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The Temporary Workforce Is Here to Stay

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ABSTRACT

The temporary workforce has become increasingly important to modern business both in the United States and abroad. This article describes 11 forces and trends which have contributed to the growth in the temporary workforce and which are likely to continue in the foreseeable future.

INTRODUCTION

Businesses and not-for-profit enterprises have come to rely on workers who are hired on a temporary or contingent basis, for periods lasting from a few days to years. In fact, many organizations regard temporary workers as a critical part of their personnel strategies. It has been estimated that about 90 percent of U.S. employers use temporary workers. These differ from permanent or core workers, who typically have full-time, long-term jobs, and who enjoy benefits such as pensions, health insurance, and vacations that are usually not available to temporary workers.

The temporary workforce consists of workers who are traditionally thought of as temporary: those brought in to deal with unexpected increases in workload, to cover employee absences, to handle special assignments, or to work on projects of short-term duration. Some may work as temporaries that supplement the regular workforce and some positions have been staffed only with temporaries. They may be hired directly by an employer or through a temporary-help firm. Other types of contingent workers include self-employed independent contractors hired to handle specialized tasks and who are paid on a fee basis; and part-time workers who work less than a regular workweek on an on-going basis.

Contingents work not only in traditional office/clerical jobs, but also in factory jobs and in professional, technical, managerial, and executive positions. The temporary workforce now includes accountants, computer programmers, computer system analysts, newspaper reporters and photographers, attorneys, college instructors, and even college presidents.

Estimates of the size of the contingent workforce vary widely, partly because of the way contingents are defined. Some estimates have placed contingent workers as high as 35 percent of the U.S. workforce; others have estimated only 4.9 percent. What is clear is that contingent workers are a large and important component of the U.S. workforce and that they are likely to increase in importance in the foreseeable future. Some observers go further and predict that the temporary workforce will grow faster than the permanent one for years to come. Additional evidence of the growing importance of the temporary workforce is that Manpower, a temporary staffing company, is now recognized as the largest employer in the U.S. Furthermore, there has been an enormous increase in the number of temporary employment agencies: from 100 agencies 15 years ago to about 1500 agencies today.

Although the temporary workforce as a whole has grown greatly, the most rapid growth in recent years has been in professional, technical, and managerial temporary workers. Some estimates place the number of these types in the hundreds of thousands, constituting perhaps 20 percent of the total contingent payroll in the U.S. The dramatic increase in the demand for temporary professional and technical workers has led to the formation of temporary employment companies that specialize in supplying these types of workers.

A survey of more than 400 vice presidents and human resource management directors throughout North America by the Olsten Corporation, a large staffing services company, revealed that almost a third of the companies were using contingent professional staff for a variety of departments, including marketing, human resources, and other functional areas. High

tech firms and fast-growing companies were most likely to employ professionals. There has been explosive growth in the use of temporary professionals in the high-tech area — highly educated workers skilled in new technologies. High-tech companies, such as Microsoft and Silicon Graphics, as well as telecommunications giants AT&T and Northern Telecom, have been relying more and more on temporary staff to work as computer systems analysts, computer programmers, engineers, and technical writers.

The U.S. is not alone in its reliance on contingent workers; large Japanese firms have long used them to buffer their core employees from unemployment. Furthermore, the use of contingent workers is increasing in Europe, especially in the Netherlands, Great Britain, Spain, and France.

Although the temporary workforce has grown in recent years, is this only a transitory phenomenon likely to disappear in coming years? Will the need for contingent workers decrease in years to come? Or will the temporary workforce continue to be an important factor in modern economies? Significant economic, political, and social forces and trends suggest that the temporary workforce is here to stay and probably will even increase in importance in the foreseeable future. The rest of this article identifies and discusses 11 major forces and trends likely to maintain or increase the need for contingents.

FORCES AND TRENDS FAVORING THE USE OF A TEMPORARY WORKFORCE

Global Interdependence of Economies

Businesses and national economies have become increasingly interdependent. What affects business and employment in one country or geographic region may have repercussions in other parts of the world. Economic shocks in eastern Asia will likely be felt in the U.S., Europe, Latin America, and elsewhere. Accordingly, businesses need to be vigilant and be ready to respond quickly to sudden, unexpected, or unforeseen changes in far away places.

Sudden downturns in economic activity abroad may require companies to make rapid adjustments in production, with accompanying changes in levels of employment. Companies with large numbers of permanent, full-time employees may find it difficult to reduce their head counts quickly, especially if they are concerned about the pain such cuts would inflict on their people. Therefore, it behooves employers to maintain a lean workforce of core employees and to have a body of contingent workers who could be more readily cut back as the need arises. Hence the use of contingents gives employers the flexibility to meet sudden changes in business arising in the global marketplace.

Paralleling the rise of the global company has been the globalization of temporary help firms that are major suppliers of temporary workers. In order to be able to continue to provide temporary employees to their clients that are operating or expanding internationally, temporary staffing companies have also been expanding beyond their borders by opening branches abroad or by acquiring temporary-help firms in other countries.

Increasing Flexibility in European Work Rules

Traditionally, West European governments and labor unions have imposed strong job-protection rules, which made it extremely difficult and costly for employers to lay off full-time workers during business slowdowns. Because of inflexible workplace rules, employers have been reluctant to add full-time workers, even when business was good. To staff their businesses, many employers began turning to contingent workers, even though governments mandated that contingents be paid as much as full-timers. Employers have been finding that contingents are an attractive alternative because they can be let go when business slows without the restrictions of laws covering hiring and firing of full-time workers.

In many European countries, the numbers of temporary and part-time jobs have increased dramatically over the past 15 years. In fact, they have become the most important source of new jobs, partly because some governments have actively encouraged the use of contingents to combat unemployment. This trend is likely to continue as governments strive to promote economic growth and to attain high employment levels.

Competitive Pressures

Intensifying competitive pressures have been caused at least in part by global interdependence. Such pressures may require firms to maintain or increase productivity at least partly by cutting variable and fixed labor costs. Downsizing has been a popular strategy for shaving costs by reducing head counts and then maintaining a lean organization. This sometimes has meant working downsizing survivors harder and for longer hours. Costs have also been cut by reducing wages and benefits, cutting back on training, and lowering recruiting and hiring costs. Temporary workers who typically are paid less and have fewer benefits than regular workers, and who are recruited, hired, and trained by temporary-staffing firms, can help employers achieve their cost-cutting goals. Also, temporaries may work harder than permanents because they may be trying to become full-timers.

Firms are experimenting with different ways to keep a lid on labor costs while maintaining flexibility in production. For example, some companies use what is called "accordion scheduling" to prevent overstaffing and thereby hold costs down. The numbers of temporary and part-time workers are adjusted day-to-day and even in the middle of a work shift in order to use only the absolute minimum number required.

Growth in Numbers of Small Businesses

The strong U.S. economy in the 1990s, the increase in corporate outsourcing of functions, round after round of corporate downsizing, and the lure of being one's own boss, have helped spur an increase in the number of small businesses. A record 885,000 small businesses were begun in 1997, up from 758,000 in 1993. Unwilling or unable to handle functions such as recruiting and selecting workers, benefits, payrolls, workers' compensation and unemployment insurance claims, and reluctant to employ a permanent workforce to handle these activities, some small businesses have outsourced these functions to temporary staffing firms that provide their services for a fee.

In addition to relieving the business owner of onerous paper work and administrative burdens, such arrangements might bring cost savings because the staffing firms can capitalize on economies of scale. Further, the small employer is not saddled with the fixed costs of a permanent workforce because the arrangement with the staffing firm may be terminated at the end of the contract period.

Rapid Technological Change

This has been one of the hallmarks of the U.S. economy, especially in the 1990s. New industries have developed almost overnight in a new information age. Companies have had to employ highly trained and skilled workers in order to keep up with changing technologies or run the risk of being left behind. Knowledge workers on the cutting edge of technology are highly prized and sought after. However, employers may not always need talent on board or may not have the human or financial resources to develop it. Therefore, they must go outside the firm to recruit it. One source of workers with new and current knowledge is the contingent workforce — especially independent contractors or consultants who have up-to-date and relatively scarce expertise obtained by working in a variety of other firms. Consultants can be brought in as technical experts for important projects, such as new product development, and the design and installation of complex new information systems.

Development of New Forms of Organization Structure

Organizational structures are not static; they evolve over a period of years, taking on different forms, some of which differ from the traditional pyramidal shape. One of the newer models for structuring organizations is the “shamrock” organization, made of three different groups of people. One group, or leaf of the shamrock, consists of the essential permanent workers of the enterprise: well-qualified, highly-paid professionals, technicians, and managers, who among them possess the competencies which differentiate the organization from others. Because they are highly paid, there will be increasingly fewer of them.

The second leaf of the shamrock is comprised of contractors, both individuals and organizations, who perform non-essential work for the enterprise. Because contractors specialize in their work, they can do it better and for less than the organization for which they are contracting. These workers are paid in fees, not wages and benefits. (These contractors essentially are longer-term contingent workers.)

The third leaf of the shamrock consists of a flexible labor force of part-time and temporary workers. This group can be expanded or contracted to meet peaks and valleys of demand. Drawing on the flexible workforce only when it is actually needed saves the enterprise the cost of wages and benefits.

The advantages of the shamrock are that it allows management to concentrate on the core business and not be distracted by support services for which they may not be competent, avoids paying for resources that may not be needed all the time, and reduces overhead costs. As with any structure, there are possible disadvantages: there may be a lack of commitment or a short-term perspective by contractors and the flexible work force.

Proliferation of Mergers and Acquisitions

The 1990s was a decade of numerous corporate mergers and acquisitions in a wide variety of industries. Consolidations were consummated to gain entry into new markets, to achieve greater efficiencies, to expand geographically, and for other reasons. The booming stock market probably facilitated some of these mergers. Many were between very large corporations and involved complex transactions.

While mergers and acquisitions frequently lead to layoffs because duplicate work and jobs are eliminated, they also provide some temporary job opportunities while the merger is being worked out. To lay the groundwork for the merger, a team of highly skilled workers, including attorneys and accountants, typically must be assembled rather quickly to conduct analyses and prepare necessary documents in a relatively short period of time. This type of project is short term, lasting for weeks or months, depending on the complexity of the transactions. Once the merger is completed, the job is ended and the team disbanded. Some temporary staffing firms, particularly those handling attorneys, get the bulk of their assignments from merger activity.

In view of continuing competitive pressures and global interdependence of business, merger activity is unlikely to end in the foreseeable future. Also, mergers are no longer confined to companies operating within any one country. Mergers and acquisitions across borders are becoming commonplace. Mergers between firms in different European countries, once a relatively rare occurrence, take place much more often today.

Tight Labor Markets

By and large, the decade of the 1990s has been a period of tight labor markets, especially for skilled occupations, including those in the high tech area. The challenge for most employers is to recruit and retain qualified people. Many firms have moved to increase their pools of qualified candidates by recruiting from previously untapped sources, such as contingent workers, whether hired directly or through temporary help firms. Contingents may be temporary for relatively long periods, sometimes stretching into years; they may be viewed as permanent temporaries. Another reason for recruiting temporaries is to try them out on the job; if they prove satisfactory they may be hired as permanent workers. Contingents may also welcome a temporary status; it allows them to size up a potential employer before making a longer-term commitment.

Changes in the Relationship Between Employers and Employees

The longstanding implicit social contract between employers and employees seems to have come to an end in recent years. Lifetime careers with a single employer are rare; the notion of life-long employment with an employer is being replaced by life-long employability, whereby employees assume responsibility for developing knowledge and skills that will enable them to market themselves to other employers.

In an era exacerbated by continued downsizing, long-term commitments to employees and reciprocal employee loyalty to the employer may be things of the past. Employees may be

less reluctant to leave for greener pastures because of uncertainty about the permanence of their employment. In any case, many employees who have left their employers have become independent contractors, marketing the knowledge and skills they acquired working for their previous employer. By working as contingents, they also may be able to add to their stock of knowledge and skills, thereby enhancing their employability.

The change in the employment relationship has had another, unintended effect: removal of the stigma of having a history of working for many firms during a lifetime. In the past, employees who worked for a single firm in their careers were deemed to be reliable, capable, and dedicated workers. Those who lacked a history of single-firm employment were seen as job-hoppers, suspect and unreliable, and therefore, poor hiring risks.

Widespread downsizing has helped to change these views. People with varied work histories may be seen as desirable in that they may have gained additional skills and knowledge and have been exposed to different conditions, processes, and technologies, which may be useful to potential employers. This might be especially true of candidates who have worked for competitors. This is also likely to be true for people who have been downsized and have taken on a variety of temporary jobs either as contractors or as direct employees.

Changes in Employee Needs, Expectations, and Lifestyles

In addition to changes in the social contract between employers and employees, far-reaching changes in employee needs, expectations, and lifestyles have come to alter relations in the workplace. The dramatic increase in the number of working mothers and the rise of the two-career family have led to the demands for flexible working arrangements. Employees with family responsibilities have a need to devote time to their children and have come to expect their employers to help them by offering flexible working hours.

Another important trend affecting employees' needs has been the aging of the population. Many employees feel responsible for helping their parents in handling health and financial problems. Employees with responsibilities both for children and parents have been called the "sandwich" generation—feeling pressures to help both the young and the old. Contingent work, especially part-time, is often seen as a solution to providing child and parental care because of the flexibility in hours and days worked.

The aging of the population has affected the contingent workforce in another way. Older workers who have retired sometimes want to work on less than a full-time basis in order to keep active and to earn extra income while leaving themselves time for leisure pursuits.

Increasing the ranks of retirees have been the numerous early retirement programs of companies that have downsized in recent years. Early retirees are usually younger than the typical retiree and are anxious to find work. Again, contingent work (including part-time) is well-suited to meet their needs. Some employers, eager to capitalize on the skills and knowledge their retirees have accumulated over many years, offer them the opportunity to continue working at reduced hours.

Temporary work is also increasingly being seen as a way of life for some professional, technical, managerial, and executive people. They not only accept it, but even enjoy making a career out of working “on assignment.” They prefer to work as contingents because they gain a sense of freedom by not having to make a commitment to remain with one employer long term. Others prefer the variety and challenge of working on different assignments for different employers. Still others like the flexibility in the number of hours and days worked because they are often free to pursue other interests.

Changing Public Perceptions of Contingent Workers

Contingents traditionally have been viewed as transitory, low, or unskilled workers hired to see an employer through peaks in demand or production, or to plug a temporary gap in the workforce. The jobs temps were asked to do were typically simple and routine, with lower pay and benefits than full-timers. Temporaries were generally perceived as less motivated, committed, or effective than regular employees.

However, this perception has been changing. The proportion of professional, technical, managerial, and executive people in the contingent workforce has been increasing and is the fastest growing segment. They are more educated than previous contingents. They may be brought in because of their expertise in an area, to handle a special project or problem, even to turn around a troubled operation or company. They are likely to be paid well, sometimes better than regular employees.

Contributing to this changing perception are recent studies showing that contingents are as motivated and committed as regular employees. Temporaries have been found to enjoy the challenge of doing a variety of jobs, to welcome the opportunity to acquire new skills by working for various employers and to put out effort in the hope of becoming permanent employees.

CONCLUSION

Eleven economic, political, and social forces and trends have been identified as having an impact on the temporary workforce. Temporaries have become so important that many employers would not be able to function without them or at least not as well.

These forces and trends are unlikely to disappear in the foreseeable future. While some might weaken, they will probably persist as will the need for a temporary workforce. On the other hand, the forces may become stronger, thereby intensifying the need for temporaries. Furthermore, the dynamic nature of modern business suggests that other forces will surface, perhaps leading to greater utilization of a temporary workforce.

If the temporary workforce does continue to grow, potential problems may arise that could create serious public policy questions. One of the reasons employers hire contingents is to lower their personnel costs; contingents are often paid less than core workers and do not receive benefits such as health insurance and pensions. Although higher paid contingency workers may not rely heavily on outside assistance for their medical coverage and retirement planning, lower paid contingents may not be able to make ends meet and may then be forced to turn to

government agencies for assistance. Further, since many temporaries lack health insurance, they may be unable to obtain adequate medical care for themselves and their dependents, causing them to seek medical help from public health institutions and government agencies. In addition, because contingents typically are not eligible for pensions, and may not earn enough to qualify for full Social Security benefits, they may be hard-pressed financially when they retire. Again, the government may have to step in to provide assistance. Hence, the use of temporaries may enable employers to lower their costs by shifting some of these costs to government; in effect, to the government would be subsidizing the employers. If this shift becomes burdensome, society may feel compelled to take corrective action such as regulating the employment of contingent workers.

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