Mitlacher, Lars W.

Article
Temporary agency work, the changing employment relationship and its impact on Human Resource Management

Management Revue

Provided in Cooperation with:
Rainer Hampp Verlag

Suggested Citation: Mitlacher, Lars W. (2005) : Temporary agency work, the changing employment relationship and its impact on Human Resource Management, Management Revue, ISSN 1861-9916, Hampp, Mering, Vol. 16, Iss. 3, pp. 370-388

This Version is available at:
http://hdl.handle.net/10419/78968

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
Lars W. Mitlacher*

Temporary Agency Work,
the Changing Employment Relationship and
its Impact on Human Resource Management**

The increasing use of temporary agency work in Germany has implications for the nature of the employment relationship. The notion of a clearly defined employer-employee relationship becomes difficult to uphold in triangular relationships like in the case of temporary agency work where the agencies employees are working at the site of the client company. The blurring of the boundaries of organisations and of the employment relationship leads to ambiguities that affect Human Resource Management. Given the dominance of new institutional economic approaches in the analysis of temporary agency work, it is not surprising that the ambiguities and the effects and consequences of the use of temporary agency workers on the Human Resource Management of client companies have been underestimated and not been explored in detail. This paper wants to close that gap by adding a Human Resource Management perspective to the current debate in order to gain insight on the role of Human Resource Management in triangular relationships. By building on theoretical discussions and empirical studies the implications of the use of temporary agency workers for the Human Resource Management of client companies are analyzed with a special regard to commitment and identification with the client company. Different suggestions how to organize Human Resource Management instruments for temporary agency workers are presented to illustrate the value of a diverse Human Resource Management for different groups of the workforce.

Key words: Temporary Agency Work, Employment Relationship, New Institutional Economics
1. Temporary agency work as an example of non-standard employment relations

The notion of a clearly defined employment relationship becomes difficult to uphold as changes in the organization of work facilitated by technological improvements have blurred the boundaries between standard and non-standard employment relations. Consequently, non-standard employment relations such as temporary agency work have become increasingly prominent ways of organizing work in recent years (Nienhüser/Matiaske 2003: 467; Bothfeld/Kaiser 2003: 489; Jahn/Rudolph 2002: 1ff.). There are many different terms used in the literature to describe non-standard employment relations (Kalleberg 2000). For example, non-standard employment relations have been referred to as flexible staffing arrangements (Abraham 1988, Houseman 2001), market-mediated arrangements (Abraham 1990), flexible working practices (Brewster et al 1997) or more generally as atypical employment (Delsen 1995; De Grip et al 1997; Córdova 1986). However all definitions imply that non-standard employment departs from the standard work arrangement. Standard work arrangements are generally associated with full-time positions that are based on an indefinite contract and are performed at the employer's site under the employer's direction (Mückenberger 1985: 429; Bosch 1986: 165; Talos 1999: 417/418; Rogowski/Schömann 1996: 224ff.). Though, global economic changes, increased competition and uncertainty among companies put greater pressure on them to push for greater profits and more flexible work arrangements, non-standard employment relations are not new. There have always been employment relations that did not fit the standard model of full-time work (Peck 1996). This is also true for temporary agency work that first emerged in the United States after the Second World War (Mitlacher 2004: 9). As an example of a non-standard employment relation, temporary agency work involves the externalisation of administrative control and responsibility (Pfeffer/Baron 1988). Temporary work agencies employ workers and hire them out to a client company where they work at the client’s premises and direction while the agency charges a fee for this service (Kalleberg 2000: 346). This creates a triangular relationship where a worker establishes connections with different companies (Bronstein 1991; Vosko 1997). The following section illustrates the recent development of the temporary work industry in Germany.

2. Temporary agency work in Germany – figures and trends

The number of temporary agency workers has been growing steadily in Germany in the last decade. This trend is consistent with the development elsewhere in the world. During the 1990s the number of temporary agency workers doubled in the EU countries, while in Spain and the Scandinavian countries the numbers are now more than five times the number at the beginning of the 1990s (Neugart/Storrie 2002, 2). In 2003 on average 341,361 persons were employed as temporary agency workers in Germany (Bundesagentur für Arbeit 2004). In comparison, in 1994 the average number was just 134,443, indicating also a remarkable increase. The development is shown in figure 1.
Taking a look at the characteristics of temporary agency workers, it is striking that temporary agency work in Germany is still dominated by men. Three quarter of all temporary agency workers were male at the end of 2003. This is also true for the other European countries with the remarkable exception of the Scandinavian countries (Storrie 2002, 30). In Finland for example 78% of temporary workers are female (Storrie 2002, 31). This can be mainly explained by the sectors in which temporary agency work is primarily used. In Sweden for example there is significant use of temporary agency work in the health sector. In Germany, in contrast, temporary agency work is mainly used in the industrial sector with more than fifty percent of all temporary workers being employed in this sector, while the service sector is underrepresented (Storrie 2002, 91). Taking a look at the qualification of the temporary agency workers it is striking that 27.5% are unskilled. This indicates that temporary agency work is still mainly used in the low qualified segment of the labour market. However there is evidence for some change into higher qualified segments of the labour market. The number of technicians almost doubled between 1996 and 1999 which may suggest the impact of the information economy (Storrie 2002, 91).

Concerning the number of temporary work agencies there has also been an increase in the last decade as figure 2 shows.

The number of temporary work agencies has risen from 7,513 in 1994 to 14,405 in 2003. As the numbers indicate many new temporary work agencies have been set up during the 1990s. As statistical analysis show, 28.4% of temporary agencies surveyed were founded between 1991 and 1995 while the number is with 37.4% even higher for the period between 1996 and 2000 (ZEW 2003, 6). This indicates that the temporary work industry has been one of the few thriving sectors in Germany in recent years.
3. Legal regulation of temporary agency work in Germany

Taking a look at the legal regulation of temporary agency work in Germany, it is important to note that temporary agency work is legally based on the Personnel Leasing Act, the so-called Arbeitnehmerüberlassungsgesetz (Mitlacher/Ruh 2003, 13). With regard to the statutory regulation of temporary work agencies, commercial hiring-out of workers generally needs to be licensed by the public employment service in Germany (Waas 2003, 390). The public employment service monitors the activities of temporary work agencies and applications for licenses may be refused if there is for example a previous record of non-observance of the Personnel Leasing Act (Storrie 2002, 5/6). Specific regulations for setting up a temporary work agency are quite common in Europe with only the Scandinavian countries, the UK and the Netherlands being exceptions (Storrie 2002, 5). However, in other parts of the world, for example, the United States such rules are unknown (Mitlacher 2004, 109). In general the Personnel Leasing Act sets the determinants for the actors involved in temporary agency work (Schüren 2002, 336). Temporary agency work is a triangular or tripartite employment relationship between the temporary work agency, the temporary work agency employee and the client company (Raab 2003, 392). In such a triangular relationship, the basic problem that arises is the question who should be considered the legal employer of the temporary worker (Davidov 2004, 729). According to German law an employment contract exists between the temporary work agency and the temporary worker (Waas 2003, 389) and therefore the temporary work agency is regarded as the single employer (Urban-Crell/Schulz 2003). Concerning the employment contract between the temporary work agency and the employee there are different possible options with the contract being open-ended or fixed-term. The relationship between the temporary work agency and the client company is based on a contract that obliges the client company to pay a personnel leasing fee in order to receive the allowance to direct the employee (Schönfeld 2003, 8). Consequently, the client company is
legally enabled to tell the temporary agency work what to do, what resources to use, and so on (Waas 2003, 389). Between the temporary agency worker and the client company there is no legal connection in existence (Urban-Crell/Schulz 2003).

The Personnel Leasing Act has seen a number of changes lately. This is due to the proposals by the Hartz-Commission set up to develop a concept for a more flexible labour market. Because the Hartz-Commission put temporary agency work at the core of its proposals the Personnel Leasing Act has been changed in order to support the further growth of the temporary work industry. Consequently there have been some deregulations. For example the maximum duration for leasing employees was restricted. Over the years it was eventually set at 24 months for a maximum period (Schönfeld 2003, 10), and has now been lifted completely (Wank 2003, 20). In addition, the rule that forbid to repeatedly enter into fixed-term contracts with temporary agency workers has been abolished as well as regulation that prevented the temporary work agency from repetitively limiting the duration of an employment relationship with a hired-out employee to the period of his or her first assignment to a client. Furthermore the restriction that the employer was prevented from terminating an open-ended contract with the employee and re-engaging this employee within three months of the termination of the contract has been lifted too (Waas 2003, 393). Superficially there has been a lot of deregulation that might help to increase the usage of temporary agency work and makes doing business a lot easier for temporary work agencies. However, a closer look reveals that the reform of the law might not be as far-reaching as it seems at first glance.

There are several new rules that still place a burden on temporary work agencies when compared to other sectors. While the contracts between the temporary work agency and the employee remain subject to the general rules governing fixed-term contracts in Germany which restrict the use of this instrument (Waas 2003, 394), concerning the temporary work agencies special regulations on Equal-Pay and Equal-Treatment are now in place (Lembke 2003, 99). The principle of Equal-Pay means that temporary work agencies are being placed under the obligation to pay their employees the same wages that the employees of the client company receive starting at the first day of the assignment (Thüsing 2002, 2219). However, two exceptions to this rule exist and are widely used. First, the employer can pay a reduced wage during the first six weeks of the relationship when employing a formerly unemployed person (Oechsler/Mitlacher 2003, 236; Wank 2003, 19). Furthermore the parties to a collective agreement can dispose of the principle of Equal-Pay (Lembke 2003, 102; Behrens/Richter 2003, 87). At this point it remains to be seen if the new regulation will support the further growth of temporary agency work in Germany. First empirical research on this question shows ambiguous results meaning that the new regulation does not influence the decision of some client companies to use temporary agency work while others expect a lower use in the future as a consequence of Equal-Pay (Mitlacher 2004).
4. Triangular Employment Relations: A missing concept in the debate on the changing nature of work

As mentioned above, the concept of non-standard employment relations is not new. However, a look in the relevant literature reveals that there are not many studies that take up the aspect of triangular relationships and especially focus on temporary work agencies. There has been very limited analysis of temporary agency work in the economic as well as in the Human Resource Management and Industrial Relations literature (Forde/Slater 2005; Bellmann/Promberger 2002; Kress 1998), although some new theoretical discussions on temporary agency work have recently emerged in the German Human Resource Management literature (e.g. Nienhüser/Baumhus 2002; Alewell et al. 2004; Friedrich/Martin 2004; Föhr 2000). In addition, some newer micro econometric studies that are dealing with the use of temporary agency workers can be observed (e.g. Bellmann 2004; Hagen/Boockmann 2002). In this context it is remarkable that in the US as well as in the UK, there is a tendency towards studies that are using qualitative research approaches such as case studies to evaluate the use of temporary agency work (e.g. Houseman/Kalleberg/Erickcek 2003a; Houseman/Kalleberg/Erickcek 2003b; Erickcek/Houseman/Kalleberg 2002; Purcell/Purcell/Thailby 2004). Being true for the national sector, comparative international studies that are dealing with the different usage and spread of temporary agency work are even harder to find, with only a few exceptions (e.g. Wierlemann 1995; Mitlacher 2004). So from an overall perspective the research on this issue is still in its infancy.

Nonetheless, when summing up the small number of studies available there are a few theoretical arguments drawing primarily on new institutional economic approaches that have been used in most studies to explain the growth of temporary agency work. However, the analysis of these common arguments from new institutional economic approaches will show that the special issues of the employment relationship in case of temporary agency work could not be fully addressed by these theories thus making it necessary to add a more Human Resource Management oriented perspective to the discussion. After a short outline of these common arguments derived from new institutional economic approaches, the problems of the approaches in explaining the ambiguities associated with the employment relationship in the case of temporary agency work will be discussed.

First there is the notion of transaction costs to explain the emergence of temporary agency work (Vosberg 2001, 204). Transaction cost theory, developed by Coase (1937) and Williamson (1975) seeks to explain why companies choose buying goods and services on the market rather than producing them by themselves. One of the central elements involved is that the choice of a particular contractual arrangement is associated with different kinds of costs (Vosberg 2003). Market transactions for example create costs from several sources (Williamson 1975). First of all, asymmetric information leads to higher costs as buyers and sellers are unlikely to possess the same amount of information. In addition, contracts are incomplete meaning that they cannot include all possible outcomes. This is especially true for the standard employment relationship as the labour service being purchased is inseparable from the employee providing it. Further, there are uncertainties about each party’s role and responsibiliti-
ties that cannot all be anticipated in the employment contract. The company must therefore decide whether it is more efficient to use non-standard employment relationships like temporary agency work or establish a standard employment relation with workers internally. In the terms of the transaction theory, this “make or buy” decision depends on the transaction costs associated with the establishment of a standard employment relationship like costs for hiring employees, administrative costs and costs for terminating the employment relationship. Thus temporary agency work will be used when the price for the service of the temporary work agency is lower than the cost for producing this service by themselves. To realise the described cost difference temporary work agencies have to offer advantages (in terms of cost or special services) that the client companies could not create by themselves.

Second, the property-rights theory (Grossman/Hart 1986; Furobotn/Pejovich 1974; Alchian/Demsetz 1972; Coase 1937) can be used to explain the emergence of temporary work. As mentioned above, the establishment of an employment relationship causes costs. The advantage of temporary agency work results of the complex distribution of property rights in the case of labour (Föhr 2000, 69). The property rights that are associated with the standard employment relationship include the usage of labour in the form of the right to issue instructions to employees and the right to acquire the profits (Föhr 2000, 69). In the case of temporary agency work the agency transfers the right to issue instructions to the worker to the client company (Mitlacher 2004, 149). The temporary agency worker has agreed in the employment contract that the agency can sell the right to issue instructions to employees and the right to acquire the profits (Föhr 2000, 69). In the case of temporary agency work the agency transfers the right to issue instructions to the worker to the client company (Mitlacher 2004, 149). The temporary agency worker has agreed in the employment contract that the agency can sell the right to issue instructions to employees and the right to acquire the profits (Föhr 2000, 69). The client company is able to use the employee without establishing a standard employment relationship (Peipp 1996, 169), the temporary work agency earns a profit through re-locating the property right and the temporary worker is paid a salary for his or her work.

Another common approach to explain the use of temporary agency work is the agency theory (Glasgow 2001, 17pp.; Föhr 2000, 70). Developed by economists, agency theory is a general concept that tries to explain how contractual arrangements can be structured with regard to asymmetrical information and risk allocation (Ebers/Gotsch 2001, 209; Jensen/Meckling 1976, 305pp.). In the concept of the agency-theory, the employment relationship is conceptualized as a contract. The contract is regarded as a means to align the goals of the principals and agents (Glasgow 2001). The use of temporary agency work is according to the agency theory explained by the lack of information and uncertainty on labour markets which lead employers to distribute risk to employees or a third party – the temporary work agencies (Kalleberg et al. 2000). The temporary work agency serves in this case as a labour market intermediary that processes information in order to reduce the asymmetrical information between employee and employer and consequently reallocates the risk between the two parties (Föhr 2000, 71). The client company is willing to pay a fee to the temporary work agency, if it is provided with temporary workers suitable for the tasks needed and can reduce its risk of hiring an unsuitable employee.

As this brief outline shows new institutional economic approaches are helpful to explain the existence of temporary agency work in the first place. However they are
not sufficient to analyse all issues and effects that an increased blurring of organisational boundaries through the use of temporary agency work have on organisations and the management of ambiguities associated with the employment relationship in multi-party arrangements. For example transaction cost theory implies that temporary agency workers could be used in the sense of a commodity. Thus temporary agency workers would represent human capital that is generic, of limited strategic value and can be purchased easily on the market and thus be interpreted as a commodity (Lepak/Snell 1999). However this view might reflect an effective organisational approach when using contractors such as for instance consultants who are hired to deliver a specific service or product (Koene/Riemsdijk 2005). On the other hand, in the case of temporary agency work, agency workers operate under direct supervision of the client’s management. This is important to note as typical problems with contingent employees are often related to behavioural and attitudinal issues associated with temporary work leading to ambiguities in such issues as loyalty, commitment or career advancement (Ward et al 2001, 15). This indicates that the employment relationship concerning temporary agency workers is more than a transactional relationship (Koene/Riemsdijk 2005) and that more attention has to be paid to the management of this special case of employment relationship and the underlying social and “human resource” aspects. To explore these issues Human Resource Management aspects must be included in the analysis of the employment relationship of temporary agency workers as the neo classical assumptions of transaction cost theory – e.g. about price-setting mechanisms – neglect the social embeddedness of activities concerning the employment relationship (Granovetter 1985). For example for transaction cost theory the issue of trust in relationships is unnecessary (Walgenbach 2000) or, if it is obtained at all, reserved for special relationships between family members or friends (Williamson 1993). However as the issue of trust as well as other issues like loyalty or commitment are also relevant with regard to the employment relationship, new institutional economic approaches are not sufficient to explore and to offer explanations and solutions to the arising ambiguities associated with using temporary agency workers. This is also true for the property rights theory. Although from a legal point of view the transfer of the property right to issue instructions to the worker to the client company seems to be advantageous for the client company it neglects the ambiguities that are associated with the transfer. Although the temporary agency worker has agreed on the transfer of this property right ambiguities concerning behavioural and attitudinal issues arise when working at the client’s site and being confronted with for example different pay systems, less acceptance by the regular employees or less opportunities to participate in personnel development programs. Thus the assumption that the sharing of this property right creates advantages for all parties involved disregards the social aspects of the relationship and the ambiguities – for example attitudinal issues like organisational commitment and identity - that are associated with the special triangular relationship.

Similar arguments can be put forward regarding the principal agent theory. As temporary agency work is a triangular relationship, multi-agency problems arise making the principal-agent relationship more complex. Although agency theory implies that the client company can transfer some risks associated with the employment rela-
ionship to the temporary work agency it does not take fully into account problems that are arising during the period of fulfilment of the contract (Williamson 1985). Because of the ex ante perspective of agency theory the future seems predictable at the time the contract is concluded (Ebers/Gotsch 2001). Consequently all problems associated with the contractual relationship can be solved through the implementation of "governance mechanisms" - such as information, control and monitoring systems or incentive schemes (Ebers/Gotsch 2001). As the complexity of the contractual relationship increases in the case of multi-party settings such as agency work so will the problems during the fulfilment of the contract. As ambiguities in the employment relationship arise when temporary workers are used, agency theory might not be suitable to fully analyse and understand these ambiguities. Take for example supervision and control issues that are typically associated with an employment relationship. In the case of temporary agency work the problem concerning control is that the employer is not physically present at the workplace (Rubery et al 2002). Additionally it is not possible to anticipate all misbehaviour of employees. Although agency theory suggests that the implementation of proper control systems could solve this problem (Walgenbach 2000) this question can be very complex in a multi-party arrangement. Even though the temporary work agency is the legal employer (Urban-Crell/Schulz 2003) and has its own disciplinary procedures it is hard to imagine how these can be operated in isolation from those of the client company in which the agency employee is working (Rubery et al 2002). Questions that might arise in a disciplinary matter may concern basic questions such as whose rules to apply as well as how discipline can be initiated for example in the case when a worker commits an act that is regarded as misconduct in the client company but not by the agency (Rubery et al 2002). This leads to another aspect of ambiguities in multi-party arrangements that are not covered by agency theory. As agency theory focuses only on the principal's perspective (Ebers/Gotsch 2001) the problems that might arise for the employee when working as a temporary agency worker are neglected. Again there are ambiguities concerning for example pay systems, performance measurement, career advancement and even organisational commitment of temporary agency workers that have to be taken into account.

The analysis clearly indicates the problems of existing new institutional economic approaches to fully explore employment relationships in triangular constellations. Contracting out of employment does not resolve Human Resource Management problems as inter-organisational relations and multi-party arrangements are also reliant on the actions and behaviour of employees who are engaged in these new employment relationships (Rubery et al 2003). However, new institutional economic approaches assume that organisations are only influenced by internal considerations when dealing with the question how employees should be treated. Additionally it is presupposed that there is a neat matching between the form of contracting and the nature of employment relations. However as the discussion shows many questions remain unexplored by new institutional economic approaches when there is more than one employer involved. Triangular relationships impact the management of the employment relationship because ambiguities arise that are affecting issues such as control, supervision, performance measurement, selection processes, attitudinal issues
concerning organisational commitment and identity, training and pay systems as employees find themselves subject to the decisions of more than one employer (Rubery et al 2003). Additionally the approaches suggest that agency workers can be used rather opportunistically (Koene/Riemsdijk 2005, 76) and treated as kind of a commodity because the employment relationship is characterized as transactional and therefore as non-traditional (Lepak/Snell 1999). Consequently, given the transactional nature of temporary agency work as supposed by new institutional economic approaches, Human Resource Management activities would only need to focus on the compliance with the terms and conditions of the contract with the agency (Lepak/Snell 1999, 40). However the use of temporary agency workers cannot simply be reduced from a Human Resource Management perspective to supervise the compliance with the terms and conditions of the contract. Because ambiguities arise when temporary agency workers are working on site it is necessary and beneficial to pay more attention to the Human Resource Management of temporary agency workers. This adds more insight and makes it possible to extend the analysis further behind the boundaries of new institutional economic approaches.

Not surprisingly perhaps, given the dominance of new institutional economic approaches when analysing temporary agency work, it has not been explored in detail, what ambiguities are caused by permeable boundaries of organizations through the use of temporary work agencies. Especially the task for Human Resource Management associated with this development and the possibilities to respond to these ambiguities has been paid too little attention to in the current debate on the changing nature of work. Thus a Human Resource Management perspective has to be added to the current debate in order to gain insight on the role of Human Resource Management in triangular relationships.

5. Ambiguities in triangular employment relations and the role of Human Resource Management

The use of standard and non-standard employment relationships causes problems from a Human Resource Management perspective. First of all, regardless of the way the agency worker is managed, in Germany the agency and not the client is the legal employer of the worker and there is no contractual relationship between the client and the temporary agency worker (Mitlacher 2004). This leads to several problems. As the agency workers perform their work at the client’s site, the agency is usually not in a position to undertake some of the central tasks associated with being an employer (Rubery et al 2002, 650). For example the agency is not in a position of supervising the work process or even establishing and verifying circumstances that might lead to disciplinary issues. This is even truer when the responsibility for setting performance standards for temporary agency workers does not lie with the direct employer but with the client. As the client is in many cases involved in actually monitoring performance of temporary workers and passing information to the agency, this information serves as the basis for positive or negative appraisals and career promotion (Rubery et al 2002, 663). As disciplinary issues are concerned the agency might completely rely on information provided by the client as the basis for disciplinary sanctions and even dismissals.
That means that in the construction of performance measurement instruments temporary agency workers should be included and the Human Resource managers should be aware of that fact.

Another issue that might cause ambiguities through the use of temporary agency workers is the selection process. When a good part of recruiting and selection of personnel is done by the agencies the importance of this Human Resource function in client companies is weakening (Nienhüser/Baumhus 2002, 106). At this time not the selection of a suitable worker is the main focus anymore but the selection of an appropriate temporary work agency. Concerning the role of Human Resource managers, they require skills in project management, in managing third party relations and should be confident with the legal questions regarding temporary agency work. In addition, Human Resource managers must assist temporary work agencies in developing client specific recruiting and selection instruments.

Further ambiguities that arise when using temporary agency workers are often related to attitudinal issues (Koene/Riemsdijik 2005). Especially loyalty, identity and organizational commitment are seen critical with regard to temporary agency workers. But modern organisations cannot succeed unless all workers agree to contribute to their mission and goals (Rousseau 2004, 120). In the literature this problem is addressed by psychological contract theory (Rousseau 1995). With regard to the employment relationship the psychological contract refers to the system of beliefs that an employee and the employer hold concerning the terms of their exchange agreement (Rousseau 1995). The psychological contracts are shaped by many factors such as values or on-the job experiences (Rousseau 2001, 525). The value of creating a psychological contract lies in their capacity to reduce insecurities and anticipate future exchange (Dabos/Rousseau 2004, 53). Therefore psychological contracts motivate employees to fulfill commitments made to employers because they expect that employers will reciprocate and complete their end of the bargain (Rousseau 2004, 120). Research on this topic has so far been dominated by studies that focus on the employee perspective (Guzzo et al 1994; Robinson/Kraatz/Rousseau 1994) and on dysfunctions in the employment relationship. Above all, most of the studies have explored contract violation and the associated consequences (Bunderson 2001; Robinson 1996; Robinson/Morrison 1995; Turnley/Feldman 2000). With respect to the psychological contract however, little attention has been paid to the question with what organization – client company or temporary work agency – this contract is forged (Guest 1998, 652). Being problematic enough within organisations this question is even more difficult to deal with in multi-agency settings (Rubery et al. 2003, 270). Research has suggested adding the multi-agency perspective to the psychological contract and therefore including the experience of temporary agency workers into a theory that has tended to focus on full-time continues workers (McClean Parks et al 1998, 698). Temporary agency workers attempt to satisfy simultaneously their obligations to the agency and client company through the same single act of labour (Rubery et al 2003, 270). This raises questions about organizational commitment, identity and loyalty. While the Human Resource Management literature usually regards organizational identity as the key to align workers and the strategic goals of the company, identity can take many different forms, including for example work and social identity (Rubery et al 2003,
There has been some research on the impact of dual or multiple identities (Angle/Perry 1986; Guest/Dewe 1991; Barling et al. 1990) as well as on the question how temporary agency workers are dealing with conflicts of loyalty and the spillover effects of attitudes and values of regular employees (Ward et al 2001; Matsiuk/Hill 1998; Rogers 1995; Pearce 1993). As Dutton et al (1994) suggest in their model describing the process of identification with an organisation, the attractiveness of the recognized organizational identity is the key to identification. For example as Bartel (2001) has shown employees’ identification and organizational commitment is affected positively or negatively by the prestige that is accorded to the agency by the client company. These examples show that Human Resource Management has to use instruments to manage temporary agency workers that might be different from the instruments used for permanent staff. An indication of the different Human Resource options that client companies can use to influence the relationship with their temporary agency workers is presented in the literature on diversity management (Koene/Riemsdijk 2005). Brickson (2000) has developed a framework to understand the effect of different organisational arrangements on different attitudes of diverse groups in organisations. Brickson differentiates three types of organisational arrangements that lead to different interaction patterns between different groups of the workforce and have implications on the management of temporary agency workers in client companies.

First collective identity reinforces an organisational structure with strong group divisions where temporary agency workers see themselves as peripheral to the organisation and typically are unsatisfied with their situation (Koene/Riemsdijk 2005). As the organisation makes a clear distinction between core and temporary agency employees, the Human Resource Management pays no attention to temporary employees as they are seen as commodities (Lepak/Snell 1999). Thus the temporary employees have a low identification with the client company. That this is in terms of organizational effectiveness not the right way is suggested by many studies that stress the importance of identification for organisational performance (Pfeffer 1994; Beer et al 1984). However this approach seems to be widespread in companies. For example studies show that 77% of regular employees discuss workplace related problems with colleagues while only 60% of temporary workers do. The situation is similar when analysing the relationship between managers and employees. While 68% of regular employees discuss problems with their superior only 46% of temporary workers do so (Letourneaux 1998, 43). Other studies show that there are deficits in the communication between regular employees and temporary agency workers. According to a study conducted by Kochan et al, 28% of regular employees stated that there are often conflicts between regular and contingent employees (Kochan et al 1994, 66). In another study, 30% of temporary agency workers said that they do not have a good relationship with regular employees in client companies (Wieland/Grüne 1999, 108). In addition, there is evidence that agency workers are the least likely of all workers to get assistance from colleagues (Paoli/Merillé 2001).

The second organisational arrangement suggested by Brickson – personal identity – produces an atomised organisational structure, where work is organized around individuals and the relationship to temporary agency workers is situation-dependent and driven by self-interest. In this case, the HR management instruments used will not dif-
differentiate between the core and contingent workforce. This can also not be regarded as the most effective way to manage temporary agency workers because the Human Resource Management does not specifically pay attention to the needs of temporary workers.

Third, the rational identity orientation produces an organisational structure that promotes co-operation and integrates all forms of employment relationships, i.e. temporary agency workers are regarded as individuals and valued organisation members. This leads to a higher identification and commitment, thus reducing some of the communication deficits and problems stated above in the analysed studies. The Human Resource Management in this structure pays special attention to temporary agency workers which is reflected for example in the specific tasks for temporary agency workers, special training sessions and multiple pay systems.

However there is still need for improvement. As newer research suggests the investment in training in the temporary work industry is generally low (Storrie 2002, 39). This leads to the conclusion that a diverse Human Resource Management for temporary agency workers should include personnel development programs. Yet empirical studies show that temporary workers receive less personnel training than regular employees (Rogowski/Wilthagen 2004, 157). According to a survey of 15,500 workers in the EU, 35% of all surveyed employees but only 12% of temporary workers received some kind of personnel training within a 12 months period (Letourneux 1998, 31). A word of caution is needed here however. In many cases the use of temporary agency workers aims at short term cost reductions and therefore the client companies expect that the workers offered have the needed skills at their disposal. This strategy might work in the short run but especially when it comes to long-term hiring out, as it is now possible in Germany, it may even from a cost perspective prove not to be efficient. Even using temporary agency workers for low paid and well structured routinized work might run into problems when the agency fails to provide competent service or when the work done by the agency workers requires the establishment of close customer relations (Rubery et al 2002, 657). Take for example a service company that uses temporary agency workers in call centres. As this requires a good knowledge and understanding of the brand and organizational image of the client company, it is the task of the Human Resource Management of the client company to take a leading role in organizing the necessary training. In this case it is obvious that only the client company can impart specific information on the company brand and image (Rubery et al 2002, 664).

With regard to pay systems the use of temporary agency work leads to further ambiguities. The main area for comparison is the workplace where individuals are working alongside other individuals in comparable jobs. Non-standard employment relations can be used to introduce different pay systems (Nienhüser/Baumhus 2002). However even if this is part of the Human Resource strategy the disruption should not be sustained in the long term, hence making some modifications of the pay system necessary (Grimshaw et al 2001). As transparency and fairness are central aspects to be considered when designing pay systems, the pay system for temporary agency workers should be extended with some additional elements to increase motivation. However, concerning the legal possibilities in Germany, temporary agency workers are
covered by the Equal-Pay principle, thus it is not likely that client companies will pay temporary workers additional rewards in form of cash, despite the fact that through the exceptions to the Equal-Pay principle pay differentials still exist. So what elements can be offered in the pay system of client companies with regard to temporary agency workers to increase their motivation and commitment? First of all, temporary agency workers that show good performance might be offered direct contracts, as wide pay differential based solely on employment status and not on skill levels might become indefensible over a longer period of time (Rubery et al 2002, 662). At first sight the data supplied by the BZA, the association of licensed temporary work agencies in Germany, suggests that 30% of temporary agency workers are transferred into regular employment at client companies thus indicating that client companies make extended use of this option, whether this is explicitly regarded as a part of their pay system or not. However empirical studies indicate a much lower rate demonstrating that there is still need for improvement (Mitlacher/Ruh 2003; Rudolph/Schröder 1997). Another approach is trying to pay lower wage increases to permanent staff in order to move their wages closer to those earned by the agency workers, which is important because wide wage disparities encourage high rates of turnover and reduce the effectiveness of this Human Resource strategy (Rubery et al 2002, 662).

Summarizing the findings, the discussion shows that ambiguities arise when using standard and non-standard employment relationships at the same time and that this can create problems for Human Resource policies and practices. However the analysis has offered some insight on the question how Human Resource Management can deal with these problems.

6. Future directions for Human Resource Management in triangular employment

One conclusion that could be drawn is that greater attention has to be paid to the impact of the use of temporary agency work on the employment relationship. Even in the case of only using regular employees there are problems in managing the standard employment relationship. These problems are caused by the tensions between controlling and monitoring the employment relationship. The addition of a third party besides those of employer and employee adds additional complexity and uncertainty into the employment contract and performance. Especially when it comes to creating commitment and loyalty it becomes important that a diverse Human Resource Management is used to care for the special needs of temporary agency workers. As the psychological contract theory implies, the psychological contract of a worker and thus his or her commitment is shaped by the quality of the exchange relationship. This quality can be shaped by the use of different Human Resource Management instruments for different groups of the workforce. Thus special training and development programs for temporary agency workers are an important source of beliefs referring to the psychological contract. The same is true for communication and socialisation events with co-workers. Consequently Human Resource Management becomes even more important in managing triangular relationships. The focus of Human Resource Management has to be much broader including the temporary work force and not only focusing on the regular employees. This is at the same time a chance but also a
challenge. Of course, these changes might be vulnerable to increasing economic pressure and the need to realize short-term cost savings and flexibility through the use of temporary agency workers. However, as the analysis shows there are hints that a diverse Human Resource Management leads to significant scope for improvement over the rather careless approach dominant so far.

These results clearly show that the ambiguities associated with the special case of a triangular relationship can only fully be explored by drawing not only on new institutional economic approaches that have dominated the debate so far but also referring to a Human Resource Management perspective. According to the new institutional economic approaches temporary agency workers are treated as a commodity of relative low value and can easily be replaced. But even in this case, the client company’s performance relies to some extent on the actions and behaviour of the temporary agency workers. Consequently the importance of specific Human Resource Management attention to temporary agency workers and in handling the ambiguities associated with this special form of employment relationship should not be underestimated. Therefore, it is important to include a Human Resource Management perspective when analysing triangular relationships, adding value to the analysis with the so far dominant new institutional economic approaches.

It also has to be noted that through the use of temporary agency work, the boundaries of companies are getting more and more blurred as inter-company networks arise. An example for that trend can be seen in the United States where client companies regard temporary work agencies as strategic partners (Mitlacher 2004). As boundaries become more permeable, third parties are keen to influence the internal Human Resource policies and politics of their partners. Further research in the Human Resource Management as well as in the Industrial Relations sector should therefore shift its focus from the single organisation towards inter-company networks and the management of triangular relationships. Especially with regard to temporary work agencies it should be explored how the use of agency workers and the shift of organizational boundaries influence the management of the standard, thus internal, employment relationship as well as the management of the non-standard employment relationship. In this context more in-depth analysis is needed to understand the implications for Human Resource Management and its future role. Taking into account the growing importance of temporary agency work in Germany such a shift in the research agenda would be essential.

References


