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Alexander Spermann*

Do Temporary Agencies Have Incentives to Invest in Human Capital of their Flexworkers?

Schmidt and Thommes (2007) raise this question in their contribution for *Zeitschrift für Personalforschung* (German Journal of Human Resource Research, Special Issue on Human Capital Management). Their well written paper takes into account most of the relevant literature on temporary work agencies. In my comment as practitioner at Randstad and economist at the University of Freiburg I will describe the position of Randstad in the German market (Chapter 1), add the results of some neglected international papers on the effects of temporary agency work (Chapter 2) and discuss the incentives of temporary agencies for flexworkers' human capital investments (Chapter 3).

1. The temporary agency work market in Germany: The position of Randstad

Randstad Germany employed 44,000 flexworkers in 2006. Randstad is market leader in Germany with a market share of 14% implying 1.3 bn. € revenue in 2006. Randstad was No. 3 worldwide with 312,000 flexworkers in 20 countries in 2006. In November 2007, Randstad communicated the agreement to work together with Vedior (the world's No. 4). In case of a successful merger in 2008, it would be the No. 2 worldwide after Adecco but before Manpower.

Randstad Germany joined the collective labour agreement of *Bundesverband Zeitarbeit* (BZA) and *Deutscher Gewerkschaftsbund* (DGB). Bargained wages yield a net income for singles which is above the basic need standard in Germany even at its lowest wage level. BZA/DGB collective labour agreement is the most attractive one in the staffing industry from the flexworker's perspective. Randstad is the only temporary agency with a nationwide works council structure with 55 paid full-time works council employees.

The potential for training measures is enormous. Two thirds of Randstad's flexworkers are low qualified i.e. without vocational training or with anachronistic vocational training. And it's time for training: The average duration of employment relations is about one year.

2. Some neglected international studies

The authors cite Storrie (2002) who estimates the ratio of temporary agency workers using temporary work as a stepping-stone to regular employment to be about 19% in Germany. This paper has not yet been published in a refereed journal. Kvasnicka (2005) tests the stepping-stone hypothesis for Germany and rejects it. He applied modern econometric techniques (propensity score matching) and a rich administrative data set from the *Institut für Arbeitsmarkt- und Berufsforschung* (IAB) between 1975 and 2001, so that these findings should be taken seriously.

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However, some neglected international studies are much more optimistic. Heinrich et al. (2005) explore the effect of temporary agency work on welfare recipients' subsequent employment using an administrative data set for Missouri and North Carolina between 1993 and 1997. They find that welfare recipients who work as flexworkers have lower initial wages than those with jobs in other sectors. However, flexworkers experience faster wage growth. Two years later, they are no less likely to be employed, their wages are close to those of other workers and they are only slightly more likely to remain on welfare.

Andersson et al. (2007) largely confirm these results using a data set drawn from the Longitudinal Employer Household Dynamics (LEHD) program. They estimate the effect of temporary agency work between 1993 and 1995 on the earnings of persistently low wage earners over a subsequent six-year period and find higher subsequent earnings – but only if they gain stable work with other employers. They argue that these positive effects seem mostly to occur because those working for temporary agencies gain access to higher-wage firms than do comparable low earners who do not work as flexworkers.

Graaf-Zijl et al. (2004) conclude that in most countries temporary work acts as a stepping stone in reaching permanent employment. They use OECD longitudinal data and correct for selection biases thereby delivering a serious study on this issue.

Unfortunately, I am not able to present internal data at the moment. However, it is a matter of fact that clients in Germany much more often hired flexworkers in 2007 after a few months than in previous years which is a clear signal (not evidence) for the relevance of the stepping-stone hypothesis at least in an upswing situation.

3. Why does Randstad invest in their flexworkers' human capital?

Human capital theory beyond Becker is highly relevant for the explanation of temporary agencies' flexworker human capital investment behavior. Randstad Germany has always invested in general and specific human capital of its flexworkers since its foundation. However, this was done on a small scale (short training spells) in most of the cases and not at all systematically until last year. The decision to implement the so-called Randstad Academy in October 2007 highlighted the turning point in Randstad's flexworker human capital investment strategy. The main driver for this decision was the bottleneck on the labor supply side: Existing demand of clients for qualified workers has been higher than the supply of qualified workers. International research sponsored by the Randstad Holding concludes that this employment gap is more than a cyclical phenomenon: It is caused by ageing and implies new challenges for temporary agencies (Berkhout et al. 2007).

The Randstad Academy team comprises almost 50 employees nationwide by the end of 2007. It is a decentralized academy with centralized coordination in the headquarter which provides general and specific human capital to flexworkers. It consists of three pillars.

Pillar 1: Training measures

Innovative short-term training measures for applicants and employees are developed jointly with clients and vocational training providers (such as TueV Sued, Sabel Acad-

emy) to fill the employment gap. Typical courses last up to three months and focus on e.g. logistics or Business English/SAP. Training measures are often co-financed by the state via vouchers in case of applicants or vouchers plus employer subsidies in case of already employed flexworkers. More than hundred applicants and flexworkers were trained in such courses organized by the Randstad Academy in the last quarter of 2007 all over Germany. Additionally, estimated several hundred flexworkers were trained in short-term training courses before the foundation of the Randstad Academy in October 2007; typical examples are fork lift driver licences and welder approvals.

Pillar 2: E-learning

Free e-learning is available via www.randstad.de between October 2007 and April 2008 for everyone. Randstad offers e-learning courses for standard software packages such as SAP, Business English and Office. Several hundred courses were completed by the end of 2007. Successful participants receive Randstad certificates. In May 2008, courses will be charged with low fees and additional courses will be available for applicants and flexworkers. Furthermore, qualification tests such as IT-Fitness are frequently used pre-selection tools for applicants in the daily business.

Pillar 3: Certified training-on-the-job (Lernen im Job)

Randstad's offers so-called qualification approvals to its low-qualified flexworkers thereby providing a competence documentation instrument. Flexworker receive client's proof for exercised work steps. Additional competencies, e.g. soft skills, are confirmed by Randstad career managers after short interviews with clients. More than 3,000 documentation sheets were issued to flexworkers by the end of 2007. So far, 25 candidates with completed approvals have received a certificate by the Chamber of Industry and Trade, Koblenz, after a short test.

For the sake of completeness, it should be mentioned that Randstad's main competitors in the German market have also focused on qualification issues. Adecco started a campaign called "Earn and learn", Manpower introduced the so-called "Initiative Q" in Germany. Qualification is now more or less a core element of the big temporary agencies' commercial policy.

Main incentives and issues

Randstad Academy is first of all a tool to reduce the qualified worker scarcity. In the near future, Randstad will be more able to deliver qualified flexworkers to satisfy client's demand than in the past; several thousands vacancies could not be filled due to the lack of qualified flexworkers in 2007.

Randstad Academy contributes to reduce asymmetric information between employer and employee. Especially internal qualification tests, IT Fitness test and training measures serve as a screening device. The Academy's tools facilitate pre-selection of applicants and career development of flexworkers.

Randstad Academy is furthermore an additional element for an attractive employer who highlights quality rather than quantity. Quality has two main dimensions. Randstad is on the one hand attractive for flexworkers who get relatively good pay and career perspectives via consultancy and training. On the other hand, Randstad is attractive for good clients who deserve good flexworkers. It's a central part of Rand-

stad's commercial policy not to accept each client and very low pay for its personnel services.

Finally, reputation plays a non-negligible role. Bad reputation is still an issue for the German staffing industry. Non-precarious wages due to the DGB-BZA collective agreement, a nationwide works council structure and very high job safety standards contribute to the high reputation of market leader Randstad. Randstad Academy certainly leads to a higher reputation with potential applicants, clients and the public.

Flexworkers and clients are increasingly demanding with respect to training issues. It is still true that most flexworkers just want a job and most clients just want a flexible work solution – now. However, more and more flexworkers realize that only more training will allow them to get higher paid jobs in the future. The same is true for clients who face qualified worker scarcity and expect that staffing agencies solve this problem for them.

Externalities of human capital investments play a huge role. On average, flexworkers stay about one year with Randstad. This is quite short time for return on investment. Without public co-financing or cost-sharing with clients only very few training programs are profitable. Therefore, staffing agencies seek for close collaboration with employment agencies and job centers. Unfortunately, administrative costs for acquisition procedures and fraud avoidance are high, and sometimes higher than the subsidies. Nevertheless, the public administration remains a very important partner for staffing agencies to increase training efforts.

Another issue with co- or self-financed training programs is premature transition of flexworkers to clients or other employers. Randstad's experience with flexworkers who receive training during their probation period highlights the problem: These well-trained flexworkers are much more attractive for clients than non-trained flexworkers resulting in a higher portion of flexworkers hired by clients. Furthermore, there exist no legal means to bind flexworkers to the human capital investing firm.

One solution for this issue might be implicit contracts for flexworkers. Although there is no legal obligation to stay with Randstad one might construct a moral one by intense personal contact between flexworkers and Randstad consultant. Furthermore, risk could be shared with clients by bargaining premiums in case of hiring flexworker. Both solutions are relevant in practice.

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