source: Eurostat; EU Directorate-General for Economic and Financial Affairs; WEFA

Major European countries, 1999



aggregate figures mask significant differences across Europe, with official unemployment levels in 1999 varying from 3.2 per cent in the Netherlands to 16.8 per cent in Spain.

Following the March 2000 Employment Summit, and on the recommendation of the European Commission, all European Union Member States have agreed to try to increase the European Union employment rate from 60 per cent to 70 per cent, and reduce the unemployment rate to 4 per cent by 2010. These targets are set out in the so-called Lisbon Objectives. The European Commission has urged all policy actors to engage in a dialogue and to develop proposals to meet these targets. The development of the PrEA industry can be seen as part of the solution to Europe's employment problem.

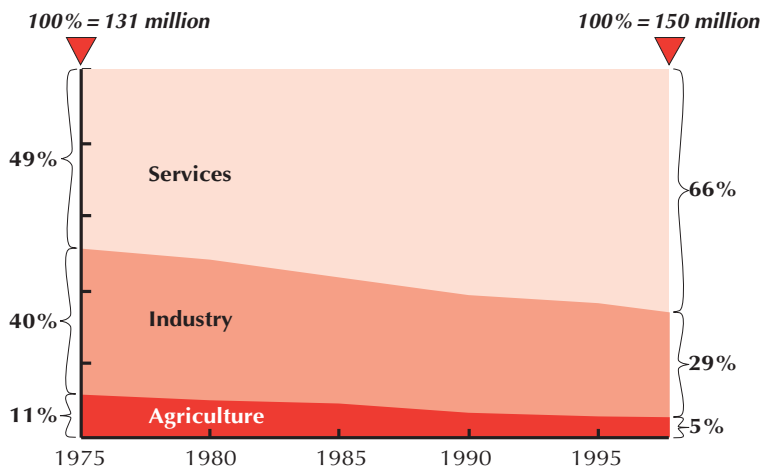
Labour mobility is crucial for employment growth

Paradoxically, today's high level of unemployment in many European countries co-exists alongside significant numbers of job vacancies. For example, in France, where unemployment exceeded 10 per cent in 1999, there are up to 50,000 vacancies for construction workers and 20,000 for truck drivers. Such figures suggest that Europe is incapable of effectively matching workers with jobs. Some of these mismatches are visible on the pan-European level, with pockets of unemployment in some countries and other countries where labour is scarce.

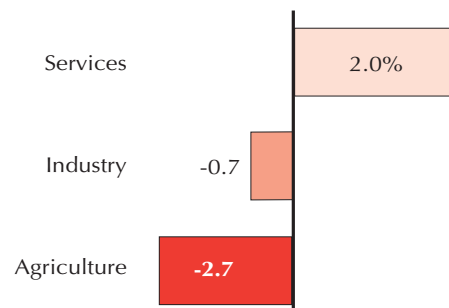
To realise the employment targets set in the Lisbon Objectives, most new jobs will have to be created in the service sector, because employment in the agricultural and industrial sectors will continue to shrink. In the European Union over the past 25 years, the share in total

2. Employment growth by sector

Employed workforce by sector 1975-1998, EU-15



Annual employment growth 1975-1998, EU-15



Source: OECD

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employment of the agricultural sector more than halved, from 11 per cent to 5 per cent, while that of the industrial sector dropped from 40 per cent to under 30 per cent (Exhibit 2). Furthermore, the ‘tertiarisation’ of industrial activities suggests that many jobs created in industry are, in fact, service sector jobs.

Thus, Europe needs improved labour mobility if the unemployed are to be matched with new jobs and the service sector is to expand. In the second chapter, we will argue that PrEAs are effective organisations for facilitating worker mobility between companies, sectors and even countries.

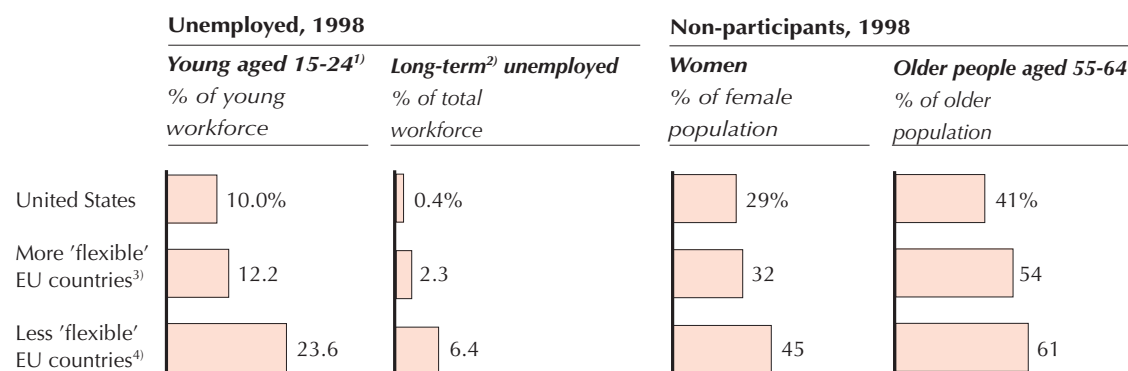
Europe creates insufficient employment opportunities for ‘outsiders’

Recently, there has been extensive public debate on the causal relationship between strict Employment Protection Legislation (EPL) and high unemployment among certain

social ‘outsider’ groups – for example, young people, the long-term unemployed, women and older people.

In essence, Europe’s relatively strict labour laws protect ‘insiders’ – a group of mainly middle-aged male workers – to the detriment of ‘outsiders’, who are typically job seekers and non-participants in the labour market. Confirming the so-called ‘insider-outsider’ theory, the OECD has found that there is a statistically significant correlation between EPL strictness and the share of ‘outsiders’ among certain social groups (Exhibit 3). For example, European countries with a high level of EPL strictness suffer from relatively high youth unemployment (24 per cent, versus 10 per cent in the United States), and high long-term unemployment (6.4 per cent versus 0.4 per cent in the United States). They also have lower labour market participation rates for women in general and for people aged between 55 and 64 in particular.

3. Europe creates insufficient opportunities for ‘outsiders’



1) Young aged 16-24 for United States

2) Unemployed for more than one year

3) Unweighted average of major EU countries with Employment Protection Legislation index below 2.0 (Austria, Denmark, Finland, Ireland, Netherlands, Sweden, United Kingdom)

4) Unweighted average of major EU countries with Employment Protection Legislation index above 2.0 (Belgium, Germany, Greece, France, Italy, Portugal, Spain)

Source: OECD

In the next chapter, we will show that PrEAs create an entry ‘portal’ to the labour market for these ‘outsiders’, by providing them not only with short-term job opportunities, but also with qualifying experience and training for longer-term positions.

INCREASING FLEXIBILITY FOR WORKERS

Changing demographics and shifting social values are leading workers to demand more time flexibility and job diversity than ever before. This growing desire for more personal flexibility is evident across the entire population. The number of people in part-time jobs is increasing steadily, and this trend will probably continue in the future. Although some part-time employment is

involuntary, in general, part-time working arrangements do appear to meet the specific needs of many workers. Other forms of time flexibility, such as leaves-of-absence or sabbaticals are also becoming more popular, albeit mainly for highly skilled workers. Flexibility in the form of ‘job-hopping’ is also widely perceived to be on the increase.

The demand for new forms of employment is especially strong among certain groups of workers. Many young people have a view of work and employment relations that differs radically from that of their parents, and prefer temporary jobs¹ to permanent ones (Case 1). Some women favour temporary or part-time work arrangements (Case 2), while older workers increasingly demand ‘post-career jobs’ that offer time flexibility and

Case 1: Young people actively look for flexible employment

Research in several countries shows that ‘Generation X’ (that is, people born between 1960 and 1980) and the group that has tentatively been called ‘Generation Next’ (those born after 1980) value leisure time and family life above success or material gain. This leads them to look specifically for temporary positions with flexible time schedules, rather than permanent, full-time jobs. Other young people, in particular the less educated, are hard pressed to find a job at all and

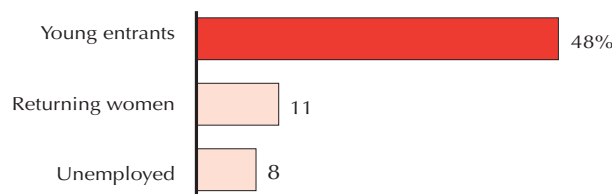
need a ‘portal’ to gain access to the job market.

PrEAs can cater for both groups of young people. For ‘Generation X’, PrEAs can provide flexible work opportunities. For the less educated, PrEAs can provide a

‘portal’, allowing both employers and workers to get to know each other in a relatively risk-free manner. Many of these young starters get their first job through a PrEA and gain their initial work experience in this way.

Young: genuine demand for flexibility

Percentage of new entrants into labour market specifically looking for flexible¹⁾ employment, EU-15



¹⁾ Agency work and fixed-term contracts

Source: European Foundation for the Improvement of Living and Working Conditions

¹ Part-time employment is defined as working fewer hours per week than the average employee (38 hours in most European countries). Temporary employment is defined as employment for a limited number of consecutive days in a year. Temporary employment could also be part-time if, for example, an employee works only mornings for 3 months. Permanent employment is defined as employment on an indefinite contract. Nowadays, however, few contracts are indefinite.

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Case 2: Women want to work in a different way

More and more women are working, but in a manner that differs from that of men.

Women have traditionally been less

interested in employment than men: while 82 per cent of European men aged 20–65 want to be employed, only 69 per cent of women share that desire. A key reason for this difference is that

women sometimes give priority to family responsibilities.

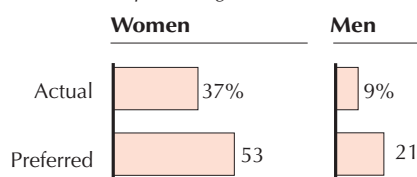
Such women typically seek part-time or temporary work.

It is clear that traditional, inflexible

working arrangements do not always cater for the needs of these women. As a result, women consider it harder to find work than men: up to 15 per cent of European women of working age would like to work, but cannot find an attractive job; for men, this figure is much lower at 9 per cent. PrEAs typically offer flexible work arrangements and, in some countries, have developed offerings specifically for women. PrEAs in Nordic countries have particular expertise in catering for the specific employment needs of women.

Women: large demand for part-time work

Part-time work¹⁾ as percentage of active workforce, EU-15



1) Jobs considered part-time by employee

Source: European Foundation for the Improvement of Living and Working Conditions

Case 3: Older workers want 'post-career' jobs

The low participation rate of older workers is a major economic problem for Europe, given the

continent's ageing population.

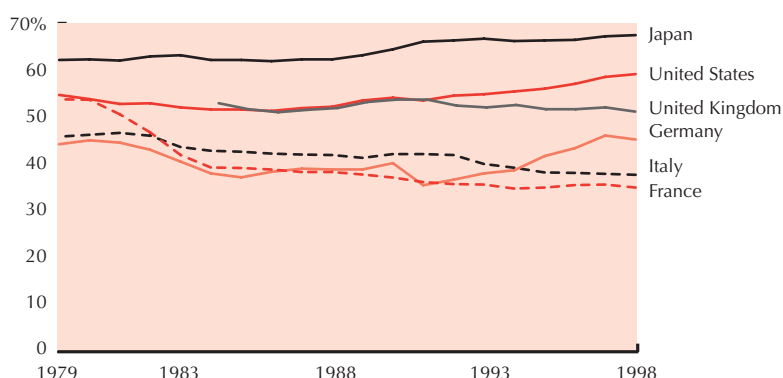
The decline in the participation rate of older workers is being driven by two factors. On the one hand, older workers often look for

less demanding jobs in the knowledge that they are financially secure thanks to private pensions or generous social security provisions.

On the other hand, employers are often biased against older workers, believing that they lack the necessary skills and ability to learn. An alternative approach would be to revitalise the skills of older workers, by providing them with adequate training and a number of short-term assignments to gain experience. Some PrEAs have successfully implemented such programs.

Older people: working less and less

Participation rate of people aged 55-64



Source: OECD

less stress (Case 3). In short, all these groups are looking for different types of flexible work.

In the next chapter, we will demonstrate that many workers have a genuine preference for the flexibility provided by PrEA work.

INCREASING FLEXIBILITY FOR COMPANIES

European companies in particular, and European countries more generally, need increased flexibility to maintain their competitiveness in an economy that is becoming more global, fast-changing and customer-

Case 4: Car manufacturers need more flexibility

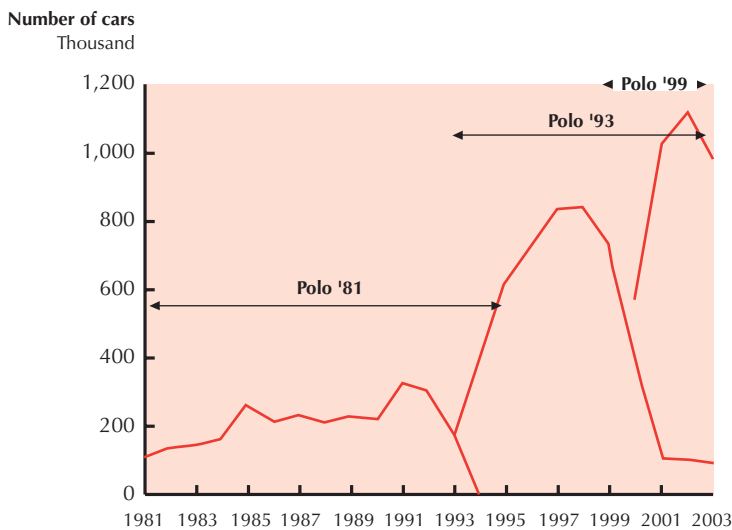
The automotive industry has undergone tremendous changes over the last decades. The industry has shifted from a product-driven to a demand-driven production schedule, introduced lean manufacturing and, because of ongoing intense competition, can expect continued pressure on time-

to-market and margins. Car manufacturers are having to cope with ever-shorter demand cycles and unforeseeable production peaks. Such trends reinforce the sector's increasing need for labour flexibility. Flexible work schedules – such as the four-day week – have been introduced to maximise capacity utilisation. A good example is Volkswagen. Due

to a shift from product-driven to demand-driven production of consecutive Polo models, the total life span – the time between the first and last year of production – has been cut from 14 years for the first Polo model, to less than 8 years for the third. Also, the number of cars produced annually varies increasingly, and the difference between the maximum and the average annual production volume has increased significantly. Volkswagen introduced a four-day week in 1993, and later extended this idea to a 'Volkswagen Week', offering greater individual control over working hours. In Wolfsburg, Volkswagen joined forces with the city council to create a PrEA with the express purpose of staffing former Volkswagen workers at Volkswagen and other local companies. The PrEA has to perform to commercial standards and, so far, has been very successful in finding suitable jobs for its workers.

Car manufacturing: increasing volatility of production

Annual European production of Volkswagen Polos



Source: McKinsey & Company

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oriented. This need will be reinforced as the economy is transformed – at least partially – into an Internet-based economy. There is a broad consensus on these overall changes, which are clearly evident in the cases of car manufacturing, retail banking and small start-up companies (Cases 4 to 6). We use these as examples to show the evolving needs of European labour markets.

For car manufacturers and other industrial companies, the need for labour flexibility has increased dramatically as they have shifted from product-driven to demand-driven production, and introduced new, lean manufacturing systems to increase productivity (Case 4).

Car manufacturers have suffered major social shocks in the past few years, and can only survive by implementing more dynamic production systems based on flexible working schedules.

In the traditional service sector, labour flexibility is also important. Retail banks, for example, have undergone substantial changes, as they have become more client-focussed and as their service offerings have become available globally and around-the-clock (Case 5).

Changing customer requirements have also prompted banks to become more flexible in their use of labour.

Case 5: Retail banks introduce flexible labour practices and extend services

The introduction of the Euro and the recent merger wave among European banks have changed this sector fundamentally. Banks used to be stable, secure businesses. Now they are dynamic, flexible and innovative. This has had a major impact on both back and front office operations. In the back

office, increased pressure on productivity has led to changes in workflows and organisation. In the front office, there has been a clear shift from administrative to commercial functions, and from product orientation to client orientation. Thus, work schedules have been altered to improve service offerings – for example, longer opening hours – while part of the work has been shifted from

branches to new channels, such as call centres and e-banking. A study for a German bank showed that optimising branch flexibility and introducing part-time work could lead to savings in personnel capacity, while maintaining service levels and addressing the desire of many workers for more flexible work arrangements.

Case 6: Start-up companies need labour flexibility

The labour flexibility provided by temporary workers is crucial to the success of some small, start-up companies, as the following example shows.

Two entrepreneurs decided to

launch a new mailing company in the Netherlands in late-1999. During the start-up phase, they considered it too risky to take on permanent staff, so they took on 20 temporary agency workers. The business survived its start-up phase and, six months later, 10 of

the agency workers had received permanent contracts with the mailing company. Today, the company engages 35 workers (20 of whom are agency workers) and expects to employ 130 workers by the end of 2001.

Small and medium enterprises (SMEs) are the backbone of the European economy, accounting not only for two-thirds of European employment but also functioning as a seedbed for innovation. Accordingly, the promotion of SMEs is a corner-stone of European Union employment policy. For example, Article 137.2 of the Treaty of Amsterdam notes that European employment directives should ‘avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of small and medium-sized undertakings’. One of the conclusions of the Lisbon European Council Presidency is that economic policy should create ‘a friendly environment for starting up and developing innovative businesses, especially SMEs’.

For SMEs, and start-up companies in particular, labour flexibility is critical. In comparison to established companies, start-ups often face an uncertain financial

future. To hedge themselves against this uncertainty, they typically organise their working practices in a flexible way. Hence, start-ups often use temporary workers to postpone incurring the high sunk costs of employing permanent workers until their financial situation becomes more secure (Case 6).

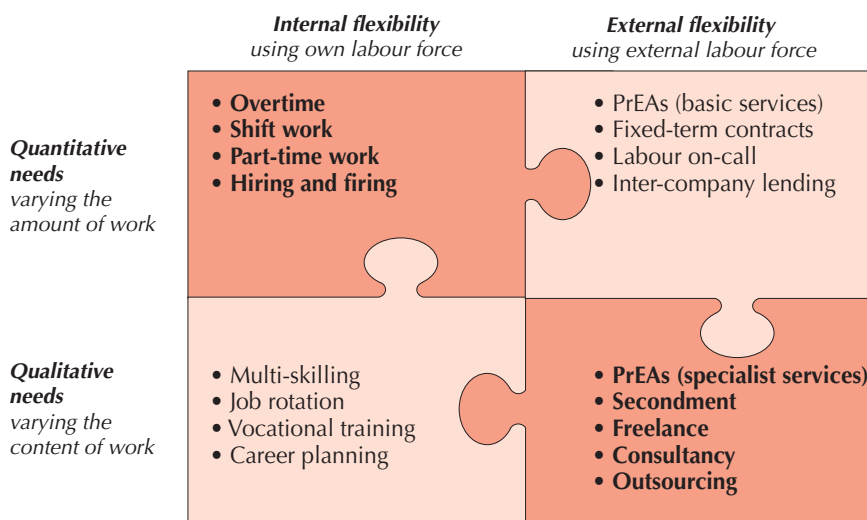
Labour flexibility, then, is critical for the success of European companies. As the United States Department of Labour notes, ‘employers that have flexibility in adjusting labour requirements to meet product and service demands have a competitive edge over those with less flexible human resource policies’¹. European companies are trying to raise their productivity and compete successfully in a global economy by forging flexible relationships with their workers. PrEAs offer a key solution to these flexibility requirements.

INCREASED FLEXIBILITY DEMANDS NEW SOLUTIONS

The new requirements of Europe’s evolving labour market demand different solutions. The PrEA industry offers flexible employment, which can provide one solution to the growing need for flexibility of workers and companies.

Flexibility comes in many forms
The flexibility needs of workers

4. External flexibility complements internal flexibility



¹ United States Department of Labor, *Report on the American Workforce* (Washington, 1999), p. 18.

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and companies can be both ‘quantitative’ (varying the amount of work) and ‘qualitative’ (varying the content of the work) (Exhibit 4). They can also be ‘internal’ – building on the company’s own labour force – and ‘external’ – using an external source of labour. Internal solutions include: varying the working hours of the permanent labour force through overtime, shift- or part-time work; adapting the size of the in-house labour force through hire and fire policies; and increasing mobility through multi-skilling, job rotation and vocational training. External solutions include: flexible hiring of an external labour force through PrEAs, fixed-term contracts, secondments and the outsourcing of non-core activities to third parties.

The role of PrEA solutions

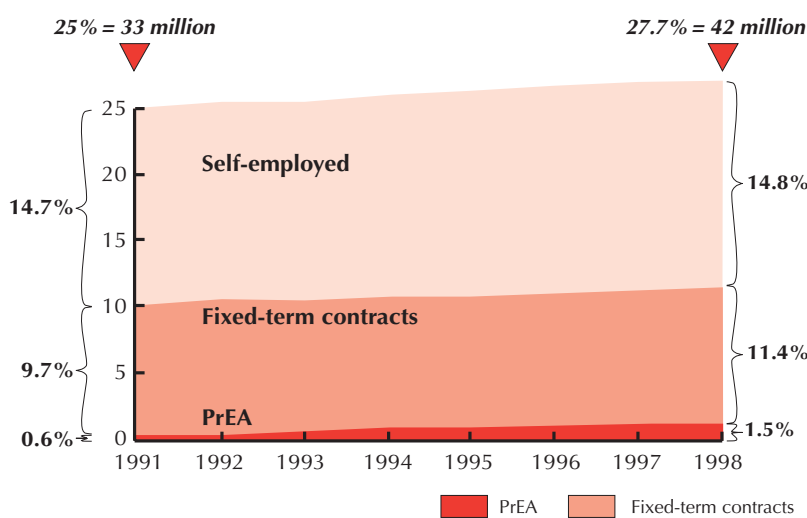
External flexibility solutions are popular in the European

Union: a total of 42 million people – 27.7 per cent of the total workforce on a full-time equivalent basis – have flexible employment contracts, either in the form of agency work (1.5 per cent), fixed-term contracts (11.4 per cent) or self-employment (14.8 per cent) (Exhibit 5). In addition, roughly 30 million people consider themselves to be part-time workers.

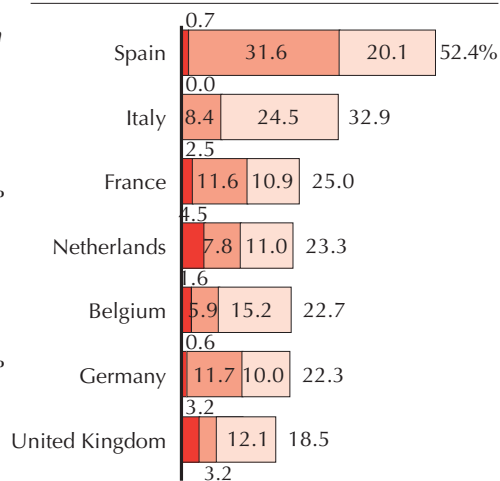
However, the labour flexibility needs of workers and companies may not always coincide. For example, a company that increases working hours to meet a production peak may impose undesired irregularity on individual workers; workers who adjust working hours to their own needs, can bring unwanted uncertainty to their companies. The challenge is to identify ‘win-win’ solutions through careful human resource management, and to find an optimal balance between the inevitable trade-offs.

5. Growth of non-permanent forms of employment

Percent of employed workforce EU-15, 1991-1998



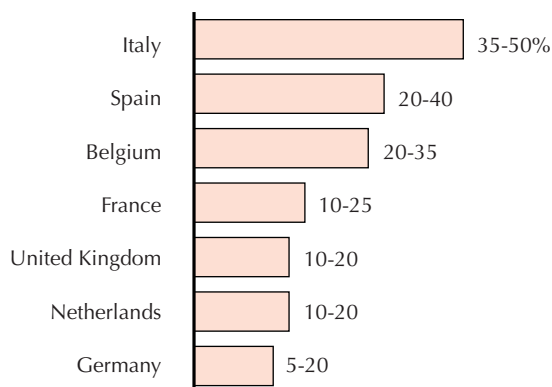
Major European countries, 1998



Source: OECD; Eurostat; Deloitte & Touche Bakkenist

6. Grey market activities

Undeclared labour as percentage of officially reported labour hours, 1998 estimate



Source: European Commission; Deloitte & Touche Bakkenist

In comparison to other forms of flexible employment, the contribution of PrEAs is still relatively small, but the industry has grown rapidly. In 1991, PrEAs accounted for 0.6 per cent of (on a daily average basis) total European Union employment; since then, PrEA employment has grown at an annual rate of 10 per cent and forecasts suggest that this growth will continue in the future.

These official data are almost certainly understated because many jobs are hidden in 'grey' undeclared labour market activities. Although it is difficult to quantify the size of the grey market, it is thought that undeclared labour hours total between 5 and 50 per cent of officially reported labour hours in the European Union (Exhibit 6). Grey market activity is particularly common in sectors such as construction, which accounts for 45 per cent of all undeclared working hours in Germany. The grey market is a very unattractive form of employment, because it frequently involves unprotected workers

negotiating individual contracts through 'illegal matchmakers', at significant cost to themselves and society.

It is beyond the scope of this report to suggest solutions to the complex issues relating to the grey market for labour. However, it is critical to note that PrEAs provide an organised, transparent and regulated solution to the flexibility needs of businesses. This is clearly more preferable for workers and society than an unregulated grey market for labour. In this way, PrEAs can provide 'win-win' situations between the flexibility needs of workers and companies.

2. The Role and Impact of the PrEA Industry

In helping to meet the changing needs of the European Union labour market, the PrEA industry contributes to building a stronger economy and, in doing so, a stronger society. Socially, PrEAs enhance employment opportunities for workers; economically, they help companies manage their flexibility needs. In fulfilling their social and economic functions, PrEAs create jobs, often in partnership with public institutions. In the first half of this chapter, we look at these contributions in detail.

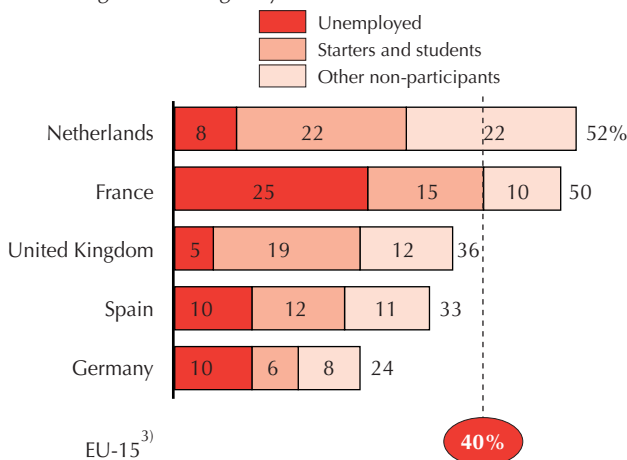
In the second half of the chapter, we discuss how PrEAs, as a first step, are currently addressing some of their traditional weaknesses and evolving into attractive organisations for the development of people talent.

PrEAs ENHANCE EMPLOYMENT OPPORTUNITIES FOR WORKERS

PrEAs enhance employment opportunities for workers. This is the central finding of a survey of 700 European Union agency workers in France, Germany, the Netherlands, Spain and the United Kingdom, conducted by Deloitte & Touche Bakkenist, for the purposes of this report. Specifically, the survey shows that PrEAs provide ‘outsiders’ with a ‘portal’ to enter the labour market and generally assign workers to jobs very rapidly. PrEAs also help agency workers find longer-term jobs by improving their employability through initial work experience. Finally, PrEAs meet the genuine demand of a significant number of workers for flexible work.

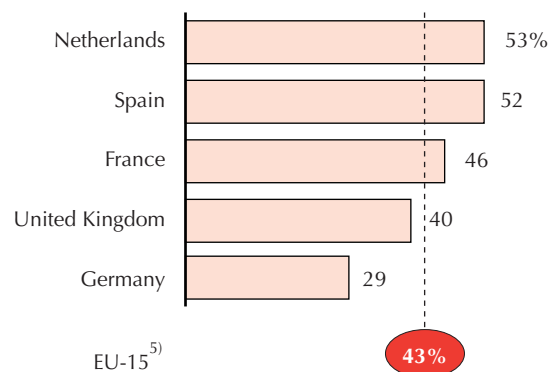
7. Many agency workers were previously ‘outsiders’¹⁾

Employment status prior to agency work²⁾
Percentage of total agency workers



8. Agency work enhances employability

Conversion into non-agency⁴⁾ jobs after one year



1) These estimates are based on very conservative definitions of the three groups; other surveys show much higher figures (averaging 70%). The discrepancy lies in the time spent as ‘outsiders’

2) Only respondents who had taken on their first agency job were selected and, therefore, the sample size was 595

3) Estimated based on data for France, Germany, the Netherlands, Spain and the United Kingdom; weighted by number of agency workers per year

4) Permanent or fixed-term contracts

5) Other non-participants, such as housewives, people temporarily unable to work, pensioners, etc..

Source: survey of 700 agency workers, Deloitte & Touche Bakkenist, May 2000

PrEAs provide work opportunities for 'outsiders'. It was noted in Chapter One that a key employment challenge facing Europe was that of creating jobs for 'outsiders'. In this context, the survey of agency workers shows that between 24 and 52 per cent of first time agency workers were 'outsiders' (Exhibit 7). Starters and students are the largest sub-group of 'outsiders'. For these workers, PrEAs provide an excellent portal to entering the labour market.

PrEAs rapidly place agency workers into assignments. The survey of agency workers revealed that, on average, the time between their enrolment at a PrEA and assignment at a company was around 4 weeks. Indeed, 35 per cent of agency workers surveyed had been placed on an assignment within a week of enrolling at a PrEA. In Germany, this figure was 54 per cent.

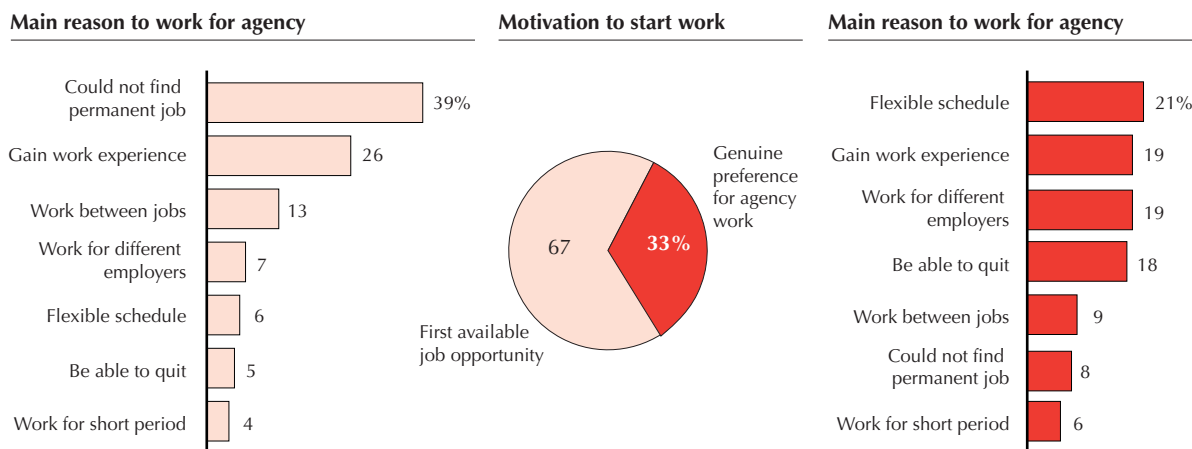
This suggests that the PrEA industry contributes to the efficiency of the European labour market by reducing the rate of frictional unemployment, or the number of people who are unemployed while between jobs.

PrEAs enhance long-term work opportunities. PrEAs also play an important role as a 'stepping-stone' towards other forms of employment.

The survey of agency workers indicates that between 29 and 53 per cent of PrEA workers find a long-term job within a year of starting agency work (Exhibit 8). About half of this group attributes finding a new job to experience gained through agency work. This suggests that PrEAs act as 'stepping-stones' to longer-term employment, by allowing agency workers to demonstrate their skills to prospective employers and to be tested and

9. Agency work appeals because of a variety of reasons

People taking first available job opportunity
 People with genuine preference for agency work



Source: survey of 700 agency workers, Deloitte & Touche Bakkenist, May 2000

Apart from these ‘peak and sick’ reasons, companies also engage agency workers to cope with seasonal fluctuations in work – these account for 23 per cent of agency workers. Finally, companies use agency workers as a flexible labour reserve that can be reduced during downturns in the economic cycle without affecting permanent workers; around 10 per cent of agency workers are employed for this purpose.

PrEAs provide specialised skills. Agency workers are also used to perform work that requires skills that companies do not have in-house. This is still a marginal activity, accounting for 4 per cent of all agency workers. Nevertheless, in some sectors, such as the information technology sector, highly skilled workers often use agencies to find work. Recently, many PrEAs have

started developing these specialised services and this market offering is expected to grow rapidly in the future.

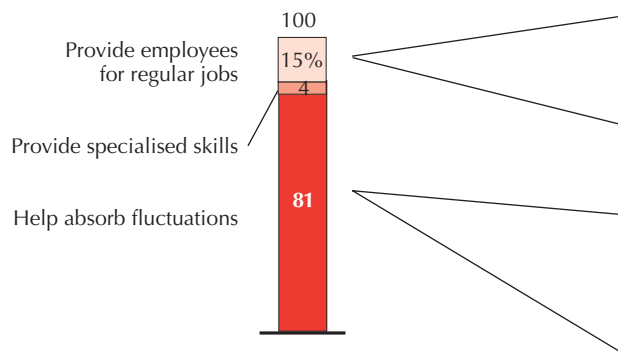
In countries where it is permitted, PrEAs provide agency workers for regular positions. Around 15 per cent of agency workers are employed for regular, permanent positions. In such cases, PrEAs are essentially used as a recruiting channel (11 per cent of agency workers). In this regard, a key finding of this report is that companies rarely employ agency workers because they are a cheap substitute for permanent workers. The company survey revealed that only 1 per cent of agency workers are engaged for this purpose.

PrEA offerings complement other flexibility solutions
In the spectrum of instruments that create labour

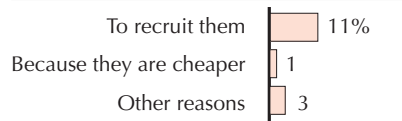
10. PrEAs supply companies with workers for managing changes in output or workforce

Question: could you please indicate what percentage of the agency workers you contracted for what reason?

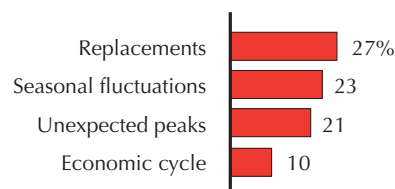
Reasons for engaging agency workers
Percentage of agency workers



Provision for regular jobs¹⁾
Percentage of agency workers



Absorption of fluctuations
Percentage of agency workers



¹⁾ Providing agency workers for regular jobs is not permitted in all European Union countries

Source: survey of 500 client companies, Deloitte & Touche Bakkenist, May 2000

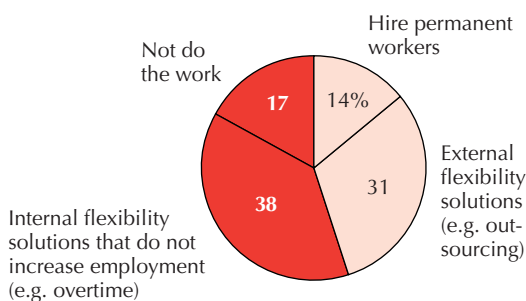
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11. Limited substitution of permanent employment

Question: can you please express in percentage which alternative solutions you would have chosen had you been unable or not allowed to hire agency workers?

Alternatives solutions to agency work
Percentage of agency workers



Source: survey of 500 client companies, Deloitte & Touche Bakkenist, May 2000

flexibility, PrEA service offerings complement internal and other external flexibility solutions available to companies. Our survey confirms the importance of PrEAs in addressing companies' needs for flexibility (Exhibit 11). A significant part – 17 per cent – of all agency work is not substitutable, and would not have been carried out had agency workers not been available. Another 38 per cent of agency work would have been carried out using internal solutions that would not have created more jobs and which could – for instance, in the case of overtime – have been at the expense of the quality of life of permanent workers. Finally, in the absence of PrEAs, companies would have hired permanent workers for only 14 per cent of the jobs now performed by agency workers.

PrEAs increasingly provide value-added human resource services

PrEAs are expanding their basic service offering and are

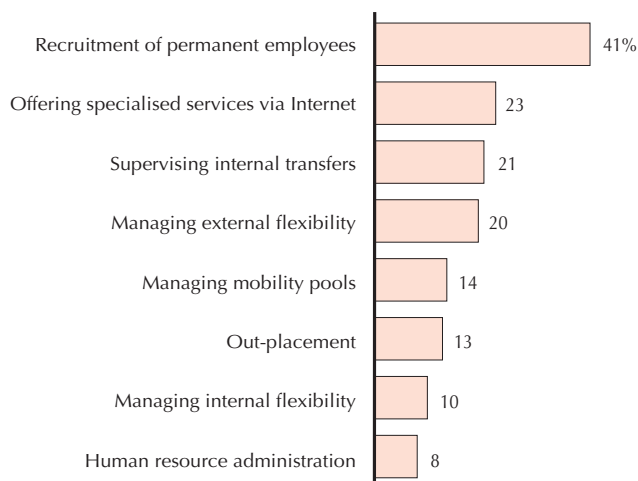
assuming a more important role in wider human resource-related services, such as recruiting, training and the management of human resource-intensive processes. This is occurring particularly in European countries with higher PrEA penetration rates. Our survey of user companies suggests that there is a strong demand for these services, although in some European countries, PrEAs are prohibited from offering them.

PrEAs provide recruiting services. In countries where this is permitted, PrEAs not only help companies recruit agency workers, but they also use their recruiting, assessment and matching skills to find permanent workers for the company (Case 7). In the company survey, 41 per cent of respondents indicated that they would probably use this service in the future (Exhibit 12).

12. PrEAs provide value added human resource services

Question: could you indicate if in the future you would "probably", "possibly" or "probably not" use PrEAs in the following areas?

Percentage of companies indicating "probably"



Source: survey of 500 client companies, Deloitte & Touche Bakkenist, May 2000

PrEAs provide training services. PrEAs also help companies to train new workers, to retrain existing workers and to redeploy redundant workers. PrEAs not only execute training programs, but also help assess the individual worker's development needs and map out personalised development plans. In the survey, 21 per cent of companies indicate they will probably use PrEAs to help manage internal transfers. In the event of forced staff reductions, PrEAs typically help search for new jobs and retrain workers with the skills needed to reintegrate them into the working population. In some instances, PrEAs place workers on their payrolls for a fixed length of time, and commit to their development and placement during this period. PrEAs and companies often work in partnership to provide these services (Case 8).

PrEAs manage human resource-intensive processes. As companies increasingly focus on their own core

activities, they are outsourcing the 'technical' parts of human resource management to third parties. Numerous examples exist of PrEAs taking responsibility for administration, legal matters and personnel planning. Our survey of companies using PrEA services indicates that between 8 and 20 per cent would be interested in using these kinds of services in the future. Increasingly, PrEAs also offer full business solutions in which they are responsible for the management of human resource-intensive processes (Case 9).

PrEAS HELP CREATE JOBS

In enhancing the employability of workers and helping companies to manage their flexibility needs, PrEAs create jobs. Between 1996 and 1998, it is estimated that the PrEA industry increased European Union employment by 0.1 per cent and accounted for around

Case 7: Managing recruitment

Two cases, one from Belgium and the other from the Netherlands, illustrate the role that PrEAs can play in managing recruitment.

In the case of a Belgian automotive assembler, the PrEA runs an automotive 'job centre' together with the public employment agency to manage a mobility pool of workers. The impact of this 'job centre' is significant: around 1,000 agency workers have been recruited, trained and counselled to work

either at the automotive assembler or at its suppliers, while the 'job centre' recruits permanent workers for some of its client companies.

In the southern Netherlands, there is an acute shortage of care personnel. A mobility pool called 'Transvorm' helps care institutions increase their flexibility and fill their vacant positions, by transferring people within the health sector and re-integrating the unemployed and partially disabled into the nursing labour force. Transvorm is a partnership

between local social organisations, the local public employment service and a PrEA. Its main activities are matching, recruitment and selection, searching for jobs for mobility candidates, managing cross-hospital mobility pools and counselling potential workers. In 1999, Transvorm placed 103 people in new jobs. This amounted to 16 per cent of vacant positions in the area and around 25 per cent of new personnel joining the workforce.

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11 per cent of total new job creation (Exhibit 13). This estimate is based on our company survey and represents only pure job creation – that is, the use of agency workers to perform tasks that either would not have been performed or would have been performed using internal flexibility solutions that do not increase employment. It does not take into account ‘indirect’ job creation, through the significant number of workers who find longer-term jobs through their PrEA assignments.

American studies also confirm that PrEAs create employment opportunities and reduce unemployment. According to one estimate, PrEAs created at least 1.9 million jobs in the United States during the economic expansion of the 1990s¹. According to another estimate, American unemployment was 0.8 percent lower in 1998 than at the peak of the last economic cycle in 1989, largely because of the growth of agency work².

Case 8: Managing re-employment

The following two case studies demonstrate how PrEAs help mitigate the human costs of restructuring.

A Swedish multinational uses a PrEA to help find alternative employment for workers made redundant because of global competition and changing business strategies. The PrEA helps

redundant workers assess their knowledge base, work experience, interests and resources, in order to plan their future employment. The PrEA also delivers training and active job-search assistance by exploiting its contacts with employers and working with government job agencies.

A Belgian manufacturer of car seats had to reduce a substantial part of its workforce of 184

workers. In a joint venture with a PrEA, the company started a non-profit organisation to re-employ 38 of them. Income security was guaranteed for one year while the PrEA provided the workers with suitable jobs. By the end of the year, 28 of the 40 workers had found new permanent jobs, 6 remained with the PrEA, 2 were still unemployed and the remaining 2 had left the scheme.

Case 9: Managing human resource-intensive processes

The following two cases show how PrEAs can manage human resource-intensive processes.

A mobile telecom provider outsources its coverage measurement process to a PrEA: the mobile telecom provider specifies the

processes and related outputs, and the PrEA delivers the service using its own resources, including staff, vehicles, tools and equipment.

A computer manufacturer uses a PrEA to deliver support services to its clients. The PrEA delivers these services according to processes and service levels specified by the

manufacturer. The PrEA supplies some of the necessary technology and resources for the service, such as tools and vehicles, and is compensated according to the number of products serviced successfully.

¹ United States Government, Economic Report of the President, 2000 (Washington, 2000)

² Cited in “In praise of temps”, The Washington Post, 8 December 1999, p. A32

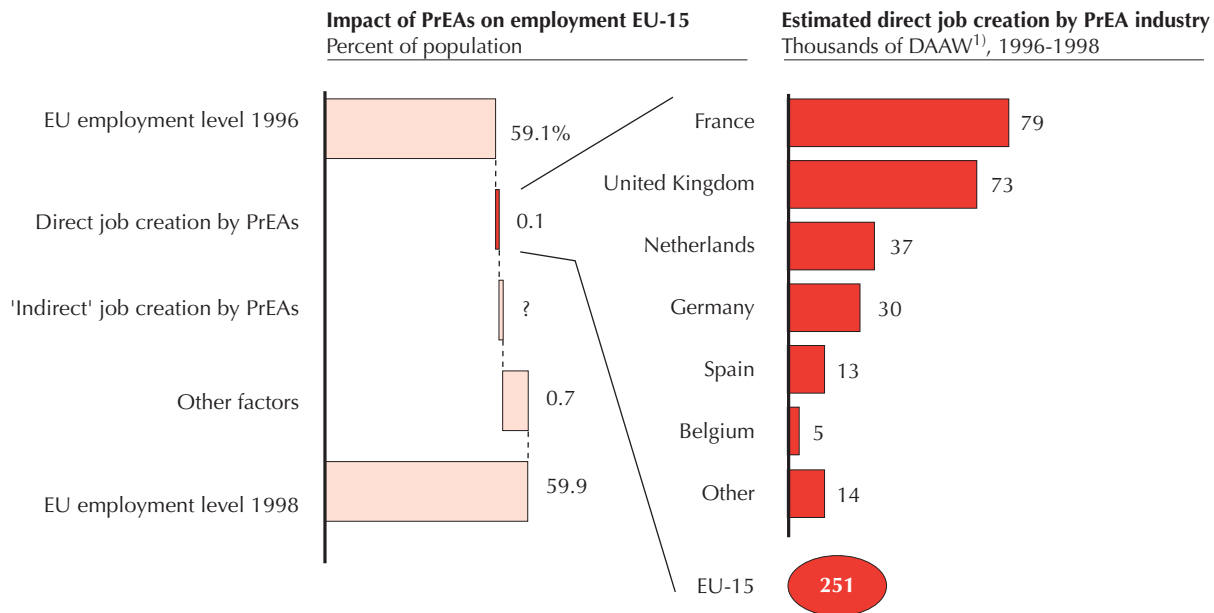
In the European Union, PrEAs provided some work for up to 6 million people during the course of 1998. This translates into 2.2 million agency workers, on average, on any given day (Exhibit 14), or 1.5 per cent of total European Union employment. In addition, the industry itself employs a substantial number of staff: on average, agencies employ one permanent staff member for every 20 workers placed on assignments. From this ratio, it is estimated that the total number of European agency staff is equivalent to 120,000 full time employees.

In terms of revenue, the PrEA industry is of major

significance (Exhibit 15). In 1999, PrEAs in the European Union had a combined turnover of almost Euro 59 billion and made a total fiscal contribution of approximately Euro 28 billion. In the United Kingdom and the Netherlands, the fiscal contribution of PrEAs equalled around 1 per cent of national income.

In the next chapter, we will argue that if the PrEA industry evolves in a well orchestrated manner, it could increase European Union employment by 1 per cent and provide employment for an additional 4.3 million people by 2010.

13. PrEA industry contributes to employment growth



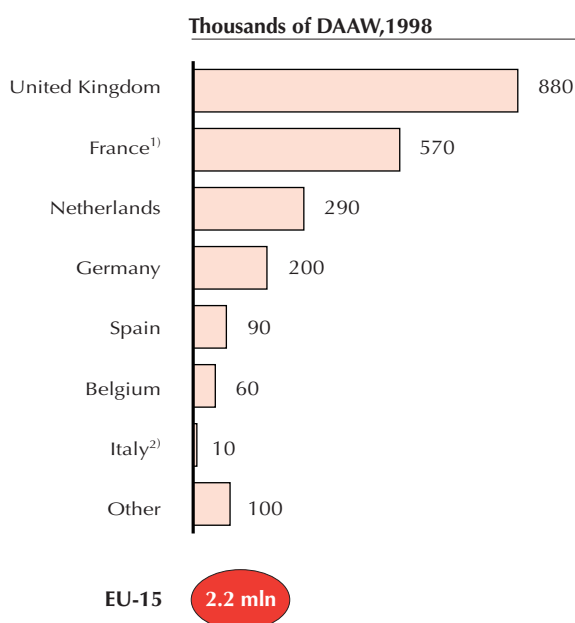
1) DAAW = Daily Average Agency Worker = number of agency workers at work through PrEAs on any given day

Source: McKinsey & Company

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14. PrEAs have over 2 million workers in the EU



¹⁾ According to French government figures, there were 458,000 PrEA workers in France on a full-time equivalent basis in 1998. The 570,000 figure reported here has been calculated on a daily average worker basis

²⁾ Italy liberalised the PrEA sector only in June 1997

Source: Deloitte & Touche Bakkenist; national CIETT federations

PrEAS CAN CREATE JOBS IN PARTNERSHIP WITH GOVERNMENTS

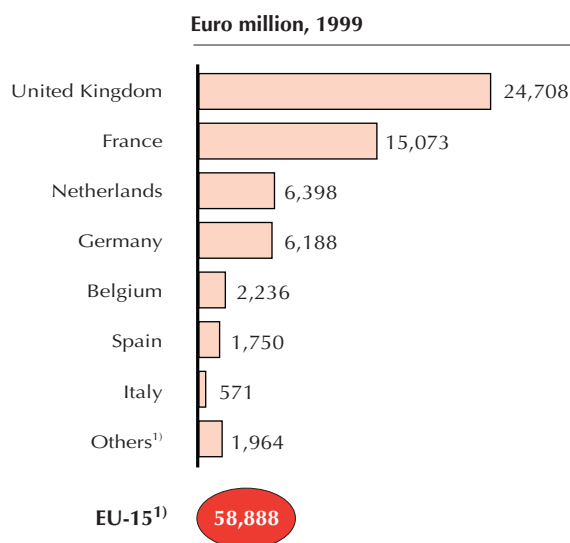
One objective of public employment services is to reduce unemployment, especially among disadvantaged groups. Typically, this is achieved by registering vacant positions on the one hand and unemployed people on the other hand, and then optimising the match between the two via integration and training programs. Over the past decade, public employment services have started to co-operate

¹⁾ ILO, Relations between Public and Private Employment Agencies: Development of a Framework for Cooperation (Geneva, 1998)

more with PrEAs in this task. The optimal form of partnership between public and private employment agencies has not yet been determined, but several gradations of partnership have been implemented with apparent success.

Most parties – public employment services, private employment agencies, European policy makers and the ILO – agree that PrEAs could play an important role in enhancing public employment policy execution in conjunction with public employment services.¹ A key reason for this is that PrEAs have developed cost-efficient matching and people management processes that place workers in jobs quickly, cheaply and successfully.

15. PrEA turnover in the European Union



¹⁾ Excludes Greece

Source: Deloitte & Touche Bakkenist; national CIETT federations; Fortis Bank; ABN AMRO

All gradations of public-private partnerships are based on information sharing. This is mostly informal and, as yet, not very developed. Experiments with partnerships that go beyond information sharing – for example in France, the Netherlands and the United Kingdom – have generally been successful, although aligning the myriad of local employment policies remains a challenge. The Australian system goes beyond partnerships by privatising the execution of public employment services, and has yielded promising results. Some examples of the different forms of public-private partnership are presented in Case 10.

PrEAS ARE ADDRESSING THEIR TRADITIONAL WEAKNESSES WHERE THEY CAN

A well-developed PrEA industry today offers an organised and transparent work arrangement that enhances employment opportunities for PrEA workers. Still, agency work is often associated with a number of negative attributes, particularly in countries where the agency market has been deregulated only recently. However, many of these negative attributes should be associated with the sectors in which agency workers are particularly active, rather than with agency work itself. Other negative attributes are the result of obsolete social

Case 10: Forms of public-private partnership

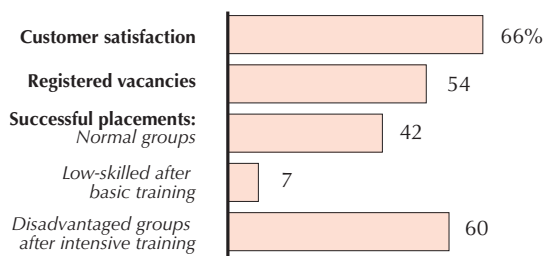
In countries such as Austria, Denmark, Finland, France, Germany and Sweden, public and private agencies share job-vacancy information. Such co-operation often occurs locally and on an ad-hoc basis. However, in France, the Netherlands and the United Kingdom, co-operation is more elaborate, since some PrEAs in these countries have access to the job-seeker registers of the public employment services. A more extreme form of private sector involvement can be found in Australia's Job Network system. In 1998, the Australian government decided to outsource

the execution of public employment tasks to private providers. These, including both commercial and non-profit organisations, now tender to provide employment services. Public job centres advise potential workers on the job-seeking

channels open to them. A public authority supervises the tendering process and audits complaints. The system has so far been very successful, in providing both jobs and training to difficult-to-employ groups.

Job Network, Australia

Percentage improvement after one year¹⁾ compared to public system



¹⁾ Performance of private system from May 1998 - April 1999 compared to public performance May 1997 - April 1998

Source: Government of Australia

Agency workers receive less formal training, but PrEAs are taking training initiatives. Research by the Dublin Foundation shows that, while formal training is uncommon among European workers in general, agency workers in particular receive less formal training than permanent workers¹.

Nevertheless, these figures may under-value the importance of PrEAs in career development. Agency work provides many unemployed workers with a social link to the job market. Furthermore, agency workers do acquire a diverse set of work experiences, which adds to their overall career development and employability. Given the

short time that workers generally stay with an agency, such on-the-job learning may be more useful than formal training. Indeed, in the survey of agency workers, only 1 per cent of those who went on to find longer-term employment indicated that this was due to formal training given by the agency, although 27 per cent did actually receive some formal training.

Levels of training for agency workers vary across Europe. In countries such as the United Kingdom, individual agencies are active in developing training programs for their workers, because this gives both the agencies and agency workers a competitive edge in the labour market.

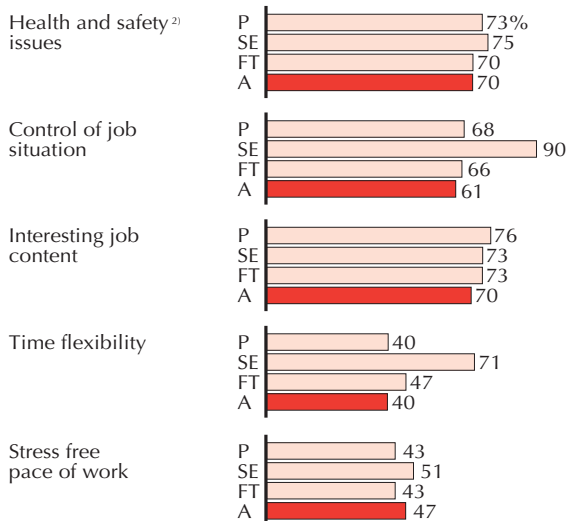
16. Unattractive working conditions are not always related specifically to agency work itself

Data after adjustment for difference in population¹⁾

P = Permanent SE = Self-employed FT = Fixed-term A = Agency workers

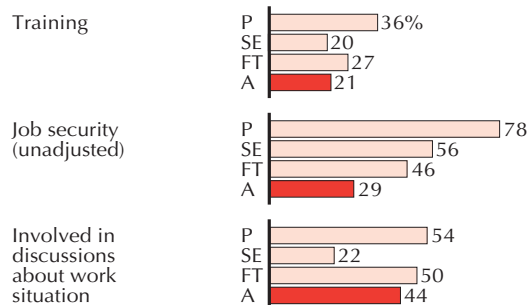
Working conditions are comparable

Percentage of people experiencing



Working conditions are different

Percentage of people experiencing



1) Computed by a logistic regression model; variables that could not be fitted have not been shown. Scores are averages of answers to different questions
2) Weighted average of physical and ambient risk factors

Source: European Foundation for the Improvement of Living and Working Conditions; McKinsey & Company analysis

¹ European Foundation for the Improvement of Living and Working Conditions, Working Conditions in the European Union, (Luxembourg, 1996)

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In Belgium, France, Italy and the Netherlands, PrEA federations have concluded collective agreements with trade unions to allocate part of their gross wages to special training funds and training activities. The French situation is detailed in Case 11 and other innovative PrEA training initiatives are outlined in Case 12.

PrEAs are increasing their wage levels. It is difficult to compare wage levels among different populations of workers. There are often valid reasons why wages differ, such as differences in qualifications, seniority, experience and job content. Comparing the wages of highly diverse populations is even more problematic. Pay differences

among companies within a sector can be significant, and are sometimes larger than pay differences between agency and non-agency workers.

In almost all European countries PrEAs are the employers of agency workers and, in this respect, agency worker wages should be determined by PrEAs and agency workers only. There are various models of agency worker wage determination across Europe, and some of these are described in the remainder of this section.

In the Netherlands, over the past years, agencies have raised wages through collective agreements with agency

Case 11: Training initiatives in France

In France, an independent fund (Fonds d'Assurance-Formation du Travail Temporaire) is managed jointly by representatives from trade unions and employment agencies. The fund collects 2 per cent of gross wages from all agencies, and uses this levy to finance three types of training programs: 1.3 per cent of the wages finances programs aimed at increasing the employability of workers by helping them adapt to technological change; 0.3 per cent finances individual leaves-of-absence for training; and the remaining 0.4 per cent finances programs combining formal and

on-the-job training ('formation en alternance').

In the latter program, PrEAs help companies to define which skills they lack, and organise the placement of young agency workers with companies both during and after their formal training. In 1999, about 4,500 unskilled young workers benefited from these programs. After 6 months, 30 per cent of them had obtained an employment contract of indefinite duration, 14 per cent a fixed-term contract and 34 per cent were still employed by the agency. Such programs have been particularly useful in matching workers' qualifications with the specific needs of companies.

Apart from formal training programs, there is also an experimental program aimed at validating the training that agency workers receive on-the-job. The worker is observed and assessed by a jury during a simulated work situation, and receives a 'Certificate of Professional Competencies' when performance matches a set of objective criteria. By acquiring a certain number of these certificates, the worker can earn a recognised diploma. Between June 1999 and March 2000, 93 agency workers acquired 132 certificates and 15 diplomas. The experiment's success has led to plans to extend the program.

worker unions. These collective agreements now mostly supercede legislation which sought to guarantee equality of pay between agency workers and user company workers. A vital step in this process has been the recognition of the PrEA industry as a sector in its own right, able to conclude agreements independently of other organisations.

Similar initiatives have been undertaken in Germany, where agency workers still tend to receive lower wages than their non-agency colleagues. Some of this wage differential may relate to the regulatory restrictions on the German PrEA sector and, in particular, the synchronisation ban¹. Nevertheless, recently, a number of

German PrEAs concluded agreements with different labour unions to improve the wage situation.

However, there are some other approaches to setting agency worker wages. In the United Kingdom, agency worker wages, like wages in other sectors, tend to be set by the market. Consequently, agency workers in the United Kingdom often earn more than the industry average because they have skills that are in short supply.

In Belgium and France, agency wages have been regulated since the establishment of the industry in the 1970s. In both these countries, regulations have

Case 12: PrEAs are starting innovative training initiatives

The following cases demonstrate some of the innovative training initiatives that PrEAs are undertaking.

One global PrEA has developed an 'on-line university' that offers free training, skills assessment and career management services to all its workers. The on-line university offers more than 1,000 software and information technology training modules, and more than 100 business skills courses covering topics such as finance, marketing, business law, human resource management and

accounting. By early 2000, almost 20,000 of the PrEA's workers had used the on-line university to enhance their skills and career prospects.

A large PrEA in the United States has formed a partnership with local employers and the local community college. The PrEA and the college together provide life skills and technical training. The PrEA employs students on a part-time basis while they are on the course, and provides them with a full-time job after graduation. So far, 88 per cent of all students have been placed successfully. Joint ventures between

educational institutions and PrEAs are potentially an excellent way to address the training issues facing the industry.

Proyecto Maestro in Spain is a partnership between a multi-national PrEA and the Spanish Olympic Committee, and is aimed at finding jobs for athletes who are approaching the end of their sporting careers. Athletes who participate in Proyecto Maestro receive intensive career counselling and, so far, the results have been positive: 84 per cent of the 36 athletes who took part in the first year of the project in 1999 are now in a new job.

¹ The synchronisation ban prohibits the end of the contract between the PrEA and the agency worker from corresponding to the end of the assignment with the user of the agency worker

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ensured that agency workers receive the same wages as non-agency workers in user companies. In Spain, regulation was introduced in 1999 that guaranteed equal wages for agency and non-agency workers in user companies.

These regulations introduce rigidity to the labour market by fixing wages and discouraging workers from switching between economic sectors with different compensation levels. Nevertheless, such measures may be necessary in order to increase the social acceptability of agency work, but only in cases where PrEAs and agency workers, or the organisations representing agency workers, are unable to tackle the wages issue by themselves.

In establishing wage levels, two forms of equality need to be balanced carefully: the equality between two agency

workers working in different sectors or companies, and the equality between an agency worker and an employee at the client company. However, the over-riding principle has to be that it is the agencies that are the employers of agency workers and, like other employers, have the right to determine the wages of their workers.

PrEAs also provide employment security. A third perceived negative attribute relating to the PrEA industry is low job security. Although the industry will continue to be characterised by workers who change assignments frequently, PrEAs can offer its workers income security over the longer-term, by providing them with a continuous stream of assignments. Since PrEAs manage a portfolio of employment opportunities with multiple employers, they are in an excellent position to provide security of employment to their own workers. Indeed, French official statistics show

Case 13: Increasing job security in European countries

Governments and PrEAs are developing initiatives to increase the job security of agency workers. In France, a special fund has been set up to help agency workers find housing, because they often face problems due to the temporary nature of their contracts. The fund issues 'housing passports' which are a guarantee to landlords that the social fund will pay the rent in the event that the worker fails to do so. In this way, agency workers

may secure housing rights comparable to those on indefinite contracts. In the Netherlands, PrEAs are important employers and offer a wide range of services. The size of the sector has enabled PrEAs and unions to agree on offering agency workers greater security after they have worked for a PrEA for a certain period of time. The collective agreements introduced following the Flexibility and Security Act ('Flexwet') stipulate that, after 26 weeks of work,

agency workers must receive career advice and start accumulating pension benefits. After 12 months, agency workers are considered to be in a normal fixed term contract to which all relevant labour laws apply and can receive up to eight renewable three-month contracts from the agency. After a maximum of 36 months, they can receive a long-term employment contract with the PrEA. These qualifying periods are shorter if the agency worker is assigned to a single user company.

that, typically, French agency workers are substantially less likely to draw on unemployment benefits than workers on fixed-term contracts¹.

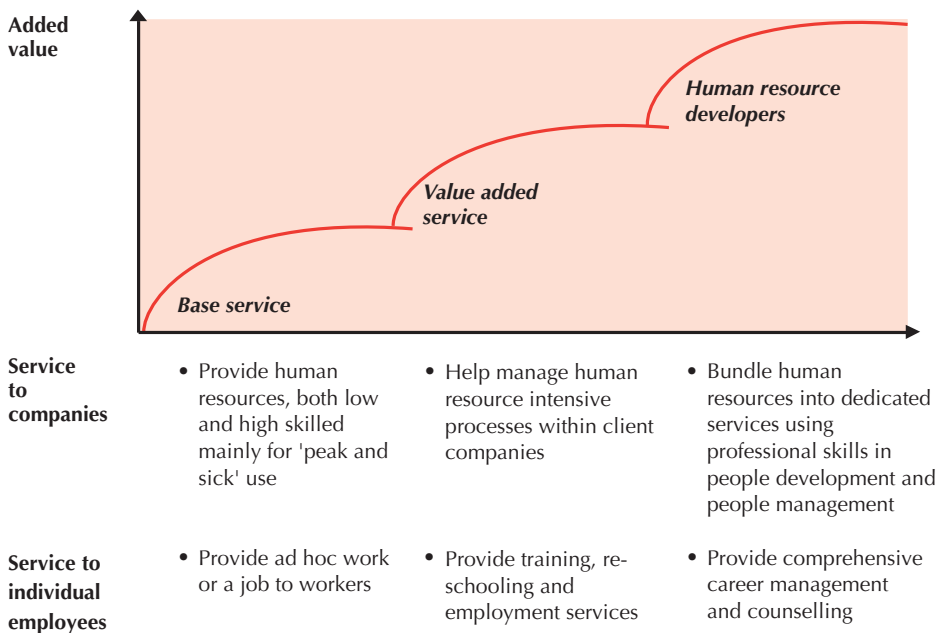
In some countries, PrEAs have introduced longer-term contracts with their workers. When a worker has a long-term contract with a PrEA, the PrEA has an even greater direct financial incentive to find a steady stream of engagements for the worker. Nevertheless, initiatives to enhance job security can only be developed on a national basis, as there are highly diverse regulatory conditions across Europe and large differences in the developmental stages of the industry. Some initiatives in France and the Netherlands are examined in more detail in Case 13.

PrEAS ARE EVOLVING INTO HUMAN RESOURCE DEVELOPERS

The benefits of a strong and healthy PrEA industry are convincing and manifold. In addition, the PrEA industry is evolving a comprehensive human resource management function and this is expected to continue in the future. Basic on-call services form the base from which these more advanced service offerings are evolving (Exhibit 17).

Despite the time and attention that businesses invest in developing their workers, it is becoming increasingly apparent that businesses are focussing their efforts on workers that generate the highest value. In the meantime, non-essential tasks are being outsourced to

17. Evolution of the PrEA industry



¹ Ministère de l'emploi et de la solidarité, Premières Informations et Premières Synthèses. Le marché du travail 1999

3. The Recommended Course of Action

To release the economic and social potential that PrEAs offer in Europe, workers, employers, governments and the PrEA industry itself could consider the following three-part course of action to ensure the orchestrated growth of the industry. First, it would be useful to gain an understanding of the evolutionary potential of the PrEA industry. Second, it would be necessary to craft measures to lift the constraints on the evolution of PrEAs and increase their social acceptance, while ensuring appropriate working conditions for agency workers. And, third, it would be productive to engage in European, national and industry dialogues to implement these measures at the relevant levels.

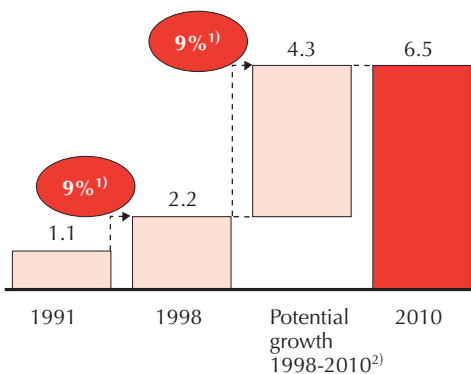
UNDERSTANDING THE EVOLUTION POTENTIAL OF PrEAS

As a first step to releasing the long-term economic and social potential of the PrEA industry, it is useful to understand the potential for the industry's evolution and to know that this will vary by country.

If the PrEA industry is allowed to evolve, expand its role and increase its economic and social contribution in response to the inherent demand for its services, then some 18 million workers a year could be working in the PrEA sector by 2010. This would translate into 6.5

18. Potential growth of the PrEA industry

Possible scenario, EU-15, 2010
Million daily average agency workers



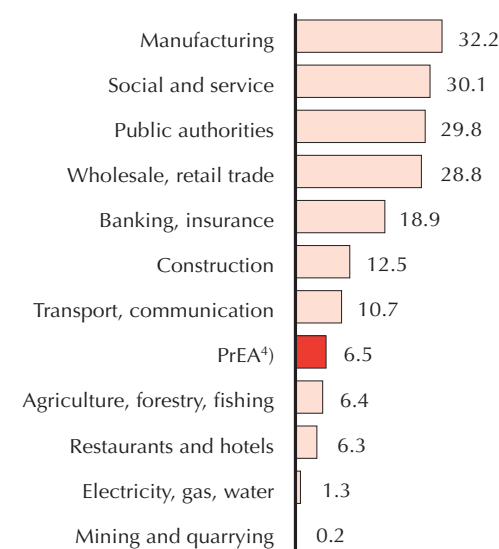
Penetration level³⁾



1) Compound annual growth rate
 2) Estimates based on past growth and stage of development of PrEA industry by country
 3) Agency workers as percentage of the total employed workforce; median estimates
 4) Agency workers are already included in figures for other sectors

Source: OECD; broker reports; McKinsey & Company analysis

Projected employment by sector, 2010
Million persons



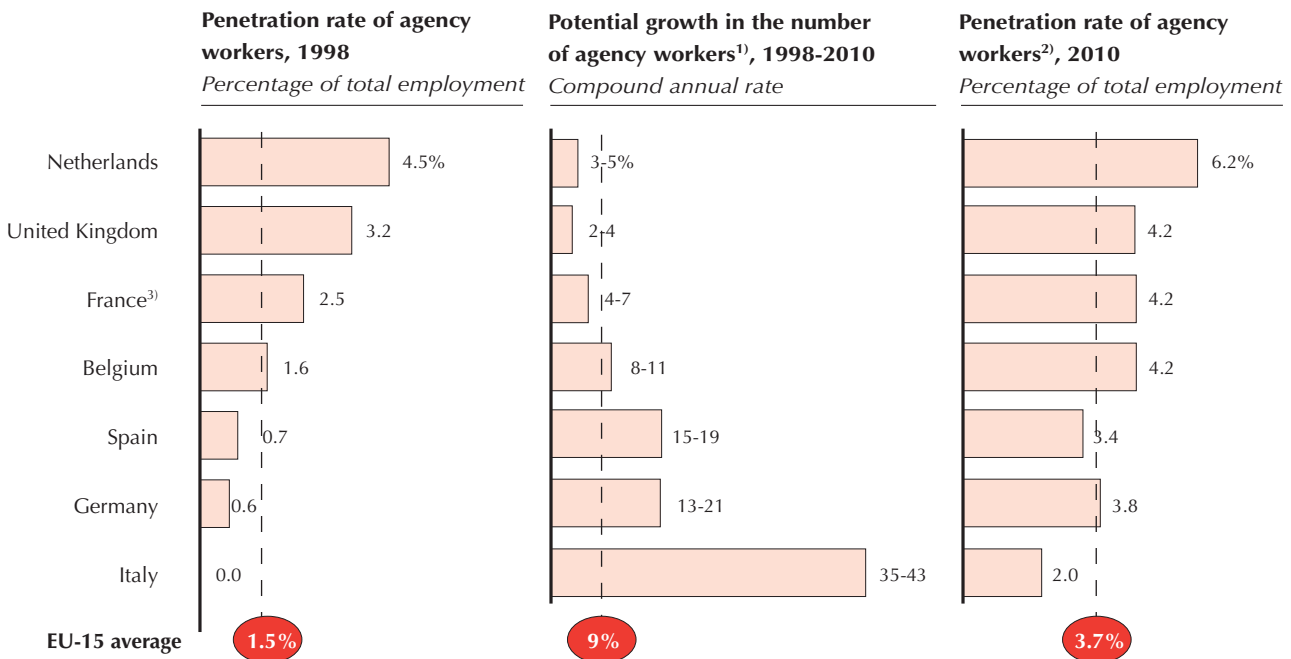
million workers on a daily average agency worker basis, making the PrEA sector a larger employer than agriculture in 2010 (Exhibit 18). Based on this estimate, the PrEA sector could create some 4.3 million new jobs between 1998 and 2010.

If such an increase in PrEA employment takes place, PrEAs could raise European Union employment by 1 per cent by 2010 and meet about 10 per cent of the employment growth target embodied in the Lisbon Objectives (see Chapter one). These estimates are based on the company survey and represent only net job creation, that is, the use of agency workers to perform

tasks that either would not have been performed or would have been performed using internal flexibility solutions but without increasing employment. These estimates do not take into account 'indirect' job creation, because of the significant number of workers who find longer-term jobs through their PrEA assignments. It also does not take into account the extra agency staff required to cope with such an increase.

Naturally, the anticipated growth rates will vary across European countries, depending on the current status and maturity of their PrEA industries (Exhibit 19).

19. Highest growth in low penetration countries



1) Compound annual rate based on Fortis Bank, ABN Amro, Deutsche Bank and Merrill Lynch estimates
 2) Average estimates
 3) According to French government figures, there were 458,000 PrEA workers on a full-time equivalent basis in 1998. This yields a penetration rate of 2.0 per cent. The 2.5 per cent penetration rate for France is based on the 570,000 agency workers in France in 1998, calculated on a daily average agency worker basis

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In developed markets, PrEAs need to offer new services. In the United Kingdom, PrEAs employ more than 3 per cent of the workforce; in the Netherlands, they employ up to 4.5 per cent. In these developed markets, PrEAs supply agency workers to diverse economic sectors and increasingly provide work for highly skilled professionals. PrEAs also play an additional role as screening organisations for the recruitment of long-term workers. In these countries, the industry is expected to go beyond its traditional role by offering a more comprehensive portfolio of services to agency workers, particularly by positioning itself as a longer-term partner for their career management, and by further facilitating the reintegration of 'outsiders' into the labour market.

In some other markets, such as Germany, the industry has to enhance its basic service offering. Germany represents more than 25 per cent of potential job creation by the PrEA industry in Europe. However, regulatory constraints keep this potential unfulfilled. Most German PrEA workers are low-skilled, industrial workers. A number of restrictions

on the activities of PrEAs were removed recently, but the industry needs to enhance its service offering and attract more skilled and specialised workers. Further evolution will require PrEAs to develop new high value-added services targeted at large companies; however, this probably requires some consolidation in the highly fragmented German PrEA industry.

In southern Europe, the industry has to build social acceptance. Permanent employment in southern European countries is strictly regulated and flexible alternatives are often seen as precarious employment. Although the recent legal recognition of agency work (Spain, 1994; Italy, 1997; Greece, 1998) has led to exponential growth (Case 14), the industry is expected to mature gradually and to develop a more comprehensive service offering. Still, a significant number of constraints remain.

In the Nordic countries, the market is still emerging. Denmark, Finland, Norway and Sweden are all small markets with penetration levels below 0.7 per cent. The

Case 14: Deregulation in Italy

'Lavoro interinale' was prohibited in Italy until 1997. In that year, the PrEA industry was legalised, as part of a package of measures aimed at stimulating the labour market. The new regulatory regime, however, was still one of the most restrictive in Europe, and included time limitations, sector constraints and several

administrative burdens on PrEAs. In December 1999, further deregulation occurred with the lifting of restrictions on low-skilled and white-collar labour, and a reduction in the constraints on agencies. For example, compulsory payments to training funds were reduced from 5 per cent to 4 per cent of gross wages. Although constraints still remain,

the PrEA industry has grown very rapidly, especially in northern Italy. In its first year of existence, the sector staffed 52,000 assignments. This figure rose to 250,000 in the second year. Most of those staffed were young, high-skilled workers. If further regulatory adjustments were made, the sector could employ 2 per cent of the workforce by 2010.

Nordic PrEA industry provides flexible employment solutions mainly for female workers in the service sector. The industry was deregulated recently and there remain few legal restrictions on its activities. Analysts agree that the sector has substantial growth potential, particularly given the improved image of the small number of large agencies operating in these markets.

LIFTING CONSTRAINTS WHILE ENSURING APPROPRIATE WORKING CONDITIONS

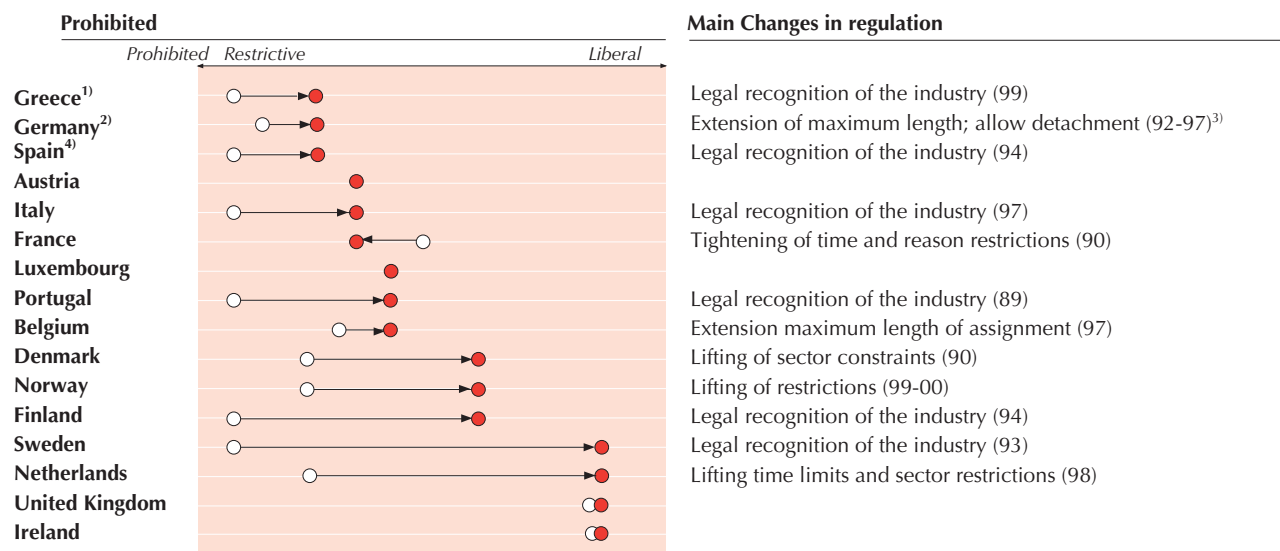
Most European countries have deregulated their PrEA

industries in recent years (Exhibit 20). Greece, Italy and Spain have legalised the operations of PrEAs, while time and sector constraints are being progressively relaxed in other European countries. These reforms are in tune with changes in other OECD countries: in the late 1990s, for example, Japan eased the constraints on its PrEA industry¹. France, however, is an exception to the general European trend, as it has moved to a more stringent regulatory framework in the 1990s and is still considering additional constraints.

Nevertheless, in many European countries, a significant

20. Trend towards deregulation

Regulatory change 1989-1999



1) Greece prohibited PrEAs until September 1998. Since then, the creation of private job counselling agencies has been allowed

2) Germany has a synchronisation ban prohibiting that the end of the contract between the PrEA and the worker corresponds to the end of the assignment with the user of the agency worker

3) Detachment, re-employment and fixed term employment allowed once per employee

4) Following the legal recognition of the industry in 1994, the regulatory framework was tightened in 1999, with the requirement that agency workers be paid equal wages to non-agency workers in user companies. However, over the whole period 1989 to 1999, the aggregate Spanish regulatory environment has become less prohibitive

Source: Deloitte & Touche Bakkenist; ETUI; Morgan Stanley Dean Witter Research; McKinsey & Company analysis

1 Despite easing constraints on the PrEA sector in line with the provisions of ILO Convention 181, Japan still prohibits PrEAs from operating in the manufacturing sector. This is a significant constraint on the Japanese PrEA industry, given that manufacturing accounts for a quarter of Japanese output.

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number of constraints still remain (Exhibit 21). Sector, time and ‘reason’ constraints are direct barriers to both PrEA evolution and growth. We believe that removing these constraints will create work opportunities and stimulate the development of the PrEA industry.

However, while this is done, it is important that any new terms and conditions governing agency work – particularly in the areas of wages and security of employment – are ensured through appropriate labour regulation.

All these measures will improve the image of the sector and increase the social acceptance of agency work. This is vital if the PrEA industry is to develop further. The Netherlands provides an example of how a progressive

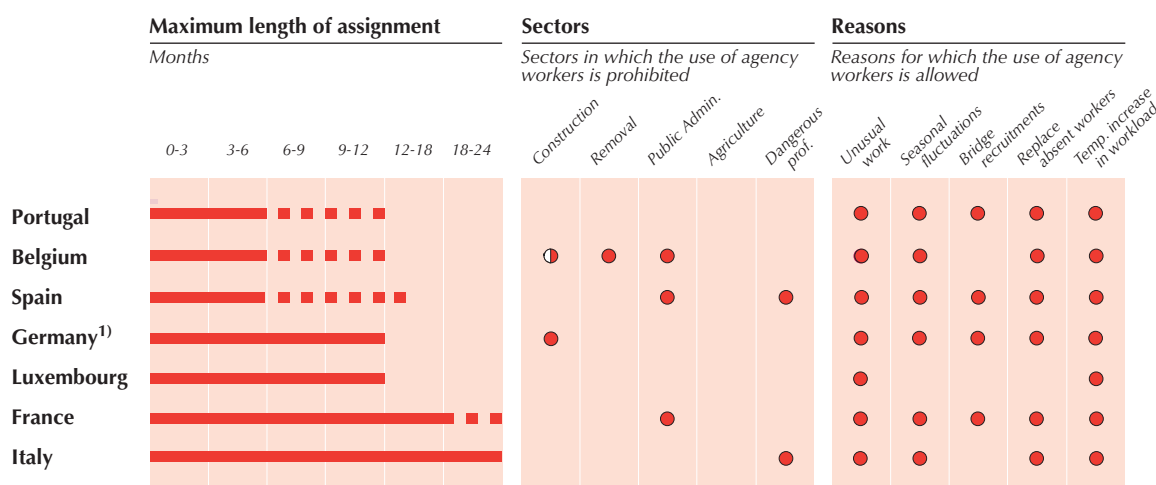
change in the social acceptability of agency work has enabled the development of the Dutch PrEA industry (Case 15) and has created a platform for future growth.

Removing sector constraints

PrEA activities in certain economic sectors are prohibited. These restrictions represent a significant limitation on the expansion of PrEAs, because such prohibited sectors often account for a large share of employment. This is the case, for example, in the construction sector in Germany and the public administration sector in Belgium, France and Spain. If PrEAs were to reach a penetration level of 3 per cent in all prohibited sectors in the European Union, they would be able to expand their service offerings and help employ

21. Barriers on PrEA growth and evolution

Overview of restrictions on PrEAs in more regulated European countries, February 2000



1) Germany has a synchronisation ban prohibiting that the end of the contract between the PrEA and the worker corresponds to the end of the assignment with the user of the agency worker

Source: ETUI; national CIETT federations; McKinsey & Company analysis

up to 500,000 additional people within a decade.

Stretching time constraints

In most European countries, there is a statutory limit on the length of the assignment of an agency worker to a company. In Germany and Luxembourg, for instance, the maximum length of an agency assignment is 12 months. This is to prevent companies from using agency workers instead of workers with longer-term contracts.

The company survey shows that agency workers are rarely used as a substitute for permanent workers. In any case, such restrictions can be harmful to the job security of agency workers.

These time constraints are an important obstacle to the

growth of the industry. In Germany, each lengthening of the maximum period of assignment has been followed by a corresponding expansion of the PrEA industry. These time constraints prevent PrEAs from developing some potentially useful offerings.

Lifting 'reason' constraints

In some European countries, in addition to sector and time constraints, companies are only allowed to use agency workers for a limited number of reasons. For example, in all these countries, agency workers may not be used to bridge recruitments, that is, to fill a long-term position for which a long-term worker is not immediately available. There is no evidence that these regulations meet their apparent objective of protecting

Case 15: A progressive change in mindsets in the Netherlands

In the Netherlands, a debate has been taking place since the 1960s regarding flexibility at work. The debate has resulted in a transformation in the attitudes of unions and regulators towards agency work.

In the 1960s and 1970s, unions were lobbying to ban the PrEA industry but, a decade later, the mindset began gradually to shift. First, the sector was recognised as a second-best means of fulfilling the flexibility needs of companies, to be used as a last resort after all forms of internal flexibility had

been explored. Then, agency work was regarded as a valid option, but one that needed to be limited either by reason or volume restrictions. Finally, the relevance of PrEAs was recognised for longer-term flexibility solutions, provided that they were properly organised and framed in appropriate labour regulations and collective agreements.

The evolution in Dutch attitudes towards agency work has been accompanied by regulatory changes. In 1970, after a long debate, the government introduced a licensing agreement obligation for PrEAs. In the 1980s,

laws on agency work became more rigid: PrEAs were forbidden to operate in some sectors, and the maximum length of assignment was reduced from 6 to 3 months. Today, the Netherlands has a very liberal regulatory environment for PrEAs, and virtually all restrictions have been lifted, while new laws ensure appropriate social protection and working conditions for agency workers.

These new regulations, and their corresponding social acceptance, are enabling the Dutch PrEA industry to expand and offer newer services.

ORCHESTRATING IMPLEMENTATION AT THREE LEVELS

To ensure that the PrEA industry develops in a way that is beneficial to workers, employers and society at large, the initiatives described above could be orchestrated at three levels. First, discussions at the European level could set the direction for the overall regulatory frameworks in each country, taking into consideration the provisions of ILO convention 181. Second, national parties could start a dialogue at the national level to lift the constraints on PrEAs while ensuring adequate working conditions for agency workers. Third, the PrEA industry itself should embark on a parallel self-regulation process.

Change is required at the European level

In the context of the Lisbon Objectives to reduce European Union unemployment to 4 per cent by 2010 (see Chapter 1), the European Union and other parties operating at a European level could play a useful role in the development of the European PrEA industry.

The European Union could develop common goals for the harmonisation of the conditions in which agencies operate, taking into consideration the provisions of ILO Convention 181 (Case 16). The European Union may also be the best institution to deal with the legal impediments relating to the cross-border placement of agency workers.

Case 16: ILO paves the way for a change in PrEA regulation

The International Labour Organisation (ILO) issues conventions that have a binding effect on all Member States that ratify them. After 1949, employment agencies were regulated by Convention 96, which banned the activities of 'fee-charging agencies with a view to profit'. Technically, this made employment agencies a state monopoly.

However, by the 1990s, the PrEA industry was expanding rapidly as many Member States had treated them as legal employers of agency workers and, therefore, placed

them outside the scope of Convention 96.

A critical step towards the recognition of PrEAs occurred in 1994 when, at the 81st Session of the ILO, employers, unions and regulators unanimously acknowledged that labour flexibility was important if labour markets were to function efficiently. As a result, the ILO recognised the increasingly important role played by PrEAs 'in the face of the dual challenges of unemployment and poverty in the world'.

This led the ILO, in 1997, to issue Convention 181, officially recognising the role of both public

and private employment agencies in making labour markets more efficient. The new convention allows for the operation of PrEAs, provides a framework for the protection of the rights of agency workers, and encourages co-operation between private and public employment services. Convention 181 was adopted by 347 votes out of 382, with all representatives from European Union countries, except the government of Luxembourg, voting in its favour. A number of European Union Member States – including Finland, Italy, the Netherlands and Spain – have already ratified the Convention.

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In parallel, European employer and worker organisations (UNICE / CEEP and ETUC) have started a social dialogue and a negotiation process that may result in a European framework agreement on agency work. CIETT and UNI-Europe have also begun a social dialogue at the sector level. Due to the different stages of development of the PrEA industry across countries, it will be critical to avoid over-specificity at the European level. In accordance with the subsidiarity principle, issues should be devolved to the national level, as far as possible.

Platforms for constructive dialogue should be created at the national level

At the national level, the evolution of the PrEA industry needs to be stimulated either by collective agreements on agency work negotiated nationally, or by the national legislative authorities.

Depending on the particular context, specific points

need to be addressed, such as the constraints on the growth of agencies, measures discriminating against agencies, and the risk of insufficient protection of agency workers. However, in general, regulations should concentrate on protecting the rights of agency workers rather than constraining the activities of PrEAs.

National parties could also benefit from comparing their experiences with other countries in a 'peer-review' approach. This is already encouraged by the European Union through the National Employment Action Plans.

The PrEA industry should embark on a self-regulation process

PrEAs have to demonstrate their commitment towards further improving the working conditions of agency workers as the industry evolves. The experience of many sectors suggests that self-regulation – which requires a pro-active attitude towards the sector's future – is an

Case 17: Self-regulation in the travel industry

The travel industry relies heavily on self-regulation to ensure the protection of travellers against abuses. National federations of travel agencies in Europe have generally applied codes of conduct on their members and established commissions to deal with complaints.

Travel agent codes of conduct have typically supplemented legislative provisions by imposing

additional regulations to protect travellers. Breaches in the code are dealt with by the federation, which can expel the guilty travel agency from its ranks. Expulsion can have a severe impact on the activities of the affected travel agency if the federation that it belongs to is powerful, since most international operators (such as hotels and airlines) would refuse to do business with it. Independent complaint commissions handle disputes between travel agencies

and travellers and both parties have the right to file a complaint with the commission.

Many European countries have such independent complaint commissions. In Belgium, for example, 1,500 complaints are filed every year, 300 of which lead to a decision by the commission, the remainder being withdrawn or resolved prior to a commission decision. The creation of a European commission is currently under discussion.

Reflections of the Outside Advisors

Prof. Christian de Boissieu

University of Paris I – Sorbonne, Advisor to the Chamber of Commerce of Paris

Mr. Innocenzo Cipolletta

Director General of Confindustria Italian Employers Association

Mr. John Martin Evans

Expert on Employment Analysis & Policy, OECD

Dr. Peter Hartz

Director of Human Resources, Volkswagen, Germany

Mr. Bill Lewis

Director of the McKinsey Global Institute

Prof. Karel van Miert

University of Nijenrode, former European Commissioner .

Mr. Bill Morris

Secretary General of the T&G Union, United Kingdom

Mr. Manuel Pimentel

Former Minister of Labour, Spain

Zygmunt Tyszkiewicz

Former Secretary General of UNICE

Mr. Lodewijk de Waal

President of the Dutch Confederation of Trade Unions, FNV, the Netherlands

Reflections of the Outside Advisors

Prof. Christian de Boissieu

University of Paris I – Sorbonne, Advisor to the Chamber of Commerce of Paris

I support the main argument of this paper: there is, in our European economies, an increasing demand for labour market flexibility and private employment agencies could satisfy part of this demand. To be sure, the demand for flexibility is larger on the part of employers than employees (this asymmetry is integral to both the problem and the solution). Private employment agencies can solve only part of this asymmetry problem. In this connection, we must not underestimate the role of the other structural factors that contribute to the high level of structural unemployment (NAIRU) in most European countries.

The very concept of flexibility remains ambiguous in the European political and economic debate. For a significant section of public opinion and policy makers, flexibility still has the negative connotation of precarious employment. This report rightly underlines the other side of the coin, namely, the positive dimension of flexibility: increased labour mobility, more solidarity between the 'insiders' and the 'outsiders', greater 'employability' of workers, and so on.

The European debate concerning the role of private employment agencies must be less ideological and more oriented towards two main considerations: economic efficiency and social cohesion. From both viewpoints this report is excellent, even if it underestimates somewhat the second consideration.

Turning to the future, the following issues may be relevant:

- How to relate the role of private employment agencies to each phase of the economic cycle. The substitutability or complementarity between permanent and temporary jobs is a function of the rate of economic growth. It is likely that the functions of private employment agencies will not be the same in the years to come, with the return to 'full employment'. This debate relates to the diversification strategy of private employment agencies and the possibility for them to develop new activities ('possibility' refers here to the market conditions and the regulatory framework).
- In some European countries, there is clearly a trend towards partnerships between private employment agencies and the public sector (in France, for example, between interim agencies and ANPE, the public body). My view is that this trend will continue where it has already started, it will develop elsewhere and it will have many implications for some topics already touched upon.
- The Single Market and Single Currency dimensions of this topic must not be underestimated. Even if the very concept of a 'social Europe' remains ambiguous today, competition and 'level playing field' arguments are going to push towards some harmonisation. Are we going to adjust to the 'short side' of regulation, that is, to the least regulated labour market? I do not think so. We will come to some European 'average', like in other matters. Europeans rightly believe that labour is not and will never be a plain commodity.

Glossary

<i>CIETT</i>	International Confederation of Private Employment Agencies
<i>CEEP</i>	European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest
<i>DAAW</i>	Daily Average Agency Worker. Average number of agency workers assigned through PrEAs on any given day
<i>EPL</i>	Employment Protection Legislation. Regulations protecting the rights of workers
<i>ETUC</i>	European Trade Union Confederation
<i>EU</i>	European Union
<i>FNV</i>	Federatie Nederlandse Vakbeweging
<i>FTE</i>	Full-time equivalent. A full-time equivalent is defined as 1,760 hours per year (44 weeks of 40 hours)
<i>ILO</i>	International Labour Organisation
<i>OECD</i>	Organisation for Economic Co-operation and Development
<i>Participation rate</i>	The proportion of the total population that is either working or seeking work
<i>Penetration rate</i>	Number of agency workers assigned through PrEAs on any given day, as a percentage of total employment
<i>PrEA</i>	Private Employment Agency
<i>SME</i>	Small and medium enterprise
<i>Start-up</i>	A small, newly-founded company, often in the information technology sector

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