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New Institute Survey on Flexible Staffing Arrangements

Employers' use of temporary, part-time, and contract employment is widespread and, available evidence suggests, growing. Many regard this development as troubling, pointing out that workers in these arrangements often receive low wages, few benefits, and little job security. Others argue that employers' use of so-called flexible staffing arrangements potentially benefits employees as well as employers.

Little information is available to inform the debate over the costs and benefits of flexible staffing arrangements. The February 1995 Supplement to the Current Population Survey (CPS) on contingent and alternative work arrangements (repeated in February 1997) represented a first attempt in official statistics to provide a comprehensive picture of the number of workers in these arrangements. However, our understanding of which employers use these arrangements, why they use them, and why they may have been increasing their use in recent years is incomplete.

To help bridge this information gap, the Upjohn Institute sponsored a nationwide telephone survey of employers on their use of five flexible staffing arrangements: temporary agency workers, short-term hires, regular part-time workers, on-call workers, and contract workers. We surveyed a stratified random sample of 550 establishments in the United States with five or more employees. This article highlights some findings from our survey.

Use of Flexible Staffing Arrangements

The use of flexible staffing arrangements is widespread among establishments of all sizes and in all industries. Forty-six percent of establishments in our sample use workers from temporary help agencies; 38 percent use short-term hires; 72 percent use regular, part-time workers; 27 percent use on-call workers; and 44 percent use independent contract workers. Excluding part-time workers (which the vast majority of establishments use), 78 percent of establishments in our survey use at least one type of flexible staffing arrangements.

Although many employers use agency temporaries and short-term hires, employers generally use these forms of employment on a small scale. According to our estimates, in 1995 agency temporaries added 1.5 percent to regular employment and short-term hires added 2.3 percent to regular employment among private sector establishments with five or more employees. These figures are in line with estimates from government data.

By their very nature, temporary jobs are short-lived. Although the amount of temporary employment may seem small, our data show that over the course of a year companies create seven to eight times the number of jobs for temporary agency workers and five to six times the number of jobs for short-term hires as would be captured in a point-in-time estimate. Thus, probably many more individuals experience a spell of temporary employment during the year than are working in temporary jobs at any point in time.

Why Employers Say They Use Flexible Staffing Arrangements

When asked why they use various types of flexible staffing arrangements, employers most commonly cited reasons concerning fluctuations in workload or absences of regular staff. Employers also often use agency temporaries and part-time workers to screen candidates for regular jobs; 21 percent of those using agency temporaries and 15 percent using regular part-time workers cited this reason as important. Interestingly, savings on wage and benefit costs were cited as important by just 12 percent of employers using agency temporaries, by 21 percent using regular part-time workers, and by under 10 percent using short-term hires and on-call workers.

Wages and Benefits

Although employers seldom say that they use flexible staffing arrangements in order to save on wage and benefit costs, they often report that the hourly labor costs of workers in flexible staffing arrangements are, in fact, lower than those of regular workers in similar positions. These savings occur primarily because of savings on benefit costs. About 38 percent of establishments using agency temporaries reported that the billed hourly rate for agency temporaries

is lower than the hourly wage-plus-benefit costs of regular workers in similar positions. Fifty-nine percent of establishments with short-term hires, 63 percent of establishments with regular part-time workers, and 73 percent of establishments with on-call workers reported that the hourly wage and benefit costs of these types of flexible workers are lower than the hourly wage and benefit costs of regular workers in similar positions.

Three of the five categories of flexible workers are direct employees of the establishment: short-term hires, part-time workers, and on-call workers. We collected information on benefits offered by the employer to workers in these categories and to regular, full-time employees. Short-term hires, part-time workers, and on-call workers are much less likely to receive fringe benefits such as paid vacations and holidays, paid sick leave, pensions, and health insurance than are regular, full-time workers (table 1). *The large gap in benefits occurs not because flexible workers are concentrated in establishments providing few benefits, but rather because employers discriminate between flexible workers and regular, full-time workers in determining benefits eligibility.*

Table 1. Provision of Benefits, by Type of Worker (in percent)

	Short-term hires	Part-time workers			Regular full-time workers
		To any part-time	To 50% or more	On-call workers	
Paid vacations and holidays	11.0	53.7	48.3	15.3	95.8
Paid sick leave	5.7	35.8	32.0	11.3	83.5
Pension benefits	3.8	37.6	30.2	14.0	78.5
Profit or gain sharing	NA	16.0	13.1	6.0	37.6
Health insurance	9.5	38.9	34.2	13.3	89.8
Any of above benefits	16.2	66.7	60.2	24.7	96.5

Statistical analysis shows that establishments offering good benefits to regular, full-time workers are more likely to use various flexible staffing arrangements and/or to use them more intensively. One possible explanation for this finding is that employers wish to offer costly benefits only to a certain segment of their workforce. However, employers encounter legal problems if they discriminate among regular full-time workers in offering benefits. Use of various flexible staffing arrangements is a way for employers to segment their workforce. Alternatively, employers may be particularly concerned about screening workers for positions that come with costly benefits, and may use flexible staffing arrangements for that purpose.

The lack of health insurance benefits may not matter to workers in flexible staffing arrangements if they are covered under another family member's plan. Simple tabulations from the February 1995 CPS show, however, that workers in flexible staffing arrangements are much less likely to have health insurance from any source than are workers in regular, full-time jobs. Moreover, workers in flexible staffing arrangements are much less likely to be eligible to receive health insurance through their employer, to have health insurance from any source, or to have pension benefits from their employer even after controlling for key individual and workplace characteristics (Houseman 1997).

Mobility into Regular Positions

According to the February 1995 Supplement to the CPS, most of those who consider their job temporary want permanent employment, and a significant minority of regular, part-time workers want full-time hours. Thus, a key issue is whether flexible staffing arrangements are avenues to regular jobs.

Although our survey provides evidence of some mobility into regular positions, relatively few employers report "often" promoting these workers, and, for most types of flexible workers, a majority of employers report seldom or never moving them into regular positions. However, there is a significant positive correlation between the degree to which employers hire agency temporaries into regular positions and how much they use these workers.

Trends in Use

Employers were asked if their use of a particular type of flexible worker had increased, decreased, or remained the same relative to the size of their workforce since 1990. Somewhat more employers increased their relative use of agency temporaries, short-term hires, and on-call workers than decreased their use. Many more establishments increased their relative use of part-time workers than decreased their use.

A substantially greater number of establishments also contracted out work previously done in-house. Eighteen percent of all establishments in our sample have contracted work out previously done in-house since 1990. Another 10 percent of establishments in our sample brought work back in-house that had been previously contracted out. Along with findings from earlier surveys (reported in Abraham 1988, 1990; Abraham and Taylor 1993), our data indicate that there has been a trend toward contracting out at least since 1980 and suggest a substantial restructuring of production and employment relations in our country.

When asked about future trends, two-thirds of the employers in our survey predicted that the use of workers in flexible staffing arrangements in their industry would increase in the next five years.

Policy Issues

Should we be concerned if a large and possibly growing number of workers in the United States are employed in flexible staffing arrangements? Our survey results clearly point to benefits as one issue of concern. Workers in flexible staffing arrangements typically do not receive basic workplace benefits and employers sometimes appear to hire these workers to avoid paying benefits. This raises the issue of the adequacy of a system in which health insurance and pensions are acquired primarily as fringe benefits of full-time, permanent jobs.

Another reason for concern is that workers in flexible staffing arrangements often have little job security, and thus are likely to experience spells of unemployment. Segal and Sullivan (1995), for example, show that workers in the temporary help industry are much more likely to experience unemployment than are other workers. Yet, the unemployment insurance system is designed with the traditional model of employment -- a full-time job of indefinite duration -- in mind. Part-time workers and workers in temporary jobs often are not eligible to receive unemployment insurance when their jobs end. This raises the issue of whether our social safety net is adequate to protect the large and growing number in alternative work arrangements.

One might be less concerned about the benefits and job security for these workers if flexible staffing arrangements were usually vehicles to permanent, full-time positions for those wanting them. More research is needed to better understand the extent to which these jobs serve as bridges to regular employment.

Susan Houseman is a senior economist at the Upjohn Institute. This research was partially funded by the U.S. Department of Labor.

Suggested Readings

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