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## The New Role of Temporary Agency Work in Germany

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## ABSTRACT

### The New Role of Temporary Agency Work in Germany<sup>\*</sup>

This paper reviews the development of temporary agency work after its deregulation in the context of the so-called Hartz reforms in Germany. The new role of agency work emerges from its enormous growth after deregulation, the intense use of agency work by big stock-listed companies and upcoming structural shortage of skilled labor. Agency work turns out to be procyclical and a leading indicator of labor market trends as well as an early indicator of recessions. The stepping stone hypothesis is only accepted for long-term unemployed after the Hartz reforms. Anecdotal evidence of revolving door effects is well-known but substitution as a broad-based phenomenon is not plausible. Education of staffing agents and training programs for agency workers are on the staffing industry's agenda and will be even more important in the near future due to structural skills shortages.

JEL Classification: I2, J2, J4

Keywords: temporary agency work, Hartz reform, staffing industry, revolving door effect, stepping stone hypothesis

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# 1. Introduction

In a 2001 presentation given in Berlin, Nobel Prize winner James Heckman quoted from Thomas Mann's novel *Buddenbrooks*, comparing Germany to a dying star whose light still shone brightly today, but would not continue to shine for long without a dramatic institutional transformation. Heckman was especially critical of the disincentives in the labor market that led to a high level of structural unemployment (see Heckman 2002). At that time, *The Economist* described Germany as the "sick man of Europe," primarily in reference to its inflexible labor market that hindered opportunities for growth. The overdue structural reforms in the labor market were addressed with the so-called Hartz reforms; *The Economist* referred to this legislation as the most significant labor market reform of the entire post-war period. In a special report on Germany that appeared in the March 2010 issue, *The Economist* described Germany as Europe's growth engine, and lauded the "miracle" of the German labor market (*Economist* 2010).

Today it is an uncontested fact that the Hartz reforms substantially contributed to Germany's significantly lower long-term unemployment rate (below 3%) during the last economic upswing. Furthermore, for the first time in post-war history, Germany was able to maintain a lower unemployment rate in the current downturn than in the previous upswing (under three million unemployed). Structural unemployment has been significantly reduced for the first time, and the "ratchet effect" in the labor market has been broken. Indeed, the German Council of Economic Advisers summarized that, "one can observe not only a cyclical labor market recovery, but also an increase in the flexibility and dynamism of the labor market" (Sachverständigenrat 2008, p. 293, author's translation). During the economic and financial crisis in 2008–9, it was apparent that despite the sharp downturn in economic growth, the labor market remained relatively stable thanks to its increased flexibility.

Bellmann et al. (2009) emphasize that the two atypical forms of employment – fixed-term employment contracts and temporary agency work – have been central elements of the dynamism and flexibility of the German labor market. However, this change has come at a price. The German Council of Economic Advisers has drawn attention to the unequal distribution of risks and opportunities on the labor market, pointing to the segregation of workers in a firm into "permanent" and "marginal" employees. More specifically, the Council states that "the flexibility in the labor market and the costs of adjustment are borne to a significant extent by atypical employment relationships – for example, in the form of temporary agency work" (Sachverständigenrat 2008, p. 265, author's translation). As a solution, the Council proposes corrective measures that would favor normal employment

relationships. In particular, it advocates the reform of dismissal protection statutes so that lay-offs due to operational reasons are generally permissible, so long as a binding severance compensation scheme has been agreed upon.

The German Federal Statistical Office (2009) has highlighted the problem of the so-called "solo self-employed," who, as atypical employees, frequently work for low wages and face a higher risk of poverty in comparison to those in normal employment relationships. However, the Federal Statistical Office emphasizes that the risk of poverty – i.e. of belonging to the "working poor" – remains the highest in relative terms in the case of atypical forms of employment.

The regulatory reform of temporary agency work that went into effect on 1 January 2004 through the enactment of the Hartz I Law has greatly increased the importance of the temporary staffing sector as a flexibility tool. Broad deregulation of the sector, described in more detail in Section 2, was combined with the introduction of the rule that equal pay must be granted to permanent and temporary agency workers, unless the latter are already covered by a collective labor agreement. As a consequence, collective labor agreements were quickly negotiated throughout the temporary agency work sector, an economic industry that had largely not been bound by collective labor agreements prior to 2004.

The outlook for the temporary agency work sector following the Hartz reforms has been a frequent subject of academic scrutiny in recent years. A ZEW survey of temporary staffing firms – the largest of its kind at that time – provided an initial forecast of the expected impacts of the Hartz I reforms (see Ammermüller et al. 2003). The survey was conducted in the spring of 2003, and drew responses from 471 temporary staffing agencies (out of a total of about 4,000 in existence at that time). The forecast came to the conclusion that the majority of the firms surveyed expected increasing personnel costs and falling revenues as a consequence of the new law. Particularly in the metals and electronics industries, revenue losses were anticipated. At the time of the survey, one collective labor agreement had already been concluded and two additional agreements were close to being signed in the sector. In this way, the firms that were interviewed could anticipate exemption from the equal pay rule.

Bellmann (2004) analyzed the determinants of the operational decision to hire temporary agency workers based upon the 2002 IAB Establishment Panel using Probit and Tobit models, and came to the cautious prediction that it remained to be seen whether temporary agency work could achieve acceptance compared to other forms of flexible employment.

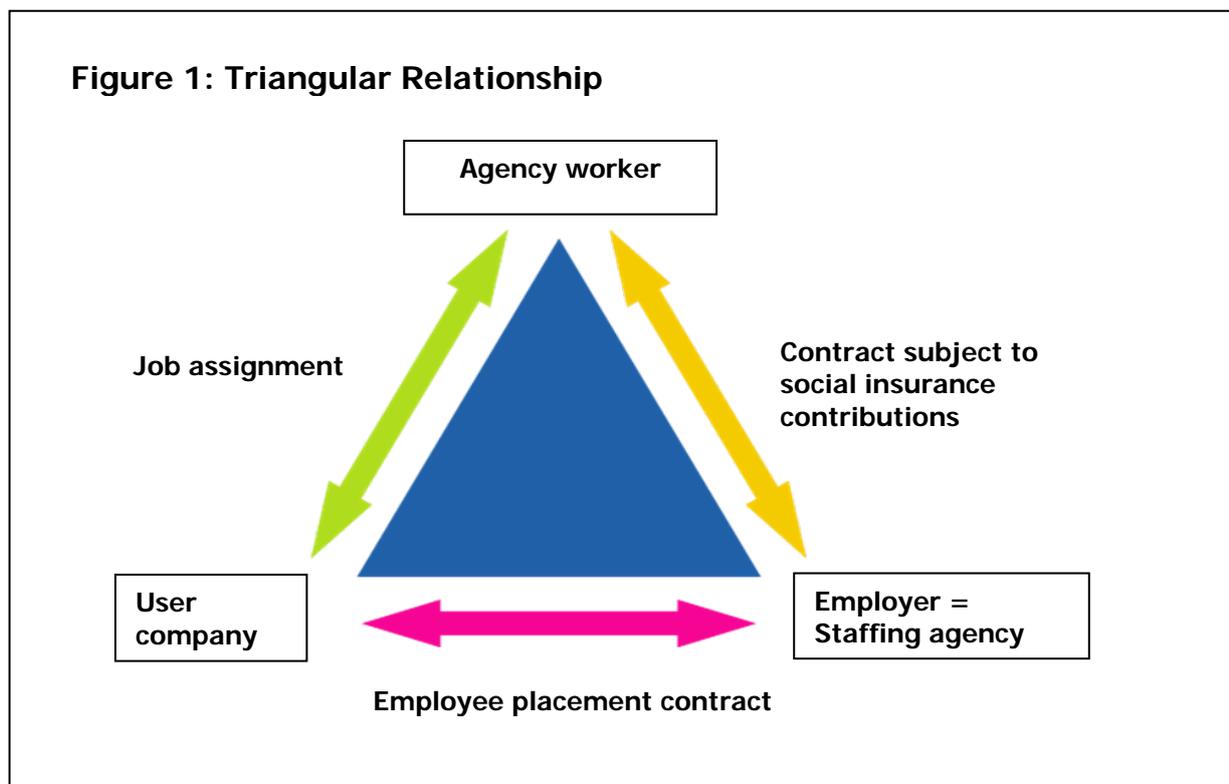
While Burda & Kvasnicka (2006) described temporary agency work as a new component of the German labor market, they remained uncertain about its future growth, stating that „it remains to be seen whether the regulatory reform of the sector will generally lead to an increase or a decrease in: (1) the flexibility of temporary agency work as an instrument for personnel adaptation; and (2) the attractiveness of temporary agency work for employees and the firms that use staffing services“ (ibid., p. 222, author’s translation).

In fact, the regulatory reform of the temporary employment industry set off a boom in the labor market, something that was not anticipated either by industry representatives or economists, as documented in the statistical analyses in Section 2. Section 3 discusses five operational reasons for the use of temporary agency work. As the significance of temporary agency work for the labor market has changed in line with its quantitative growth, Section 4 discusses the new role of temporary agency work in the wake of the Hartz reforms. Conclusions and an outlook in Section 5 conclude the paper.

## 2. The German Employer Model of Temporary Agency Work

### 2.1 Institutional Framework

Temporary agency working arrangements are characterized by a triangular relationship between temporary staffing agencies, temporary agency workers and user companies. The triangular relationship is governed contractually by means of an employment contract between temporary staffing agencies and temporary agency workers in conjunction with an employee placement contract between temporary staffing agencies and user companies (Figure 1). The temporary staffing agency places temporary agency workers at user companies. Temporary agency workers earn wages according to the relevant pay grade in the collective labor agreement, and continue to do so during illnesses, vacations, and non-placement. The employment relationship is subject to all usual social contributions (i.e. pension, health, nursing, unemployment, accident insurance contributions). User companies pay an hourly client fee to the temporary staffing agency for work actually performed by assigned agency workers.



The following terms are used as synonyms in this article: Temporary agency work (TAW) = agency work = personnel leasing; temporary work agencies (TWA) = temporary staffing

agencies = staffing agencies = temp agencies = external flex-suppliers; temporary agency worker = agency worker = temp worker = temp employee.

Legally, the staffing agency is the employer. However, work performance actually takes place at the user company, which has managerial authority over the worker for the duration of the placement. This form of employment is described in the literature as atypical, since the traditional relationship between the employer and the actual job is decoupled: agency workers do not work directly for their employer (Crimmann et al. 2009).

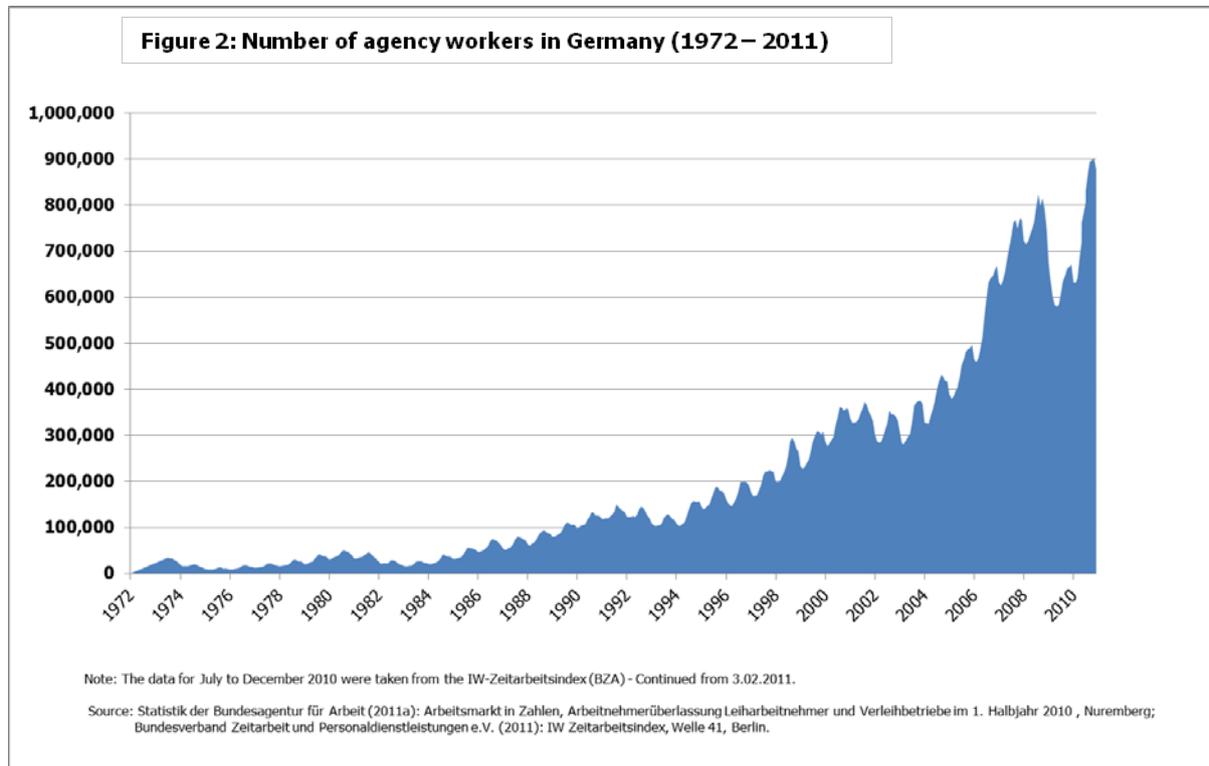
The legal foundation for temporary agency work in Germany is the Temporary Agency Work Act (Arbeitnehmerüberlassungsgesetz) of 1972. This law was broadly deregulated within the framework of the Hartz reforms that went into effect on 1 January 2004. Numerous provisions of the Temporary Agency Work Act were lifted: the limitation on the maximum length of placement; the so-called synchronization ban (which prohibited limiting the length of the employment contract to the duration of the placement at the user company); the restriction of temporary employment to the construction industry; the special limitation on long term placement; and the re-hiring ban. In return, the principle of “equal pay” in the absence of a collective agreement for temporary agency workers was fixed into law. As the equal pay principle can only be circumvented through collective agreements, such agreements were quickly implemented at nearly 100% of temporary staffing agencies. In this way, the equal pay principle only applies to a very small number of temporary agency workers – i.e. those without a collective labor agreement.

In the spring of 2010, three long-term collective labor agreements were signed in the temporary staffing industry, leading to a uniform minimum wage in West Germany of €7.60/hour as of 1 October 2010 (see Spermann 2011). In this way, the deregulation of temporary agency work that was instituted with the Hartz reforms has led to strong wage commitments in the temporary agency work sector. Burda & Kvasnicka (2006) have characterized the Hartz reforms as the “re-regulation” of the staffing industry; in light of the above, this is an apt description.

## **2.2 Evolution of Agency Work**

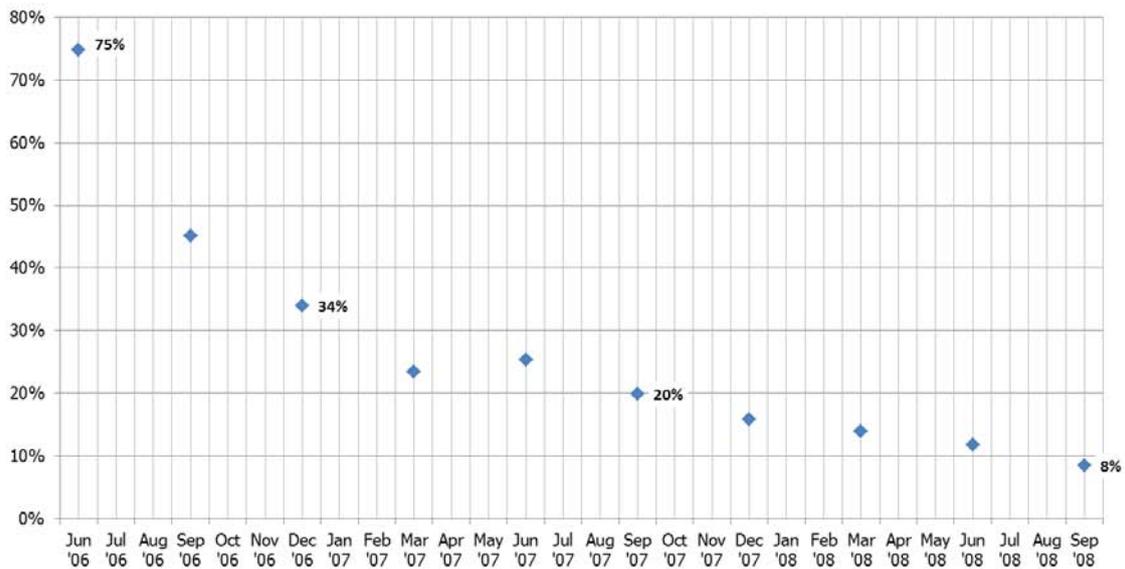
Temporary agency work has been permitted in Germany since 1972. Within a thirty year period, the number of temporary agency workers increased to more than 300,000. After the Hartz reforms in 2003 the number of temporary employees rose dramatically to over 800,000 by 2008. The financial and economic crisis of 2008–09 led to a sharp drop in temporary employment in a very short period of time. By April 2009, there were only 580,000

temporary agency workers in Germany. Three years of gains were erased, as shown in Figure 2. The number of temporary agency workers rose again quickly following this trough, reaching a new all-time high of approximately 877,000 in December 2010, according to estimates made by the German Federal Association of Temporary Staffing Agencies (BZA) (Bundesverband Zeitarbeit und Personaldienstleistungen e.V. 2011).



Alongside positive economic conditions, the Hartz labor market reforms have played a significant role in driving the rapid growth of temporary agency work in Germany since 2004. Between 2003 and 2007 the percentage of agency workers of all employees subject to social insurance contributions almost doubled. For the first time, agency work significantly influenced the labor market during a growth period in the business cycle: In 2006 and 2007, staffing agencies were the leading drivers of job creation in Germany (see Bellmann et al. 2009). In the middle of 2006, 75% of growth in new jobs subject to social insurance contributions was attributable to the staffing industry. As the economic upswing continued, this percentage gradually declined to 8% in the fall of 2008 (see Figure 3). Since the end of the economic crisis this pattern has repeated itself: In June of 2010 temporary employment accounted for 53% of all new job creation (see Bundesagentur für Arbeit 2011b, p. 15)

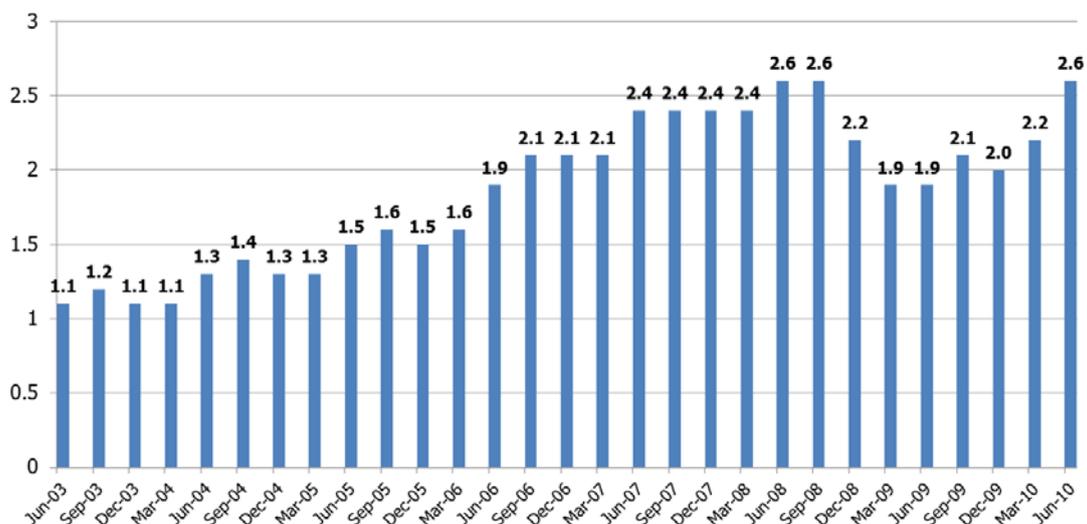
**Figure 3: Share of agency workers in employment growth**



Source: Bundesagentur für Arbeit (2011b): Arbeitsmarktberichterstattung: Der Arbeitsmarkt in Deutschland, Zeitarbeit in Deutschland - Aktuelle Entwicklungen, Nuremberg.

In Germany, temporary agency work is subject to social insurance contributions. Therefore, if one wants to quantitatively measure the prevalence of temporary agency work as a form of employment, then the number of temporary agency workers needs to be compared to the overall number of workers subject to social insurance contributions. The Federal Employment Agency calculates the percentage of temporary agency workers among all workers subject to social insurance contributions (i.e. the so-called “penetration rate”) on a bi-annual basis. The national penetration rate rose after the Hartz reforms from just over 1% in 2003 to a high of 2.6% in September 2008, and then fell during the crisis to 1.9% in June 2009, as can be seen in Figure 4. In this way, changes in the penetration rate over time also demonstrate that the growth of the staffing industry was very rapidly thrown back by three years as a result of the crisis. Since then, the percentage of temporary agency workers among all workers subject to social insurance contributions has risen once again, returning to the previously attained high of 2.6% in June of 2010 (see Bundesagentur für Arbeit 2011b).

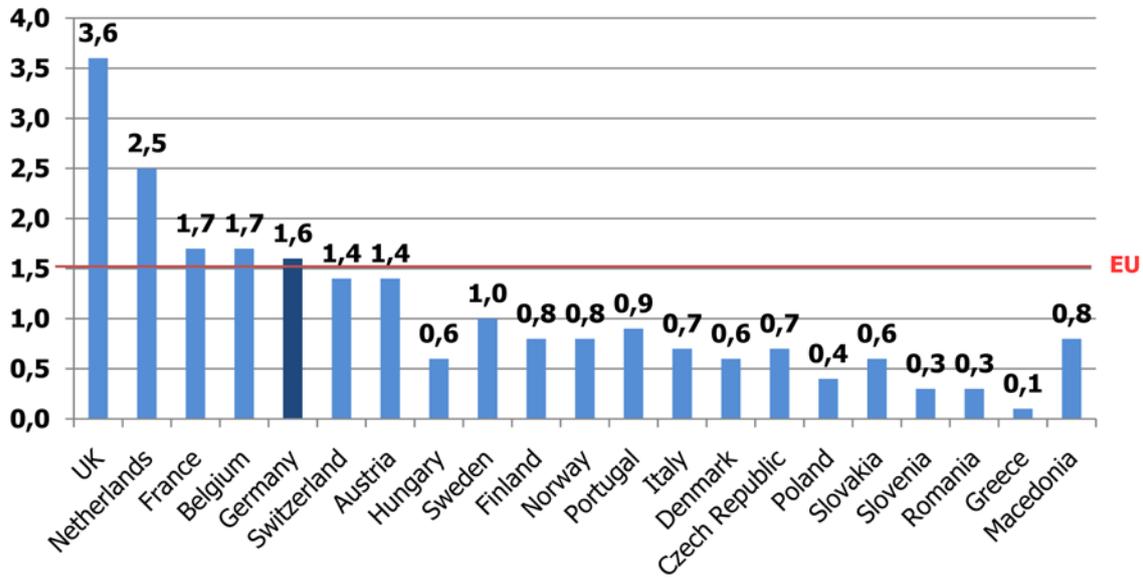
**Figure 4: Share of agency workers among all workers subject to social insurance contributions (national penetration rate), June 2003 – June 2010**



Source: Bundesagentur für Arbeit (2011b), Arbeitsmarktberichterstattung: Der Arbeitsmarkt in Deutschland - aktuelle Entwicklungen in der Zeitarbeit, Nuremberg.

The national penetration rate cannot be meaningfully compared to figures from other countries, since it is only in Germany that temporary agency work is organized as a form of employment subject to social insurance contributions. As a result, for the purposes of international comparison, the proportion of temporary agency workers is normally measured against the total workforce. In 2009 the percentage of temporary agency workers among all wage earners – i.e. the relationship used internationally to calculate the penetration rate – was approximately 1.6% (see CIETT 2011). This places Germany in fifth place compared to other European countries, behind the UK, Netherlands, France, and Belgium, and slightly above the European average of 1.5%, as shown in Figure 5.

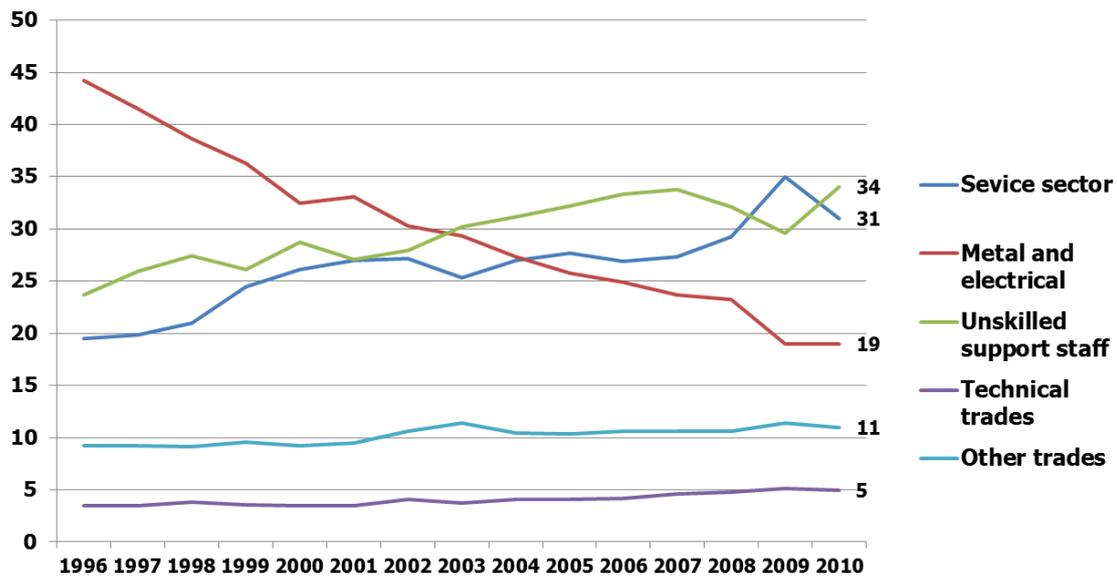
**Figure 5: Percentage of agency workers among all workers in selected countries (international penetration rate) , 2009**



Source: CIETT (2011), The agency work industry around the world, Economic Report.

As of 30 June 2010, over one-third of agency workers were used as support staff, as shown in the breakdown by employment area in Figure 6. Following unskilled support staff (34%), the most common employment areas were the service sector (31%), metal and electrical trades (19%), other trades (11%), and technical trades (5%). Two trends are evident based on figures from 1996 to 2010: The share of temporary agency workers has increased in the service sector, and has declined in the metal and electrical trades (see Bundesagentur für Arbeit 2011a).

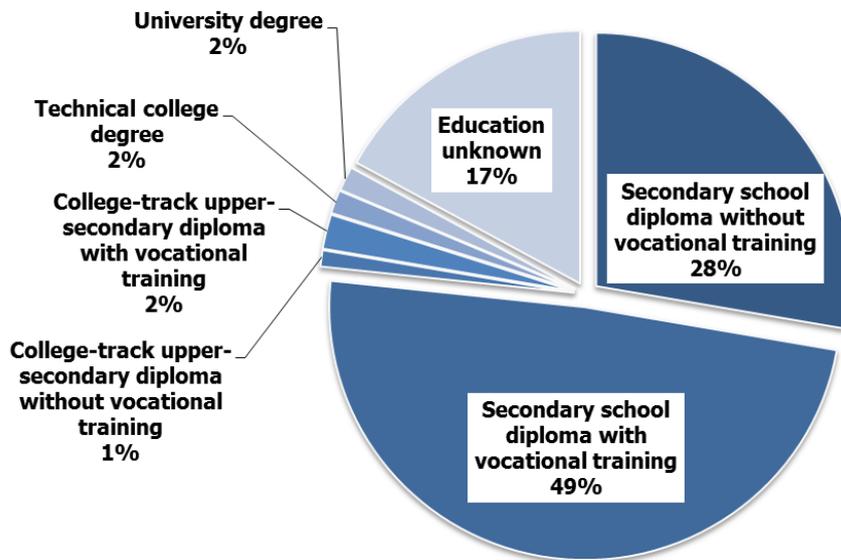
**Figure 6: Breakdown of agency workers by field, 1996 to 2009 (in percent)**



Source: Bundesagentur für Arbeit (2011a): Arbeitsmarkt in Zahlen, Arbeitnehmerüberlassung, Leiharbeitnehmer und Verleihbetriebe im 1. Halbjahr 2010, Nuremberg.

The formal qualification structure of agency workers can be derived from the employment statistics of the Federal Employment Agency. The figures maintained by the Federal Employment Agency include the employees of firms whose primary activity is “employee placement” as well as their core staff. As of 30 June 2009, about 49% of temporary agency workers had earned a secondary school diploma and had participated in vocational training, and 28% had received a secondary school diploma without additional vocational training, as shown in Figure 7. A much smaller proportion had completed college-track upper-secondary education (Gymnasium) with vocational training (2%) or without vocational training (1%), a vocational school diploma (2%) or a college diploma (2%). In the case of 17% of temporary agency workers, the level of formal education is unknown.

**Figure 7: Qualification structure of agency workers (20 June 2010)**



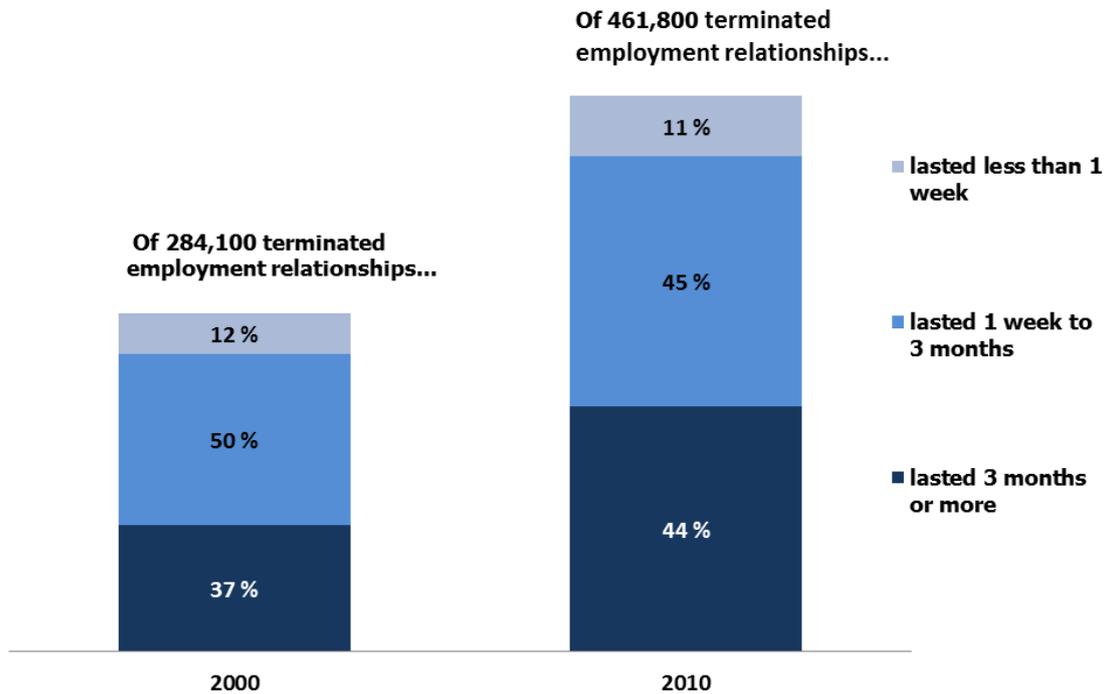
Note: Employees of firms whose primary activity is "employee placement."

Source: Statistics from the Bundesagentur für Arbeit (2011c): Beschäftigungsstatistik.

How long do agency workers remain employed at staffing agencies? The average length of employment in temporary agency work is short, but has nevertheless increased significantly during the last 10 years, as shown in Figure 8. Of the temporary employment contracts that expired in the first half of 2010, 44% lasted three months or longer (2000: 37%). Accordingly, more than half of temporary employment contracts that ended in the first six months of 2010 had lasted for less than three months. Among these, 11% of the employment contracts even lasted less than one week (2000: 12%).

At Randstad, Germany's largest temporary staffing agency, the average term of employment is 14 months across all education levels (2010). The average length of placement at user companies has not been statistically measured, but it must be significantly shorter than the average length of employment at a temporary staffing agency, since temporary employees are typically placed at several user companies.

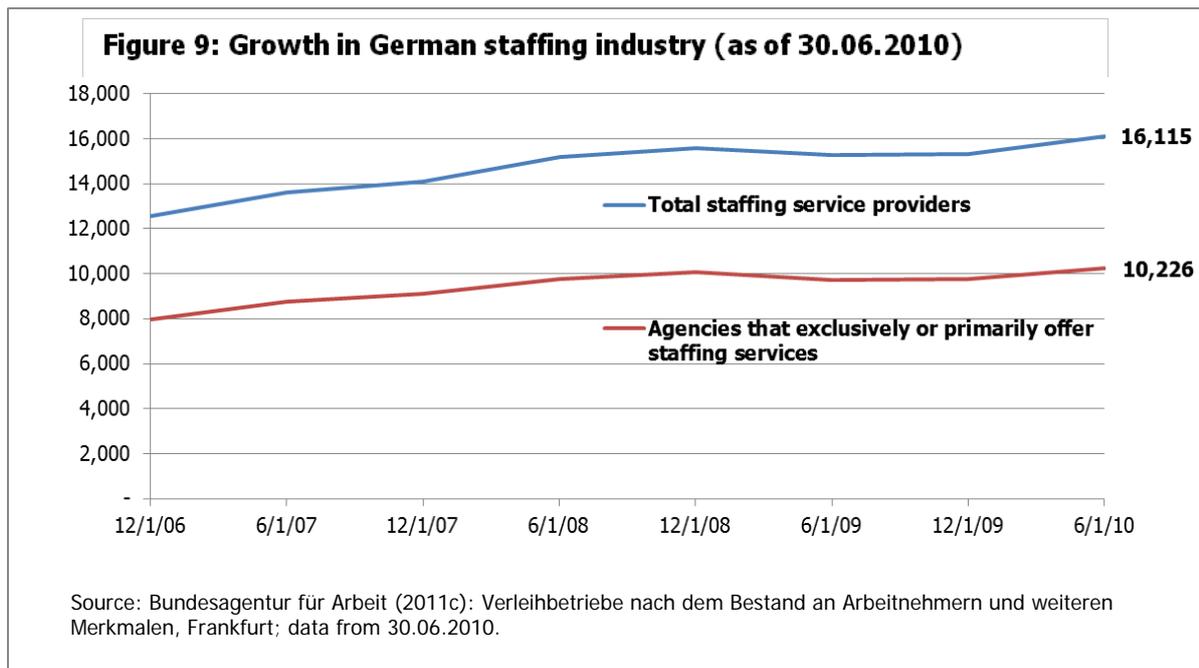
**Figure 8: Average length of employment at temporary staffing agencies  
(in Q1+Q2 of 2000 and 2010)**



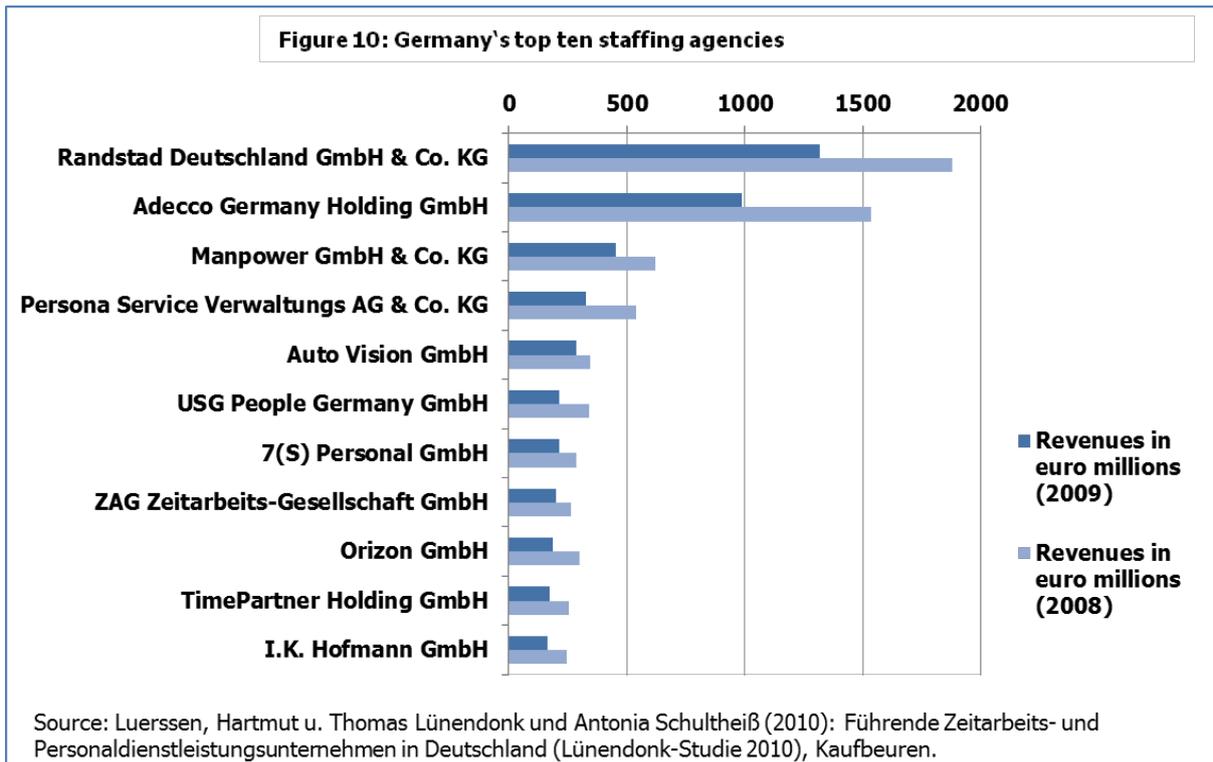
Source: Bundesagentur für Arbeit (2011b): Arbeitsmarktberichterstattung: Der Arbeitsmarkt in Deutschland, Zeitarbeit in Deutschland - Aktuelle Entwicklungen, Nuremberg.

### 2.3. Temporary Staffing Agencies

The temporary staffing agency market is highly fragmented (see Lürssen et al. 2010). While market access is restricted, the Federal Employment Agency's licensing process actually sets a low threshold for entry. Following a revision to statistics compiled by the Federal Employment Agency in February 2011, the figures maintained on the number of temporary staffing agencies were adjusted retroactively up to 31 December 2006. It is therefore not possible to use data prior to this date for the purpose of comparison (see Bundesagentur für Arbeit 2011a). Since 31 December 2006 the number of temporary staffing agencies has increased by approximately 30% to over 16,000. Growth in the number of agencies that solely or primarily deal in temporary employee placement has been much slower, as shown in Figure 9. When the term "temporary staffing agency" is defined narrowly, there were 10,000 firms active in the market in mid-2010.



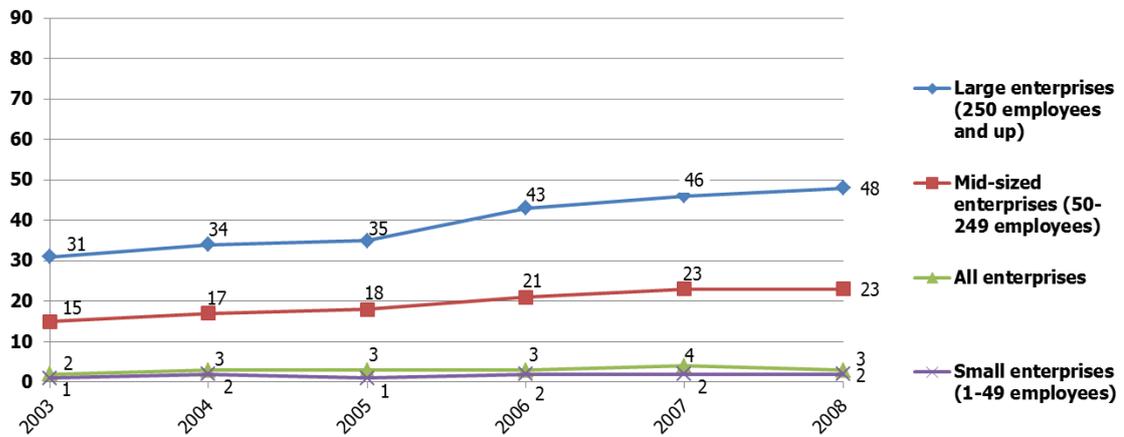
With annual revenues of nearly 1.3 billion euros in 2009 and 43,500 temporary agency workers, Randstad heads the list of Germany's largest temporary staffing agencies. While the second largest firm, Adecco, is only slightly smaller, with nearly one billion euros in revenues, the third largest, Manpower, is significantly smaller, with 450 million euros in revenues and 20,500 temporary agency workers (see Figure 10). Due to the large number of temporary staffing agencies in Germany, in smaller cities there are often dozens, in medium-sized cities hundreds, and in a few large cities sometimes more than 500 staffing firms on the market.



## 2.4 The User companies of the Staffing Industry

As of 30 June 2008, about 71,000 firms used temporary agency workers in Germany. This represents only 3% of all firms in Germany. Conversely, 97% of firms engaged no temporary agency workers. However, the use of temporary agency work arrangements is strongly dependent upon firm size. Whereas only 2% of small businesses (1–49 employees) use temporary agency workers (despite the Hartz reforms), medium-sized and large enterprises have been relying on temporary agency work arrangements in ever growing numbers. Figure 11 shows the rapid growth in the percentage of mid-sized (from 15% to 23%) and large (from 31% to 48%) firms making use of temporary agency workers between 2003 and 2008. As of 30 June 2008, almost a quarter of mid-sized businesses and almost half of large businesses used temporary agency workers.

**Figure 11: Percentage of small, medium and large enterprises using agency workers, 2003 - 2008**



Note: Percentage of firms engaging temporary workers between 2003 - 2008, broken down by firm size.

Source: Crimmann et al. (2009): Forschungsbericht zum Thema "Arbeitnehmerüberlassung", Nuremberg.

The intensity of temporary agency work usage – that is, the percentage of temporary agency workers among all employees at the user company – also varies according to firm size (see Crimmann et al. 2009). Thus, the average intensity of temporary agency work usage at mid-sized and large firms rose between 2004 and 2008, but it remained relatively constant for small businesses. As of 30 June 2008, a majority of all businesses (48%) used temporary agency work arrangements in small numbers, with temporary agency workers comprising less than 5% of all employees. By contrast, 10% of firms made intensive use of temporary agency work, with temporary employees comprising over 20% of all staff (see Crimmann et al. 2009).

### 3. Operational Reasons for Using Temporary agency workers in Germany

Businesses require flexible personnel policy instruments in order to respond to short term fluctuations in workloads. On the one hand, there are internal flexibility instruments available, such as overtime, working time accounts, special provisions that allow deviation from collective labor agreements (“tarifliche Öffnungsklauseln”), and employer job guarantees in return for concessions from employees (“betriebliche Bündnisse für Arbeit”). On the other hand, there are also a number of external flexibility instruments, such as fixed-term employment contracts, part-time work, “mini-jobs” and “midi-jobs” (special categories of part-time jobs which are not subject to social insurance contributions), as well as temporary agency work arrangements (see Keller & Seifert 2007).

Typically, businesses use both internal and external flexibility instruments. Temporary agency work is thus in competition with all other flexibility instruments. What are the motivations for firms to choose temporary agency work? Essentially, five reasons can be identified that, singly or in combination, explain the use of temporary agency work, as detailed in the following sections (see also the review articles by Brömser 2008 and Gutmann & Kilian 2009).

#### **3.3.1 Short-Term Personnel Needs**

Once internal flexibility instruments such as overtime and working time accounts reach the limits of their capacity, in times of fluctuating workloads firms often rely on the most flexible personnel instrument – temporary agency workers. Typically, temporary agency workers are also used as substitutes for permanent employees in the event of illness, vacation, or pregnancy leave. According to Bellmann & Promberger (2002), “temporary agency work [is] a secondary strategy for improving personnel flexibility that is primarily used in response to short-term, urgent, and limited bottlenecks” (author’s translation). Since the need for personnel is often transient, temporary agency workers are generally hired for a relatively brief period of time (see Section 2).

### **3.3.2 Cost Reduction in HR Departments**

The use of temporary agency workers enables the reduction of hiring and severance costs in HR departments, as fewer internal personnel are needed for processing applications, conducting job interviews, and the administrative activities associated with hiring and dismissing employees. Smaller businesses in particular even go a step further and outsource all or part of their HR departments to staffing agencies.

In addition, search costs can be reduced. For example, the cost of placing job advertisements can be avoided. Furthermore, temporary agency work provides a screening function that reduces search costs in comparison to permanent employment in a manner similar to other flexibility instruments, such as fixed-term employment (e.g. Portugal & Varejao 2009).

Meier (2004) emphasizes the potential for the ongoing use of temporary agency work in firms as a hybrid form of business management between the standard alternatives of in-house production and external procurement – a potential that is reflected in actual practice. Thus, all large staffing agencies offer their clients this on-site or in-house variant of temporary agency work as part of their own personnel services. This allows businesses to minimize hiring, severance, and search costs.

### **3.3.3 Savings from Lower Wage Costs**

Until the Hartz reforms, temporary staffing agencies, with few exceptions, were not covered by collective labor agreements. After the Hartz reforms, a complex wage structure evolved: On the one hand, a number of wage contracts exist between various temporary agency work associations and different labor unions. On the other hand, there are also wage contracts at the user companies. Thus, when user companies have their own collective labor agreements, two wage systems often end up colliding with each other. In this regard attention is generally focused on situations in which wage agreements at the user company are more advantageous for workers than the relevant wage agreements in the temporary agency work sector. Particularly in the metal and electronics industry, a relatively large difference in wage levels exists between the wage agreements negotiated between the steel worker's union (IG Metall) and the employer's association for the metal and electronics industry (Gesamtmetall) versus the temporary agency workers wage agreements negotiated between the DGB (German Confederation of Trade Unions) and the BZA (Federal Association of Temporary Staffing Agencies), between the DGB and the IGZ (Association of German Temporary Staffing Agencies) and between the CGB (Christian Trade Union Federation) and the AMP

(Association of Small and Medium-Sized Employment Agencies). The DGB wage agreements for temporary agency work were also signed onto by IG Metall.

The Federal Statistical Office (2009) quantified this wage differential based upon data from a survey of earnings and established the existence, on average, of a large difference in gross hourly earnings in 2006. While so-called normal workers earned an average of 18.04 euros per hour, temporary agency workers only earned an average of 9.71 euros per hour. In a study about temporary agency work in North Rhine-Westphalia based upon data from the Federal Employment Agency's Employment Panel, Sczesny et al. (2008) came to the conclusion that in 2006, temporary agency workers employed as unskilled laborers earned about 45% less than unskilled laborers in other industries. For positions demanding qualifications, such as organizational, administrative, and office work, the wage gap is about 35%. Nevertheless, both studies are based upon statistical comparisons and unacceptably ignore the fundamental evaluation problem in the temporary staffing industry – namely, it is by no means certain that the workers who are being compared are actually comparable (see Hagen & Spermann 2004 and Caliendo 2006 for more on the fundamentals of evaluation research). Indeed, it is crucial to take into account that temporary agency workers tend to represent a negative selection of all workers – a higher proportion of temporary agency workers, for example, were previously unemployed. This selection bias needs to be corrected using microeconomic estimation procedures on the basis of identifying assumptions.

Jahn (2010) has sought to apply this scientifically sound approach. Examining data from the IAB Establishment Panel (1997–2004), she finds initially that temporary agency workers earn 55% less than their permanent counterparts in user companies. However, she then seeks to resolve the fundamental evaluation problem cited above with a fixed effect panel estimation. Using this method, she estimates the actual wage gap following adjustment for unobserved heterogeneity at 15%. The adjusted wage gap is greater in Western Germany than in Eastern Germany; greater in urban labor markets than in rural labor markets; greater in large enterprises than in small enterprises; and greater for men than for women. Furthermore, according to her findings, the adjusted wage gap between the permanent workforce and temporary agency workers has increased even further as a result of collective labor agreements in the industry.

In this cross-sectional approach, however, significant information about the heterogeneity of wage distribution gets lost. First of all, it occasionally happens that collective labor agreements in user companies (especially in Eastern Germany) set wages at a level below that provided for under the collective agreements of temporary staffing agencies, with the consequence that temporary agency workers actually earn more than the

permanent workforce. Second, in certain qualified positions (for example, in IT) temporary agency workers can earn significantly more than the permanent workforce because of bonuses for extended placements at a given firm. A switch to the permanent workforce is therefore financially unappealing. Third, large enterprises in particular already pay their temporary agency workers the same wage as their permanent workforce, with the consequence that the equal pay principle is already achieved. Fourth, the so-called "Declaration of General Applicability" (Allgemeinverbindlicherklärung) places those industries that are subject to the "Posted Workers Act" (Entsendegesetz) (for example, the janitorial services industry) into a situation in which temporary staffing agencies are not permitted to go below the agreed-upon minimum wage, thereby rendering the collective labor agreements established by temporary staffing agencies irrelevant.

### **3.3.4 Structural and Functional Factors**

A new empirical study by Thommes & Weiland (2010) puts the significance of the cost savings achieved through the use of temporary agency work into perspective. On the basis of 603 valid telephone interviews conducted in 2004 with personnel managers in firms from nine industries in seven German states, the authors find that a combination of structural and functional factors determines both the probability that temporary agency workers will be hired, and the extent of their use. They identify industry affiliation as the most important structural factor, and confirm the hypothesis that enterprises in manufacturing industries are likelier both to hire temporary agency workers, as well as to use them in greater numbers. Another structural factor is the company's management and communications system. The more institutionalized these systems are, the higher the probability that temporary agency workers will be used. Functional factors also have an impact on operational decisions. Thus, temporary agency work is likelier to be used in companies that are in the midst of upheaval than in stable companies. During major organizational transformations in companies, temporary agency work is used to a greater extent. HR institutions represent an additional functional factor, and in this regard, the authors investigated the joint influence of works councils and personnel departments. They show that companies with both of these institutions are likelier to use temporary agency work arrangements and to use them more extensively.

Multivariate analyses by Promberger (2009) based upon data from the IAB Establishment Panel confirm the finding that the use of temporary agency work arrangements is likelier in enterprises with a works council than in enterprises without a works council. Promberger explains this finding in the following way: "Many works councils

approve of the 'moderate' use of temporary agency work to the extent that it helps to secure the jobs of the permanent workforce" (p. 236, author's translation).

### **3.3.5. Dismissal Protections**

The textbook literature asserts that there is a positive relationship between strong dismissal protections and the temporary employment penetration rate (i.e. the ratio of temporary to permanent employees in the workforce) (see Ehrenberg & Smith 2009). It is reasoned that strong dismissal protections raise severance costs for businesses, making direct hiring less attractive. Thus, stronger dismissal protections, *ceteris paribus*, should lead to a larger temporary agency work sector. Such a correlation sounds plausible enough, since atypical forms of employment could be interpreted as adaptive reactions to institutional barriers in the labor market. Burda & Kvasnicka (2006) argue that temporary agency work arrangements can serve to soften or circumvent restrictive regulations in the labor market (p. 197). A study by Autor (2003) has confirmed this relationship for the U.S. labor market.

However, a glance at international penetration rates casts doubt upon this correlation, since countries with a low level of dismissal protections such as the UK and Belgium show relatively high penetration rates (see Figure 5). A study by Kahn (2007) corroborates such doubt. Kahn's panel-econometric investigation, which uses data from the European Household Panel (1996–2001), shows that on average, changes in the level of dismissal protection have no significant effect on the expansion of temporary agency work arrangements. Boockmann & Hagen (2001) are also skeptical of a positive correlation. In their study of new regulations that came into effect in Germany in 1996 that increased the threshold for the applicability of dismissal protections from 6 to 11 employees, they could find no statistically significant effect on the likelihood of small enterprises to employ temporary agency workers. Bellmann et al. (2008) come to the same conclusion, asserting that "no clear relationship can be shown between temporary agency work and legal dismissal protections" (p. 36, author's translation).

### **3.3.6 Initial Conclusions**

As evident from the foregoing discussion, the use of temporary agency work is primarily driven by the short-term personnel needs of firms. This fact is reflected by the average duration of employment at temporary staffing agencies. In addition, reduced expenses in HR departments also play a role in the use of temporary agency workers, as search, hiring, and dismissal costs are lower. Yet another factor is reduced wage expenses, particularly in the

high-wage industries of the manufacturing industries. According to a methodically sound estimate by Jahn (2010), the pay levels of temporary agency workers are, on average, 20% lower than that of the permanent workforce. Nevertheless, temporary agency workers can earn more than the permanent workforce in individual cases for various reasons. However, the significant cost advantage for companies who use temporary agency workers is that only actual work performed is compensated; user companies incur no expenses for vacation, illness, or holidays, because these are covered by the temporary staffing agency. Company works councils view the use of temporary agency workers as a way to protect the permanent workforce. By contrast, according to available empirical studies, dismissal protections surprisingly play no role in the use of temporary agency work arrangements in Germany.

## 4. The New Role of Temporary agency work

Temporary agency work has been used traditionally in Germany to cover transient fluctuations in the personnel needs of firms. Temporary agency work allows firms to more quickly adapt to peak order periods and to balance out short-term demand drops. In practice, temporary agency work is employed to manage vacations, illnesses, and pregnancy leaves, as well as to avoid paying overtime to the permanent workforce. At its core, temporary agency work represents a short-term adaptation and flexibility instrument (see Strotmann 2009).

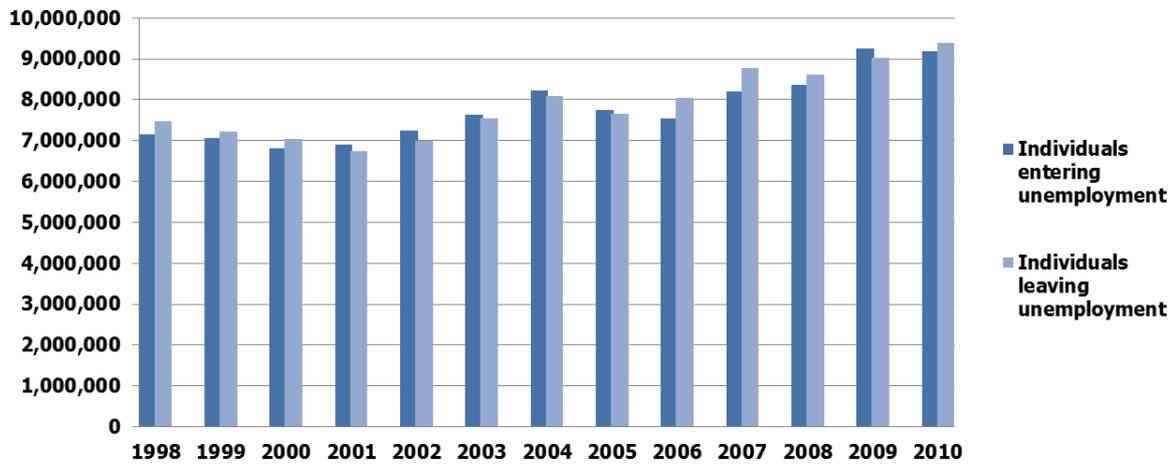
Yet temporary agency work now plays a new role in the German economy. This new role is a product of the quantitative growth of temporary agency work since the deregulation of the sector in 2004, the intensity with which large companies make use of temporary agency work, and of Germany's structural shortage of skilled labor. In the following sections, the economic and business management aspects of this new role are explored, and its impacts on labor market and educational policy are elucidated.

### 4.1 Economic Factors

#### 4.1.1 Temporary agency work as a Driver of Labor Market Dynamism

In their analysis of the labor turnover rate, churning rate, and job turnover rate based on data from the IAB Establishment Panel (1996–2006), Bellmann et al. (2009) show that the German labor market has become more dynamic following the Hartz reforms. As measured in terms of individuals joining and leaving the ranks of the unemployed, the dynamism of the labor market increased considerably following the Hartz reforms, as illustrated in Figure 12. According to statistics from the Federal Employment Agency, the number of individuals departing the ranks of the unemployed was, at 9.4 million, higher than the number of individuals who became unemployed, at 9.2 million. By way of comparison, the number of individuals entering and leaving the workforce was around 7 million per annum prior to the Hartz reforms.

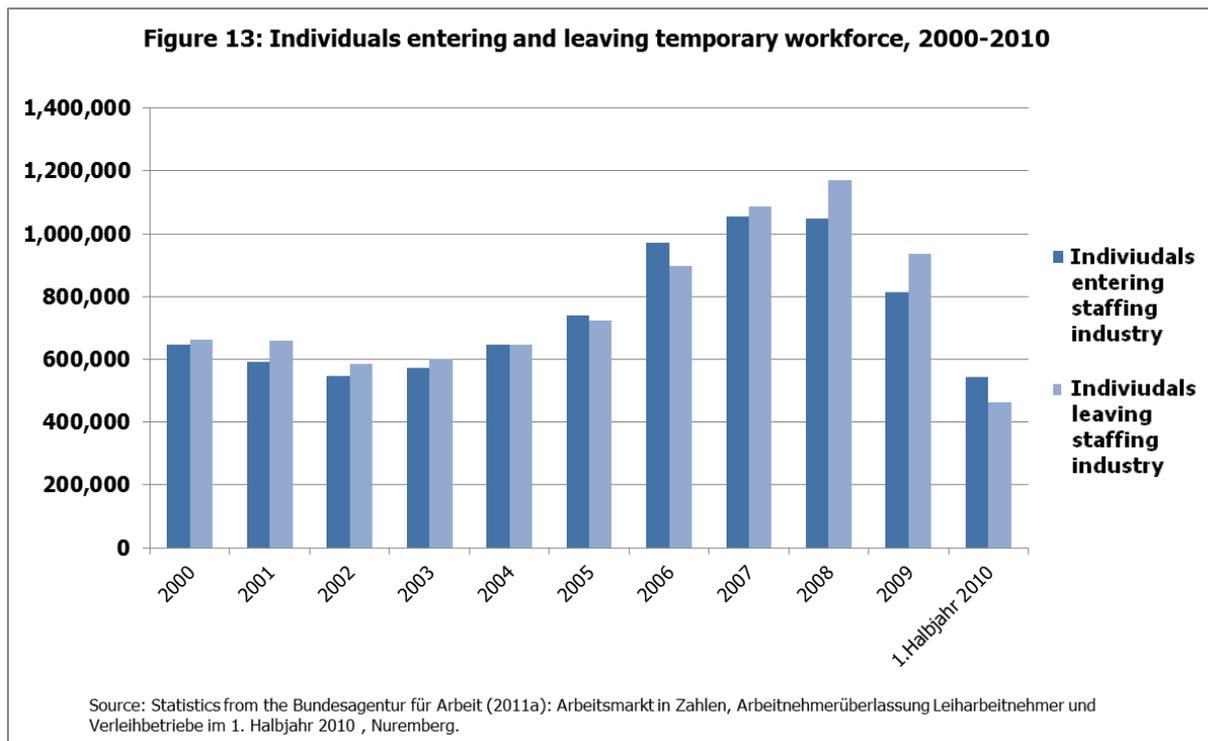
**Figure 12: Number of individuals entering and leaving unemployment (1998-2010)**



Note: Turnover rates in 2005 and 2006 do not include data from municipal job centers; the comparability of these years is therefore severely restricted.

Source: Statistics from the Bundesagentur für Arbeit (2011b): Arbeitslose nach Rechtskreisen.

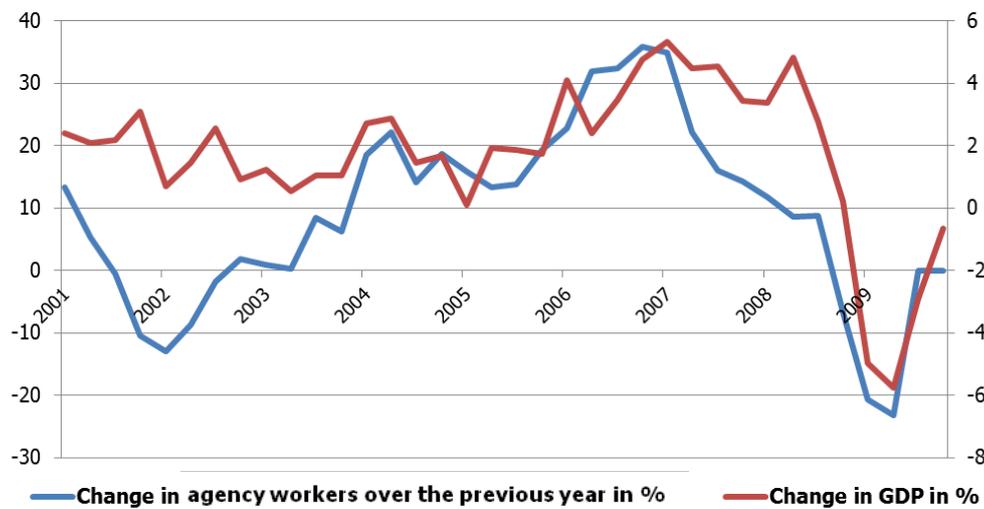
Temporary agency work has played a prominent role in this development, despite the small percentage of temporary agency workers in the overall labor force. Amongst individuals entering and leaving the workforce, the share of temporary agency workers is considerable, as shown in Figure 13. While the number of temporary employment relationships begun and ended was between 600,000 and 700,000 per annum in 2000–05, in 2006–08 both figures had grown to over one million. In 2009, both figures declined somewhat. According to the temporary agency work statistics maintained by the Federal Employment Agency, in the first two quarters of 2010, nearly 544,000 temporary agency workers entered the workforce. Of this number, some 326,000 (approx. 60%) left the ranks of the unemployed. By contrast, 461,790 temporary employment relationships came to an end. In this way, temporary agency work is clearly a significant driver of labor market dynamics.



#### 4.1.2 Temporary Agency Work as a Leading Economic Indicator

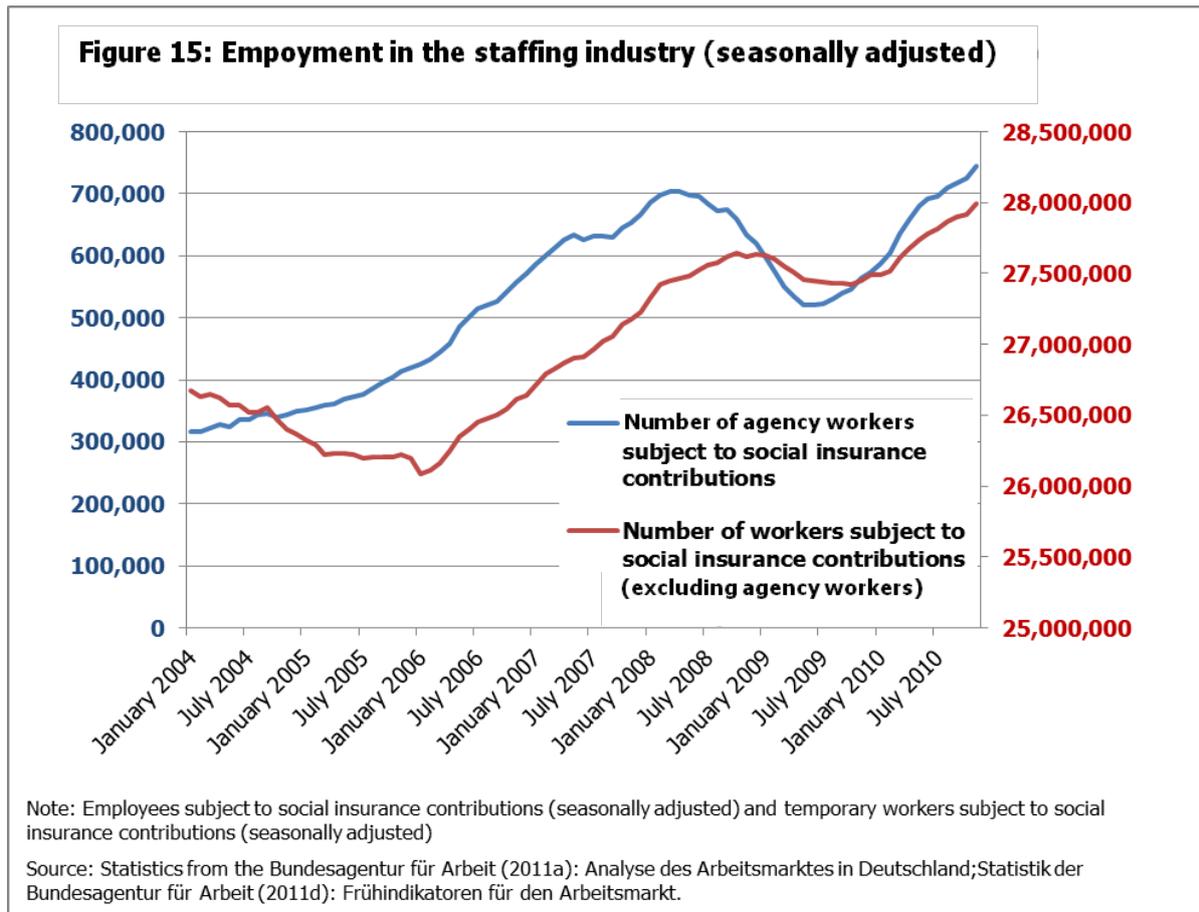
A second economic aspect is the role of temporary agency work in the business cycle. The staffing industry is highly cyclical. Typically, the number of agency workers in the workforce trends in parallel with GDP but with an amplified effect, as illustrated in Figure 14 (see also Jahn & Bentzen 2010). This pattern can also be observed in other countries (see Canoy et al. 2009).

**Figure 14: Change in GDP and number of agency workers over the previous year, 2001-2009**



Source: Statistisches Bundesamt (2010): Volkswirtschaftliche Gesamtrechnung, Wiesbaden; Bundesagentur für Arbeit (2011a): Leiharbeiter und Verleihbetriebe im 1. Halbjahr 2010, Nürnberg.

Furthermore, fluctuation in the number of temporary agency workers anticipates changes in the overall labor market, as shown in Figure 15. For example, temporary agency work accounted for 75% of the increase in employment during the early phase of the previous upturn in Germany in July 2006, and its share then fell to 8% by September 2008 (see Bundesagentur für Arbeit 2011b and Figure 3). Similarly, in the early phase of the downturn in Germany during the second quarter of 2008, it can be observed that employment in the national economy as a whole was still increasing while employment in the temporary agency work sector was already falling off. However, total employment subject to social insurance contributions (excluding temporary agency work subject to social insurance contributions) first began to fall in December 2008. Beginning in mid-2009, employment in the temporary agency work sector was already on the rise once again, whereas losses in employment throughout the national economy did not cease until October 2009.

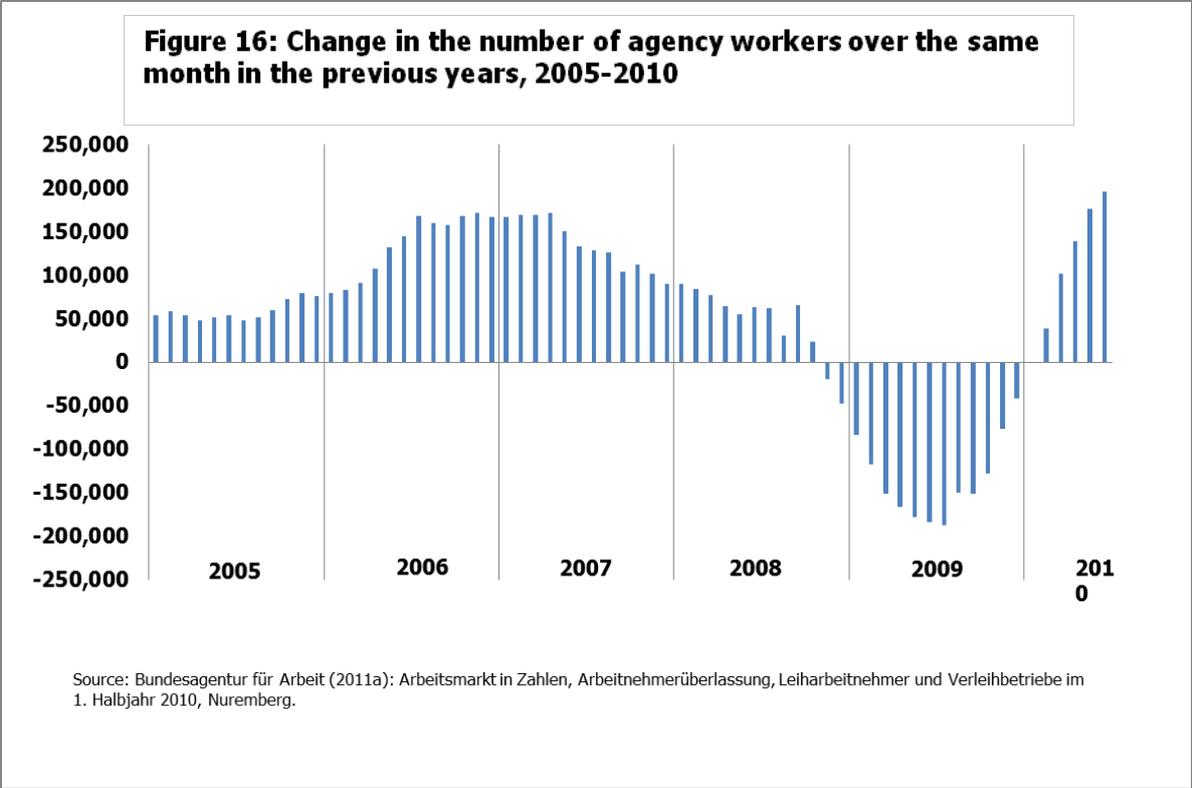


In countries with flexible labor market institutions, changes in the labor market represent a leading indicator of an economic downturn, as studies of the U.S. economy have shown (Gavin & Kliesen 2002). Trends in the highly flexible U.S. labor market were the best leading indicators of the U.S. recession in 2008 and 2009, as they gave warning of a downturn one year in advance (Willis 2010). As the German labor market has become more flexible, it should be examined whether fluctuations in temporary employment are a useful leading indicator of changes in the labor market and/or of recession. Descriptive analyses indicate that this is the case. Growth of the temporary agency work sector started to fall off beginning in May 2007, as shown in Figure 16. Had this change been used as the basis for economic forecasts, it would have been possible to warn of an impending recession in the fall of 2007. Yet it was not until 14 August 2008 that the Federal Statistical Office first reported that economic output had fallen in the second quarter of 2008 over the previous quarter. Thus, to the extent recent trends are a reliable measure, growth in the temporary agency work sector may enable an accurate year-out forecast of the overall business cycle.

By way of comparison, according to the IFO Economic Clock, which measures the current economic situation and expectations in manufacturing industries, Germany entered

recession in October of 2008. Based upon its leading indicator, the ZEW Indicator of Economic Sentiment, the Center for European Economic Research (ZEW) first announced in December of 2008 that Germany had entered recession. The economic forecasts issued by financial analysts, however, had already darkened by May of 2007.

In a flexible and dynamic labor market, employment typically lags behind the general economic trend during a return to growth. Thus, the number of temporary agency workers first began to show an increase over the previous month in August 2009. The Federal Statistical Office, however, had already reported a return to positive GDP growth over the previous quarter in Q2 of 2009.



## 4.2 Business Management Factors

### 4.2.1 Strategic Intensive Use

At the firm level, the increase in the number of intensive users of temporary agency work after the Hartz reforms is striking. Intensive users of temporary agency work are defined in the literature as companies that cover more than 20% of their personnel needs through temporary agency work arrangements (see also Section 2). According to Bellmann & Kühl (2007) the share of intensive users rose rapidly between 1998 and 2006 from 4.8% to 10.4%. On 30 June 2008, this share was 10% across all industries, but in the area of business services, was 33% (Crimmann et al. 2009).

Based on six qualitative case studies about intensive users in the metals and electronics industries, Holst, Nachtwey & Dörre (2009) identify a new trend which they call the “strategic use” of temporary agency work. This term describes temporary agency work as a strategic business management tool that is employed actively, and not just reactively. The best-known example is the BMW factory in Leipzig, which was strategically planned to have a temporary employee share of 30%. In the context of these new strategies, temporary agency work is becoming deliberately more widespread and enduring. It is being introduced into operational areas that were previously reserved for the permanent workforce, and, in this way, permanent and marginal employment are being deliberately interwoven.

In the view of Holst, Nachtwey & Dörre, the strategic use of temporary agency work is closely connected to the rise of financial market capitalism, which is said to place short-term profit considerations at the center of all business decisions. They assert that the strategic use of temporary agency work is combined with so-called “bottom line personnel policies,” meaning that the permanent workforce is reduced to correspond to the firm’s lowest output level. As a consequence, normal production levels are impossible without the use of temporary agency workers. In this way, the status of temporary agency work is upgraded – temporary agency workers become a more or less permanent component of the staff at the companies that use them.

Based upon a study of five firms in the metal and electronics industries, the authors describe the strategic use of temporary agency work as a human resources policy tool, by means of which “appropriate pressure can be placed upon the permanent workforce.” A truly novel finding is the authors’ identification of a direct disciplinary effect upon the permanent workforce: “By means of their becoming interwoven in the work process, the two groups of employees can be placed directly into a highly eruptive direct competitive relationship with

regard to advancement and qualification opportunities, and in extreme cases even with regard to chances for continued employment" (author's translation). Problematic, however, is that these sweeping claims are based on only a few case studies, and these very case studies also contain numerous indications of temporary agency workers being used alongside permanent employees in a manner that both promotes productivity and is broadly conflict-free.

In reaction to the increasing use of temporary agency work, works councils and labor unions have developed countermeasures. For example, works councils have negotiated with temporary staffing agencies to cap the number of temporary agency workers that may be sent to the user company (see Schulz 2009). At the same time, it is known from empirical analyses conducted by Thommes & Weiland (2010) and Promberger (2009) that the likelihood of using temporary agency work is higher in companies that have works councils (see Section 3). These studies provide no evidence with regard to intensive use, however. In another example, IG Metall (the dominant metalworkers' union in Germany) negotiated the automatic permanent hiring of temporary agency workers after 12 months as part of a collective labor agreement with Siemens (see Schild & Petzold 2009). Nevertheless, together with the multi-sector trade union "ver.di," IG Metall negotiated a long-term wage agreement with the Federal Association of Temporary Work Agencies (BZA) that contains no clause against strategic intensive use.

#### 4.2.2 In-House Temporary Staffing Services

After the Hartz reforms, companies began establishing more in-house temporary staffing agencies – at least according to public perception. By way of example, the in-house staffing agency formed by Schlecker, a large drug store chain, was the subject of animated discussion in Germany in 2010 (see Dauser 2009 for further individual cases). Companies such as Schlecker have been accused of evading collective labor agreements and unfair wage practices, for in part, employees have remained in the same jobs but have simply been redesignated as temporary agency workers that receive lower pay.

Crimmann et al. (2009) attempt to quantify in-house temporary staffing. Specifically, they examine newly established temporary staffing agencies with more than 100 employees between 2006 and 2008, with the rationale that a company only launches a temporary staffing agency if a significant number of its own employees have been transferring into temporary agency work arrangements. In 2008 only 57 such temporary staffing agencies were founded, comprising a total of 10,420 employees. Since more than 700,000 temporary

agency workers were employed in 2008, according to the authors, in-house temporary staffing is "not a widespread phenomenon" (p. 44).

Still, the possible – and in individual cases obvious – replacement of permanent employees with temporary agency workers is seen from a policy perspective as having an undesirable crowding-out effect, especially because of the wage decreases associated with it (von der Leyen 2010). Most of all temporary agency work associations have clearly distanced themselves from this practice. Against this backdrop, various complementary collective labor agreements concluded in the spring of 2010 adopted specific clauses for the regulation of in-house temporary staffing (e.g. between AMP/CGZP, BZA/DGB, and IGZ/DGB). While these agreements do not include an outright ban on in-house temporary staffing, they state that substitution should be curbed.

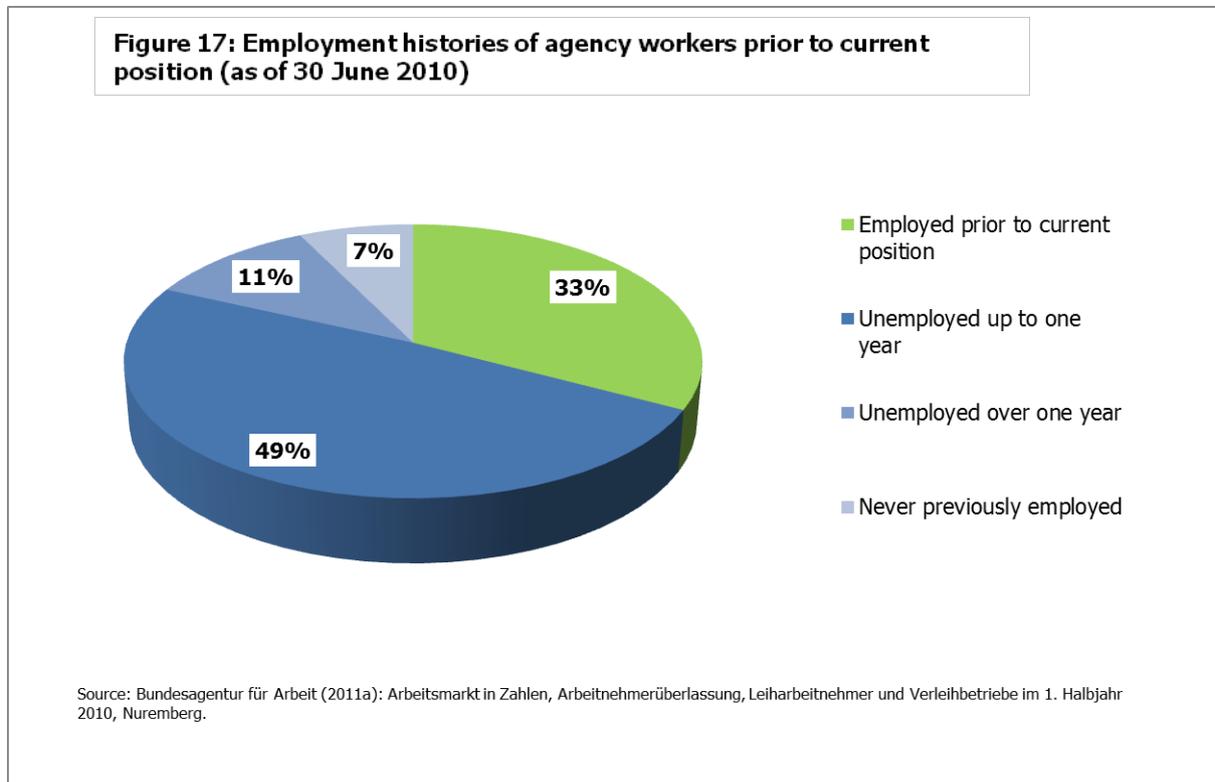
#### 4.2.3 Headcount Reductions at Publicly Traded Companies

An important additional reason for the use of temporary agency workers is related to the fact that many large companies are publicly traded. For the analysts who continuously evaluate publicly traded companies, the level of fixed personnel costs is an important index of firm health (see Thommes & Weiland 2010). Since the use of temporary agency workers is not considered a part of fixed personnel costs under accounting rules, but is instead counted under variable material costs, a firm can keep personnel costs low – without actually hiring fewer employees. Temporary agency workers do not count in analysts' full-time equivalent (FTE) calculations, whereas other external flexibility instruments, such as contract employment, part-time work, mini-jobs, and internships, are all counted as personnel costs. Thus, accounting rules and analyst practices might help to explain the sharp increase in the intensity with which temporary agency workers are used by larger companies, especially in the business services sector.

### 4.3 Labor Market Policy Factors

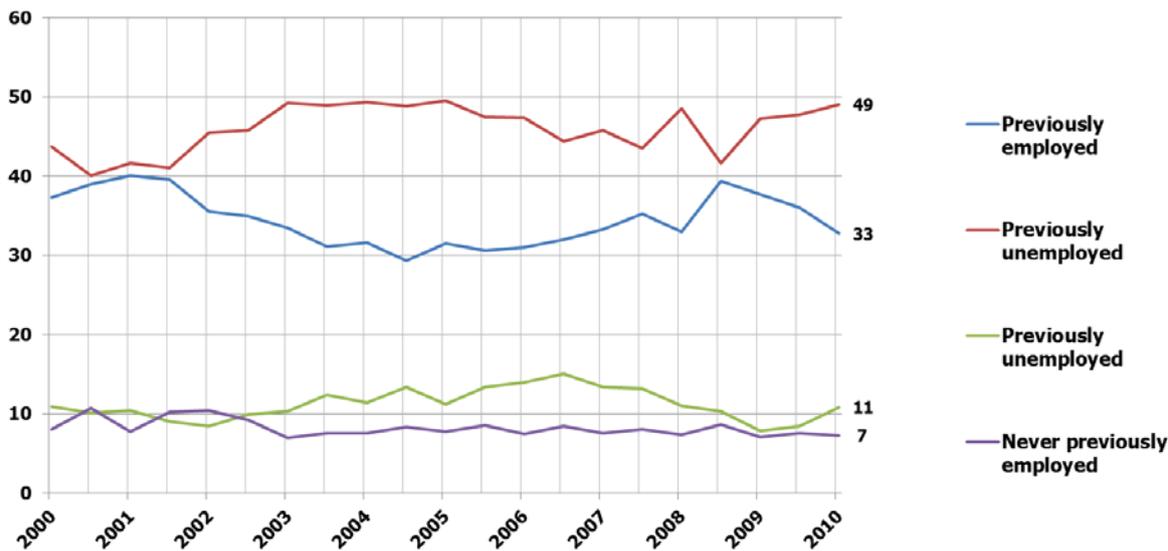
#### 4.3.1 Opportunities for the Unemployed

The most significant contribution made to labor market policy by the temporary agency work industry relates to the hiring of the unemployed. More than two-thirds of temporary agency workers were unemployed immediately prior to assuming their current position. This has been true for years. Figure 17 documents that on 30 June 2010, only 33% of temporary employees had a job immediately prior to their current position. Meanwhile, 7% had never been previously employed, 11% had been unemployed for greater than one year and 49% had been unemployed for up to one year (Federal Employment Agency 2010).



In the past ten years, these percentages have changed little, as is shown in Figure 18.

**Figure 18: Change of distribution of agency workers according to employment history, 2000 – 2010 (in percent)**



Source: Bundesagentur für Arbeit (2011a): Arbeitsmarkt in Zahlen, Arbeitnehmerüberlassung, Leiharbeitnehmer und Verleihbetriebe im 1. Halbjahr 2010, Nürnberg.

Temporary agency work is frequently associated with short placements at different user companies, so temporary agency workers have to adapt to a number of different fields and job descriptions. This demands a broad skill set. Soft skills are of particular significance for rapidly integrating oneself into different work areas with different managers and colleagues. Temporary agency work is therefore interpreted as a form of “on-the-job training” (see Brömser 2007).

#### 4.3.2 The Stepping Stone Hypothesis as well as the Glue, Bridge, and Takeover Effects

A number of studies have explored the question of whether temporary agency work serves as a “stepping stone” toward regular employment in a job subject to social insurance contributions. This question is informed by the normative assumption that temporary agency work, as a form of employment not subject to social insurance contributions and frequently open-ended, is atypical and thus should only represent a transitional solution for workers. A so-called “normal” employment situation is regularly advocated as preferable to open-ended employment not subject to social insurance contributions (see German Council of Economic Advisers 2008, p. 301).

A number of empirical examinations of the stepping stone hypothesis have been conducted in the scientific literature (see Spermann 2008). The only methodologically reliable study to date was undertaken by Kvasnicka (2008), and uses a matching method based upon data from the IAB Establishment Panel. Kvasnicka resolves the fundamental evaluation problem based on the notion that the identifying assumption (selection on observables) is plausible. The author compares previously unemployed persons who took on a temporary agency work assignment between 1994 and 1996 with unemployed individuals who are comparable in terms of observable characteristics and who did not work at all during this period. He then estimates the likelihood of achieving a normal employment situation up to four years following the end of temporary agency work. Kvasnicka finds no empirical evidence for the validity of the stepping stone hypothesis during this time period in Germany, but also no evidence that temporary agency work increases the risk of unemployment.

Yet Kvasnicka (2008) does find an “access to work” function in temporary agency work. Unemployed individuals who took on a temporary agency work assignment within twelve months of becoming unemployed had a higher month-to-month likelihood of employment over the following four years (either in regular employment or temporary agency work) than comparable unemployed individuals who did not. This finding was driven by the higher likelihood of being employed in temporary agency work.

An analysis conducted by Lehmer & Ziegler (2010) also solves the fundamental evaluation problem – at least with regard to the stepping stone hypothesis for the long-term unemployed – by using a matching approach. According to their study, temporary agency work does increase the chances that the long-term unemployed will enter a regular employment relationship. This study is the very first to examine the period following the Hartz reforms in order to measure the effect of temporary agency work on the employment chances of individuals who have been unemployed long term and who do not take up temporary agency work positions. To this end, the study compares individuals who had been unemployed long term but who took up temporary agency work position in the second quarter of 2006 with individuals who were unemployed long term and remained so. According to the study's findings, the former long-term unemployed have a 17-percentage-point higher chance of being employed in a regular employment relationship one year after their temporary agency work assignment than individuals who remained unemployed. Furthermore, 2.5 years after becoming employed as a temporary agency worker, such individuals even had a 20-percentage-point higher chance of being employed in a regular position. Lehmer & Ziegler thus conclude that “with regard to future occupational

development, employment as a temporary agency worker is clearly a better alternative than continued unemployment" (2010, p. 6-7, author's translation).

There is also a great deal of discussion with regard to the "glue," "bridge" and "takeover" effects of temporary agency work. The *glue effect* refers to the permanent hiring of temporary agency workers by client companies. The *bridge effect* refers to the hiring of temporary agency workers by third companies. Lastly, the *takeover effect* refers to the number of temporary agency workers hired permanently as a percentage of all temporary agency workers who have been engaged at a client company. In calculating the takeover effect, the point in time at which the hired employee concluded his temporary agency work assignment at the client company makes no difference (see Crimmann et al. 2009, p. 46f)

According to Promberger (2009), the glue effect varied from 15% during the 2003 recession to 24% after the boom phase to the middle of 2008. According to the IW Temporary agency work Index that is maintained by the Federal Association of Temporary Agencies (BZA), there was a glue effect of 24.3% and a bridge effect of 21.9% in 2008. These figures are based upon surveys of temporary staffing agencies. In the current IAB study, the takeover effect was calculated to be 15% (Crimmann 2009). All of these studies cite descriptive percentiles. According to their bias, the findings are higher or lower. However, these estimates are of questionable utility, since the fundamental evaluation problem is not addressed in these studies, unlike in Kvasnicka's 2008 study.

In order to make the central objection to the above methods easier to understand: A low percentile may reflect poor economic conditions or a negative selection of temporary agency workers. A high percentage may simply be the result of a good economic situation or a positive selection of temporary agency workers. Thus, one might only be measuring a negative or a positive selection effect, but not a causal relationship. Neither low nor high percentages indicate a causal relationship, a fact that Crimmann et al. (2009) properly point out.

#### 4.3.3 The Substitution, crowding-out, and Displacement Effects

According to the OECD (1993) definition, a *substitution effect* in the context of a company's use of temporary agency work refers to the replacement of members of the permanent workforce by temporary agency workers with unchanged overall employment levels at the company. This is also referred to as the *crowding-out* effect.

There is some anecdotal evidence for the substitution theory – for example, the use of in-house temporary staffing, as discussed in Section 4.2.2. The existence of a substitution

effect is also suggested when the placement period at a client company lasts several years but the direct hiring of the worker is explicitly ruled out. However, many plausible arguments can be raised against the substitution theory. For one thing, the small size of the temporary agency work industry as a fraction of the overall workforce subject to social insurance contributions (not more than 2.6%) speaks against a large degree of substitution. In addition, the short employment period of temporary agency workers also speaks against substitution, particularly since the average placement period at a client company (for which we have no hard statistics) is even shorter than the average employment period at a temporary staffing agency. Furthermore, it should also be noted that during the most recent upturn, the temporary agency workforce and normal workforce subject to social insurance contributions both underwent a period of growth that lasted more than two years (see Crimmann et al. 2009). High-quality empirical studies about the substitution effect have not been conducted to date due to a lack of good data.

According to the OECD definition (1993), the *displacement effect* is a situation in which the regular use of temporary agency workers in one firm leads to lay-offs at other firms. This is possible, say, if a firm achieves a larger market share thanks to temporary agency work and, as a result, lowers the price of its goods, with the consequence that firms without temporary agency workers lose market share and have to lay off workers. This effect is very difficult to measure empirically – only a few macroeconomic studies exist that deal with the displacement effect, and they have no connection to temporary agency work (see Caliendo, Hagen & Hujer 2004).

#### **4.4 Educational Policy Factors**

The new role of temporary agency work in relation to educational policy has received very little attention in the literature to date. Münchhausen (2007) has conducted an initial survey study. In the past few years, initiatives by the temporary agency work industry in the educational sector have multiplied. Educational offerings have proliferated for staffing agency personnel and for temporary agency workers themselves.

##### **4.4.1 Vocational Training for Staffing Agents**

On 1 August 2009, the new occupational training category of “personnel services specialist” was launched with over 1,100 trainees. In addition, there is a 21-month long retraining program to become a personnel services specialist. A number of certificate programs and a Master’s degree program have gotten underway (see Table 1). Vocational education

programs are being planned to train staffing-service business administrators, in addition to several Bachelor's degree programs (see Table 2). These programs are directed at staffing agents and consultants whose training was previously provided for in-house.

#### 4.4.1 Vocational Training for Temporary Employees

A few training programs for temporary agency workers have also been implemented. Since temporary staffing agencies cannot provide such training themselves, such training is typically conducted by educational providers under collaborative training programs (e.g. for machinists, licensed caregivers for the elderly, etc.) (see Table 3)

German staffing agencies have long invested in the vocational training of their employees, e.g. by sponsoring forklift certification, PC courses, and language courses. In some cases, staffing agencies completely assume responsibility for welding and soldering certificate training. The costs for this vocational training are covered by client placement for a specified minimum period. If a temporary agency worker gives notice shortly after the completion of a vocational training program or if a client hires the newly trained temporary agency worker a few days later without remuneration, then the staffing firm has lost out on its investment.

Because of the demographically driven structural shortage of qualified employees currently being faced in Germany, many personnel service providers have intensified their vocational training of temporary agency workers in recent years. Short- and medium-term training programs for applicants and employees, e-learning and "qualification passports" for the documentation of skills acquisition in temporary agency work are the most important elements of vocational training (see Spermann 2008, 2009). Table 4 documents the key activities of the three large staffing firms in Germany. The subject has taken on importance for the entire industry – as demonstrated by the 2008 Temporary agency work Congress, where it was the main topic.

Since November 2008, temporary agency workers have been eligible for the first time to collect short-time work benefits. According to the Federal Employment Agency, benefit applications were received for some 108,000 temporary agency workers between November 2008 and June 2009. In June 2009, around 24,000 temporary agency workers received short-time work benefits. The average work cutback in the temporary staffing sector was about 47%, as compared to about 31% across all industries (see Deutscher Bundestag 2010a). As part of the "Commitment to Work" initiative of the Federal Ministry for Labor and Social Affairs, it is now possible to combine short-time work with a training program. Since 1

February 2009, social insurance contributions lost due to work cutbacks are covered by the government when short-timed temporary agency workers engage in a training program. Against this backdrop, temporary staffing agencies, together with educational providers, have organized training programs at user companies that are specifically designed for the short-time work model. Table 5 summarizes the most important options for financing training programs for temporary agency workers in combination with short-time work. These training programs for short-timed temporary agency workers were also used by the temporary staffing industry during the crisis in 2008–09. The legal provisions for the training of temporary agency workers are valid until 31 March 2012.

## 5. Conclusion and Outlook

Prior to the institution of Hartz labor market reforms, temporary agency work had a different role in the German economy: it was used by firms to make up for temporary personnel shortages. In contrast to the attitudes that prevailed in the 1970s, 80s, and 90s, there is now a broad social consensus in Germany across all parties and social groups that temporary agency work is an appropriate tool for enhancing labor market adaptation and flexibility. This changed understanding has been driven significantly by the ability of temporary agency work to offer unemployed individuals opportunities for reintegration into the labor market.

The new role of temporary agency work is a product of the quantitative growth of the sector since the deregulatory reforms in 2004, the intensity with which large companies make use of temporary agency work, and of Germany's structural shortage of skilled labor. While this new role has aroused a great deal of public debate, discussions of temporary agency work often exhibit a lack of sound empirical knowledge. This survey article presented the current scientific literature with regard temporary agency work and also detailed the new role played by temporary agency work following the Hartz reforms. The new role played by temporary agency work has economic, business management, labor market and educational policy components.

From an *economic* perspective, temporary agency work has significantly enhanced the flexibility of the German labor market. The share of workers entering and exiting employment has increased considerably. Consequently, as a form of employment temporary agency work has a much greater significance for the labor market than the low national penetration rate of less than 3% would suggest. From a macroeconomic perspective it is also noteworthy that the number of temporary agency workers in Germany fluctuates procyclically, but with a greater amplitude than the general economic trend. The last economic cycle showed that temporary agency work employment can be an early indicator

of recession – yet not of economic recovery. In addition, temporary agency work is a reliable leading indicator of labor market trends – both during a downturn and in the recovery.

From a *business management* perspective, temporary agency work is of great significance for firms that make intense use of it, particularly in the business services sector. Following the Hartz reforms the percentage of firms making intensive use of temporary agency workers increased substantially. Some authors have even described a phenomenon of “strategic intensive use” – yet this finding is based on only a few case studies. The establishment of in-house temporary agency work agencies by companies has attracted a great deal of public attention in recent years. However, according to a study conducted by the Institute for Employment Research (IAB), this is not a “broad-based phenomenon.” There is much less awareness of the microeconomic advantages of temporary agency work for publicly traded firms, whose cost structures are assessed by analysts.

In terms of *labor market policy*, temporary agency work now offers the unemployed – particularly the long-term unemployment – greater opportunities to re-enter the labor market. Yet there has much debate concerning the extent to which temporary agency work leads to regular employment relationships. In this connection descriptive analyses are often used as a basis for assessing the effects of temporary agency work. However, such analyses ignore the fundamental evaluation problem. To date, only two methodologically rigorous studies of Germany have been conducted. In his assessment of data from the mid-1990s, Kvasnicka (2008) finds that temporary agency work has an “access to work” function, but he finds no evidence of a “stepping stone” function. In their evaluation of more recent data from after the Hartz reforms, Lehmer & Ziegler (2010) demonstrate that temporary agency work has a stepping stone function for the long-term unemployed. There is only anecdotal evidence for temporary agency work’s substitutional or crowding-out effects. Particularly due to the low penetration of rate of temporary agency work as well as statistics concerning length of service at temporary employment agencies, it is unlikely that firms have been replacing core employees with temporary agency workers to any significant extent. However, due to a lack of data, methodically rigorous studies concerning this question have yet to be undertaken.

With a view to *educational policy* the temporary agency work sector has gained increasing importance. A number of occupational paths and vocational training programs for staffing agents and temporary employees have been created. The prequalification of applicants and training of temporary employees will increase in importance in coming years as the shortage of qualified employees intensifies in Germany due to demographic and structural change.

There are still many gaps in the empirical study of temporary agency work. Little research has been conducted to date concerning the controversial “stepping stone” and “crowding-out” effects of temporary agency work. It would certainly be worthwhile to conduct an empirical re-assessment of the stepping stone hypothesis using the timing-of-event approach for the years following the Hartz reforms; a current example of this research method is provided by a study on the topic of mini-jobs by Künn et al. (2009). An effort to expand linked employer-employee datasets could be undertaken in order to analyze the crowding-out effect. The training activities of temporary staffing agencies have also received little scholarly attention to date. An analysis that compares the duration with which skilled and non-skilled temporary agency workers stay employed in the industry could produce new findings about the employment effects of short-term training programs for temporary agency workers.

The significance of temporary agency work must also be analyzed in the context of other atypical employment relationships. At this time, comparisons between normal employment conditions and atypical employment seem to predominate (see Brehmer & Seifert 2008, OECD 2008), which leads to the hardly surprising finding that atypical employment conditions are associated with greater risks. However, atypical employment conditions call for a differentiated analysis that does justice to their heterogeneity. Thus, for example, voluntary part-time work and mandatory “one-euro” jobs (jobs with full social benefits covered by the government, but with hourly wages of one to two euros) should not be thrown into the same pot and contrasted with normal employment conditions.

The normative delineation of “atypical” employment in contradistinction to “normal” employment relations is a manifestation of political assumptions concerning changes in the labor market in recent years. The Council of Economic Advisers, for example, has complained that the unequal treatment of the “normally” employed permanent workforce and the atypically employed marginal employees represents a problem for social policy (Sachverständigenrat 2008). The Council recommends reforming labor market institutions in such a way that normal employment increases once again. In particular, they recommend the reform of dismissal protections.

A few authors see temporary agency work not merely as an atypical form of employment but as a so-called precarious or insecure form of employment. In the study by Brehmer & Seifert (2008), employment conditions are defined as precarious if they are characterized by a comparatively low level of job security; limited social security or safeguards by means of laws or collective bargaining agreements; no or limited access to the social insurance system; as well as low income. In their multivariate analysis of SOEP panel

data from 1989 through 2007, they compare normal employment conditions with atypical employment conditions and operationalize the risk of precariousness using the criteria of wages, job stability, and participation in vocational training. They conclude that temporary agency workers are faced with an elevated precariousness risk with respect to wages and job stability. A critical objection to this multivariate analysis, however, is that it fails to resolve the underlying fundamental evaluation problem. It is implicitly assumed that temporary agency workers also have the option of accepting normal employment.

This implicit assumption is additionally evident in all studies that have been initiated to date by labor unions (see Adamy 2011, Biehler 2011). Most crucially, these studies fail to take into account that 60% of temporary agency workers were unemployed prior to their current position. Thus, the majority of temporary agency workers never had a choice between “normal” and temporary employment. For these workers, access to the labor market was first made possible through atypical employment relationships. In light of this fact, studies initiated by the temporary staffing sector emphasize that temporary agency work is a driver of participation in the labor market; the labor force participation rate is fundamentally higher thanks to temporary agency work (see Berkhout et al. 2009 and Berkhout/van den Berg 2010).

In discussions about the low wage sector, temporary agency work is often cited. Despite the latest collective labor agreements, the lowest wage categories for temporary employees are assignable to the low-wage sector. As of 1 May 2011, the minimum wage for temporary agency workers is €7.79/hour in Western Germany and €6.89/hour in Eastern Germany (see Spermann 2011). Low wages are defined as those falling below two-thirds of the median wage. The specific values vary in the literature depending upon the underlying databases and definitions used by the authors. In the Brehmer & Seifert study, the low-wage threshold for the year 2007 is 9.45 euros/hour in Western Germany and 6.94 euros/hour in Eastern Germany. Here, as well, the question arises as to whether low wages are to be considered something negative per se if the alternative is unemployment.

In any event, it is uncontested that the “low-pay/no-pay” cycle, by which individuals transition between low paying jobs and unemployment, is a problem. A number of recent studies have addressed this issue (see Uhlendorf 2006, OECD 2008, Pacelli et al. 2009). These studies are unified in the assertion that education is the sole pathway leading out of such a cycle.

Low-wage employees often require assistance from the government in the form of supplementary public assistance (so-called unemployment benefit II or basic income in

Germany). In May 2009, for example, 10.1% of agency workers in positions subject to social insurance contributions were also simultaneously recipients of supplementary public assistance ("aufstockendes Arbeitslosengeld II") (see Deutscher Bundestag 2010b). If the temporary agency worker in question has a family and falls under BZA/DGB or IGZ/DGB wage agreements, the combination of the employee's wages, family allowance, housing allowance, and child benefits leads to a net disposable income above the income level defined by the German government as necessary for subsistence. The child benefit introduced in October of 2008 ensures that an individual does not need to apply for basic social assistance as soon as the minimum income level of €900/month is reached. If a temporary employee is in the lowest wage group under the AMP/CGZP wage agreement (which provides for the possibility of reducing the employee's wage during the first six months of employment), the minimum income level necessary to attain the child benefit cannot be reached during that period of time. As a result, the employee must apply for supplementary public assistance. In large cities, rental costs may be higher than the rent level permissible under the housing allowance benefit. As a result, basic public assistance (Grundsicherung) may be required to cover the costs of shelter.

However, when evaluating employment conditions, one should not focus exclusively on wage levels and quantitative employment effects. In newer labor market studies, soft factors are also considered alongside the investigation of employment effects. It is evident that atypical employment can be quite heterogeneous with respect to job satisfaction and the subjective well-being of employees. For example, there are clearly differences between voluntary part-time work and part-time work that is compelled by unemployment policy or child-care circumstances. We can also expect differences in the appraisal of temporary agency work at different levels of qualification and in different fields of activity. In this respect, the scientific analysis of flexible forms of employment remains in its infancy.

## 6. Endnotes

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## 7. Educational Offerings in the Temporary agency work Sector

**Table 1: Existing training programs and study courses for staffing agents**

Study course / training program	Description
<b>Staffing Agent Training</b>	Offered since 01.08.2008 Duration: typically 3 years Curriculum: staff recruiting, personnel placement, market development, customer acquisition, marketing, communications, sales management, applied occupational law.
<b>Certificate Program: "Management of Labor Market Integration"</b>	Offered since 2006 Extra-occupational study at SRH College in Heidelberg. Target group: Higher-level staffing service employees, public employment agencies, and self-employed occupational counselors/recruiters. Curriculum: labor market economics, social insurance law, labor market communications and counseling, case management and career advising, labor market equilibration and matching systems, flexible personnel management and temporary agency work.
<b>Certificate Program: "Certified Staffing Agent"</b>	Offered since 2008 Extra-occupational study (ten four-day modules within a year). Giessen-Friedberg Occupational College. Target group: employees in the personnel services industry. Curriculum: human resources management, organization, leadership, marketing, social skills training, and a legal module.
<b>Master's Degree Program: "Personnel Services Management"</b>	Offered since 2007 Extra-occupational study at SRH College in Heidelberg. Target group: specialists and managers who want to master providing effective and professional services for the labor, training, consulting, and education markets. Curriculum: labor market economics, flexibility models for the labor market, repercussions of structural change, use of temporary agency work as a sustainable employment policy instrument.

**Table 2: Planned vocational training and study courses for staffing agents**

<b>Vocational training / Study course</b>	<b>Description</b>
<b>Vocational Training: Personnel Services Specialist</b>	Anticipated to begin in fall 2011. Extra-occupational or full-time training. Target group: for individuals in a related field who seek to change jobs, as well as for individuals with staffing agent qualifications.
<b>Bachelor's Degree Program in Staffing Services</b>	Anticipated to begin in 2012. Full-time study (9 trimesters). SRH College in Heidelberg. Target group: university students.

**Table 3: Training programs for temporary agency workers**

<b>Offered by</b>	<b>Training/ Retraining</b>	<b>Description</b>	<b>Location</b>
<b>DIS-AG</b>	Cooperative Training (Art. 10, para. 5 of the BBiG, or Vocational Training Act)	Cooperative training for skilled workers is offered in the following occupational areas, among others: Electronic technician for plant systems, electronic technician for devices and systems, aircraft mechanic, industrial mechanic, mechatronics specialist, technical draftsman, process technician, cutting machine operator.	Throughout Germany
<b>Start NRW</b>	Cooperative Training (Art. 10, para. 5 of the BBiG, or Vocational Training Act)	The temporary staffing agency concludes the training contract and assumes responsibility for managing the training program. The occupational training takes place through cooperative firms that also contribute one half of the training pay. A prerequisite for each cooperation is that the cooperating firm provide primary or additional training (i.e. as standard under the so-called "dual system" of vocational education and training).	North Rhine-Westphalia
<b>Tuja Zeitarbeit GmbH</b>	Cooperative Training (Art. 10, para. 5 of the BBiG, or Vocational Training Act)	Cooperative training in cooperation with the Federal Employment Agency in a number of different areas.	Throughout Germany
<b>Trenkwalder Personaldienste GmbH</b>	Cooperative Training (Art. 10, para. 5 of the BBiG, or Vocational Training Act)	Cooperative training in cooperation with the Federal Employment Agency, including the following areas: Production specialists for the pharmaceutical industry Welders Solderers Warehouse and metals specialist Warehouse and electrical specialist	Throughout Germany
<b>Randstad Deutschland GmbH &amp; Co. KG</b>	Cutting Machine Operator	Retraining to be a cutting machine operator with a DMG Certificate Duration: 2 years Curriculum: Manufacture and quality testing of components; planning, development and control of production orders; installation, support and maintenance of production equipment.	Detmold
<b>Adecco Personaldienstleistungen GmbH, Manpower GmbH &amp; Co. KG, Randstad Deutschland GmbH &amp; Co. KG</b>	Certified Geriatric Caregiver	Training to be a certified geriatric caregiver (in cooperation with Adecco, Manpower and the Federal Employment Agency). Duration: 3 years	Frankfurt am Main

**Table 4: Training programs for temporary agency workers at large German staffing agencies**

	<b>Short Characterization</b>	<b>Qualification Measures</b>	<b>e-Learning</b>	<b>Qualification Passports</b>
<b>Randstad Deutschland GmbH &amp; Co. KG</b>	"Randstad Academy"	<ul style="list-style-type: none"> <li>- Qualification measures for applicants and employees (partly standardized, partly designed according to the individual preferences of the client).</li> <li>- Typically, short-term qualification programs of 3-6 months are offered (including air cargo assistant, call center agent, and warehouse specialist). At individual sites, longer term qualification programs up to 24 months are also offered (such as aircraft mechanic).</li> </ul>	Randstad offers 370 e-Learning courses in many areas, including IT courses, languages, technology, business administration. (www.randstad-elearning.de)	<ul style="list-style-type: none"> <li>- Through its "Learn on the Job" program, Randstad offers temporary agency workers who have not completed vocational training a qualification option (warehouse, production and office assistants).</li> <li>- Qualification courses and skills that have been achieved are documented in a qualification passport. Finally, a test can be completed through the IHK (Chamber of Industry and Commerce) or TÜV Rheinland.</li> <li>- To date, about 6,000 qualification passports have been issued.</li> </ul>
<b>Adecco Personaldienstleistungen GmbH</b>	"Earn & Learn" Program	<ul style="list-style-type: none"> <li>- Qualification measures for applicants and employees</li> <li>- Labor market integration program for recipients of <i>Arbeitslosengeld</i> // unemployment compensation between 18 and 25 years of age (qualification through individually designed assistance).</li> </ul>	Adecco offers internal and inter-company employees an e-Learning platform ("Career up").	
<b>Manpower GmbH &amp; Co. KG</b>	"Initiative Q" Program	<ul style="list-style-type: none"> <li>- Qualification measures for applicants and employees.</li> </ul>	Manpower offers employees and applicants an e-Learning platform with about 4,500 courses (Training and Development Center).	In a reference passport obtained by every temporary agency worker upon hiring, previous qualifications and those acquired at Manpower are documented. In addition, there is documentation of all client placements (company stamp, area of work, range of tasks, names of hardware, projects).

**Table 5: Training options in short-time work**

Program	Qualification of low-skilled workers in combination with short-time work (Support for vocational training during short-time work)	Qualification for <u>non</u> low-skilled workers in combination with short-time work
<b>Legal Basis</b>	Art. 77, para. 2 of <i>Sozialgesetzbuch III</i> (Social Security Code III) Directive of the Federal Employment Agency (HEGA 12/08 – 20)	ESF (European Social Fund) Program of the Federal Employment Agency ESF-Directive of 18.12.2008
<b>Reason for the Loss of Work</b>	business cycle/seasonal	business cycle/seasonal
<b>Group of persons</b>	Low-skilled recipients of short-time work benefits	Non low-skilled recipients of short-time work benefits
<b>Support instrument</b>	Recognized vocational training measures in conformity with the Directive on the Recognition and Licensing of Training (AZWV).	Recognized vocational training measures in conformity with Directive on the Recognition and Licensing of Training (AZWV).
<b>Prerequisites</b>	Exclusively for short-time workers who are low-skilled (without a vocational qualification degree or with a degree but more than four years at an unskilled job). Training voucher process with counseling requirement. Continuation or follow-up support is possible until the end of the program in case of premature end of short-time work and release of the worker. Accreditation of the program and the educational provider by the AZWV.	Training need must be justified. Return to full-time work or increase in working time should not stand in the way of participation in the training program. At the outset of the training program it should be expectable that the program can be completed within the period of availability of the short-time work benefits. Accreditation of the program and the educational provider by the AZWV.
<b>Scope and amount of support</b>	Training costs and refund of social security contributions up to 100% (for the shortfall in working time) as well as a supplement for travel and childcare costs. Special requirement: training must involve at least 50% of the short-time period.	According to the ESF directive (European Social Fund), training costs up to a maximum of 80% and refund of social security contributions up to 100% (for the shortfall in working time). Special requirement: training must involve at least 50% of the short-time period.
<b>Time frame of support</b>	beginning 01.01.2009	beginning 01.01.2009