

## Understanding the development of temporary agency work in Europe

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ERIM REPORT SERIES <i>RESEARCH IN MANAGEMENT</i>	
ERIM Report Series reference number	ERS-2004-086-ORG (Organizational behavior and HRM)
Publication	October 2004
Number of pages	30
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BIBLIOGRAPHIC DATA AND CLASSIFICATIONS	
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Library of Congress Classification (LCC) <a href="#">LCC Webpage</a>	Mission: HF 5001-6182
	Programme: HF 5546-5548.6, HF 5549-5549.5
	Paper: HF 5549 Personnel management
Journal of Economic Literature (JEL) <a href="#">JEL Webpage</a>	Mission: M
	Programme : M 10, L 2, M 12
	Paper: M 12 Personnel Management
Gemeenschappelijke Onderwerpsontsluiting (GOO)	
Classification GOO	Mission: 85.00
	Programme: 85.05, 85.08, 85.62
	Paper: 85.62 Personeelsbeleid
Keywords GOO	Mission: Bedrijfskunde / Bedrijfseconomie
	Programme: Organisatieleer, prestatiebeoordeling, personeelsbeleid
	Paper: personeelsbeleid, uitzendarbeid, transactiekosten, sociaal-culturele factoren
Free keywords	Human Resource Management, Transactions Cost Economics Approach, Temporary Agency Work

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**To appear in: Human Resource Management Journal**

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## Understanding the development of temporary agency work in Europe

*This article develops an explanatory framework for understanding the growth and development of temporary agency work (TAW) and the related industry. The analysis shows that explanations based on economic logic are helpful in understanding the choice of TAW in general. These explanations, however, fall short when trying to explain the growth of agency work over time or the variation in its use among European countries. To cope with these shortcomings, we extend our explanatory base to include a variety of sociocultural dynamics. Our analysis shows how deep-seated national work-related values ('deep embeddedness') affect the way TAW is regulated nationally. It also demonstrates how differences in more changeable norms, attitudes and practices ('dynamic embeddedness') affect the process of embedding agency work as a societally acceptable phenomenon, providing a basis for its subsequent proliferation.*

Key words: Human Resource Management, Transactions Cost Economics Approach, Temporary Agency Work

Hiring temporary workers via a temporary work agency (TWA) is now common practice in all kinds of work organisations. Although the open-ended employment contract is still dominant, the role of temporary agency work (TAW) cannot be ignored. Recent academic publications produced by the HR/employment relations community reflect a growing interest in this emerging phenomenon (Barker and Christensen, 1998; Blanpain and Biagi, 1999; Felstead and Jewson, 1999; Mangan, 2000; Carre *et al.*, 2000; Beynon *et al.*, 2002). Over the past decade, most European countries have also shown a significant growth in the use of TAW (Bergström and Storrie, 2003). What factors are driving this development? Economic explanations can provide part of the answer, but fall short when trying to explain the development of TAW over time and the variation in its proliferation among various European countries. We argue that, to explain the development of a 'morally loaded concept' (Nelson and Sampat, 2001: 16) such as that of TAW, we need a broader explanatory framework, which also appreciates a variety of sociocultural developments.

In this article we develop such a framework. We extend an explanation based on economic logic with a sociocultural explanation, which emphasises the normative acceptance of TAW as a

societal phenomenon reflecting the changing way in which we understand what can and cannot be done in 'our' European work organisations. We show how both theoretical perspectives are relevant for understanding two 'stylised' facts. The first is the rapid growth of agency work in the Netherlands over the past two decades. The second is the variation seen in the proliferation of agency work across European countries. In doing so, we show how an analysis based on transaction cost economics (TCE) can be enriched by operationalising the embeddedness level that is often neglected by economists, but which is deemed very important by social scientists (e.g. Granovetter, 1985; Oliver, 1996). We find that a sociocultural framework of analysis goes well with traditional TCE, and is necessary to understand fully decision-making around societally sensitive issues such as the use of TAW.

## **DEFINITIONS**

This article focuses on the increasing use of agency work in national economies, and the concomitant growth of the TWA industry. The TAW contract is a specific variant of the temporary employment contract. The traditional open-ended employment contract between organisation and employee is one in which the duration remains undefined and will be specified at a later stage. The temporary employment contract (limited-duration contract) is different because it sets an explicit limit on its duration. An agency contract resembles a limited-duration contract, but in addition makes the duration of the contract contingent on the needs of the user organisation and the temporary employee. In essence, the agency contract resembles the American concept of 'employment at will', but also explicitly limits the mutual responsibilities of the contract parties in the future. This creates an emphasis on the specification of the immediate exchange relationship, commonly combined with a specific description of the task to be performed. The TAW contract is brought about via the intermediate service of a TWA. The work organisation has no formal employment contract with the employee; it has a contract with the agency, which in turn has a TAW employment contract with the employee. In this article we will use the notion of permanent worker to describe the employee who has an open-ended contract with a work organisation. We will use the term 'agency worker' to denote the employee who is hired via a TWA by a work organisation.

For our analysis, the crucial difference between open-ended contracts and agency contracts lies in the costs of terminating the contract and in the quality/intention of the employment relationship between the employee and the organisation.

While a work relationship between an agency worker and a user organisation can be terminated at any time at no cost to either party, an open-ended contract cannot be unilaterally terminated without costs.<sup>1</sup> The costs of terminating an open-ended contract are threefold: the period of notice and the legal costs incurred by the work organisation in cases of dismissal when 'legal dismissal protection' is in force, and 'costs' in terms of negative reputation effects.<sup>2</sup>

The fact that an agency contract can be terminated by the user organisation at any time, without cost, also drastically changes the characteristic of the employment relationship. The individual temporary contract describes a more transactional, task-oriented, opportunistic employment relationship, limiting the mutual responsibility of the contract parties (Lapido, 2000; McLean Parks et al., 1998; Rousseau and McLean Parks, 1993; Rousseau, 1990). On a societal level, the agency contract signals the acceptability of a regular re-evaluation of the existing deployment of labour. This (re)commodification of the employment relationship (Esping-Andersen, 1990: 37) indicates an increasing acceptance of the rules of the market in HRM (Kamoche, 1994, makes a similar argument for the development of the HR function in organisations). The fundamental distinction that sets agency work apart from traditional employment is its reliance on market governance rather than on hierarchical governance over the employment relationship between the agency worker and the user organisation (e.g. Purcell and Purcell, 1998).

## **THE TRANSACTION COST ECONOMICS APPROACH**

TCE is developed to match specific transactions with specific governance structures. In the case of the transaction of labour, TCE explains which governance structure fits best: market contracts, a structured labour market with specific institutional arrangements (eg collective agreements

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<sup>1</sup> Nor, for the matter, can this happen with a contract of limited duration.

<sup>2</sup> This is because an open-ended contract implies a mutual expectation of an ongoing relationship between the employer and employee. It is a relational contract in which trust (Shaw, 1997; Costa, 2000; Nooteboom, 2002) is an essential ingredient. Cases of unjust dismissal may negatively affect the attitudes of other permanent employees towards the organization. However, the effects of a lost reputation do not apply only to the employer: the employee faces similar costs following a unilateral termination of an open-ended contract. Few employers are willing to risk investing in an employee whose job record suggests a disregard for the long-term commitment implied by an open-ended contract.

between social partners) or the internal market of the hierarchy (Williamson et al., 1975). TCE postulates that three factors determine the relative costs of market contracting versus hierarchical governance: asset specificity, frequency and uncertainty. In situations of high-asset specificity where job-idiosyncrasy is high, employer and employee are locked into a dependent relationship, where both rely on each other. To exclude opportunistic behaviour in such situations through market contracts invokes high transaction costs due to the complexity of the required contracts and the expensive monitoring of behaviour. Alternatively, a hierarchy with an internal labour market would economise on transaction costs, because the organisation, in contrast with the market, can cope more effectively with information asymmetries between employer and employee. It can allow for incomplete contracting because of more efficient monitoring and the existence of relational trust, resulting in an attitude of consummate cooperation: ‘an affirmative job attitude whereby gaps are filled, initiative is taken, and judgment is exercised in an instrumental way’ (Williamson, 1985: 262) to deal with the gaps in the employment contract. Also, in case of conflicts, the organisation as a ‘private court of ultimate appeal’ has more possibilities to explore facts than an external court in the case of conflicts regarding a market contract. According to TCE, the contracts between workers, TWAs and firms constitute a specific case of contracting through the external labour market, which coordinates transactions of labour efficiently in case of low-asset specificity, low uncertainty and for both recurrent and occasional transactions (Williamson, 1979).

Surprisingly few studies have applied the concepts of TCE directly to the phenomenon of agency work. Davis-Blake and Uzzi (1993) do not refer to TCE, but assign great explanatory power to skill requirements, a concept that is very similar to job idiosyncrasy. In another study, Gannon and Nollen (1997) argue that transaction cost theory is relevant but do not back this up with empirical evidence. Nevertheless, ample indirect evidence can be presented that supports the arguments of TCE. Table 1 shows the outcome of a recent survey conducted among 500 work organisations in Europe in order to determine what motivates a firm to hire agency workers.

**TABLE 1** *Reasons of European work organisations for hiring agency workers*<sup>a</sup>

<b>Reasons for engaging agency workers</b>	<b>%</b>
<i>Provide employees for regular jobs</i>	15
- to convert to permanent posts	11
- because they are cheaper	1
- other reasons	3
<i>Provide specialised skills</i>	5
<i>Help absorb fluctuations</i>	81
- replacements	27
- seasonal fluctuations	23
- unexpected peaks	21
- economic cycle	10

<sup>a</sup> The question in the survey on which the table is based was: ‘Could you please indicate what percentage of the agency workers you contracted for what reason?’ Multiple reasons could be given, so the total is greater than 100.

Source: CIETT, 2000

It appears that the major drive is summed up by the term ‘variable frequency’. Agency labour is appropriate for jobs that cannot be guaranteed for long periods (ie temporary jobs that are not enduring) because of seasonal fluctuations, unexpected peaks, economic cycles or reintegrating permanent employees (81 per cent). Similar results were found in other comparable surveys (Van der Heijden, 1995; Timmerhuis and De Lange, 1998). TCE would argue that a firm can hire temporary workers with short-term contracts itself without the intermediation of a TWA, but the costs of searching, negotiating, drafting the contract and monitoring would be higher for individual firms than for a TWA. A TWA can create a pool of temporary workers and a pool of firms, which enables them to transform the irregularity at individual level into a permanent demand and supply at aggregate level (the argument is similar to the emergence of so-called trilateral governance structures in Williamson, 1979).



However, hiring agency workers is not the only way to solve the problem of temporary work. Other solutions include overtime by permanent employees, slack in the number of permanent staff and outsourcing. Transaction cost theory predicts that agency workers will primarily be employed in jobs with low levels of job-idiosyncrasy (i.e. asset specificity in the employment relationship). Data concerning the nature of agency jobs confirms this expectation. Table 2 shows the kind of agency jobs mediated in 1999 by the nine largest TWAs in the Netherlands.

**TABLE 2** *Characteristics of agency jobs, 1999*

Jobs	Total agency jobs <sup>a</sup>	Total agency hours <sup>b</sup>
	%	%
Administrative	25	33.5
Medical	13	3.4
Skilled manual labour	3	9.9
Unskilled manual labour	59	49.0
Unknown	-	4.2

Source: a NEI/ABU, 2000; b Labour Force survey, CBS, 2002

Most of the manual jobs were classified as unskilled. Also, the administrative and medical agency jobs are either relatively unskilled or feature the type of work that can draw on codified, non-idiosyncratic skills (nursing, secretarial work and accounting skills), facilitating the transfer through the labour market.<sup>3</sup> OECD analyses on 28 countries confirm that temporary work is most prevalent in either unskilled or administrative and customer-related occupations (OECD, 2002: 138).

**Proposition 1** *TAW is chosen for labour transactions with relatively high contracting costs (i.e. relatively low frequency) combined with low asset specificity (low skill requirements and codified skills).*

<sup>3</sup> When uncertainty is high, the same argument holds as in the case of high-asset specificity: due to the possibility of opportunism, contracting costs will increase and a specific intermediate TWA will be able to coordinate more efficiently.

## **SHORTCOMINGS OF THE TCE MODEL**

The evidence presented in the previous section supports the assertion that TCE addresses some of the mechanisms underlying the choice for TAW. However, in our study of the TWA industry we came across at least two situations where TCE failed to help us understand the incidence of TAW. First, in mapping the development of TAW and the growth of the TWA industry in the Netherlands, the rapid growth during the 1980s did *not* coincide with significant changes in the factors that TCE suggests would affect the choice for TAW. And, secondly, when evaluating differences in proliferation of agency work in various European countries, they did not seem to coincide with the relevant national characteristics from a TCE perspective.

### **TAW growth in the Netherlands**

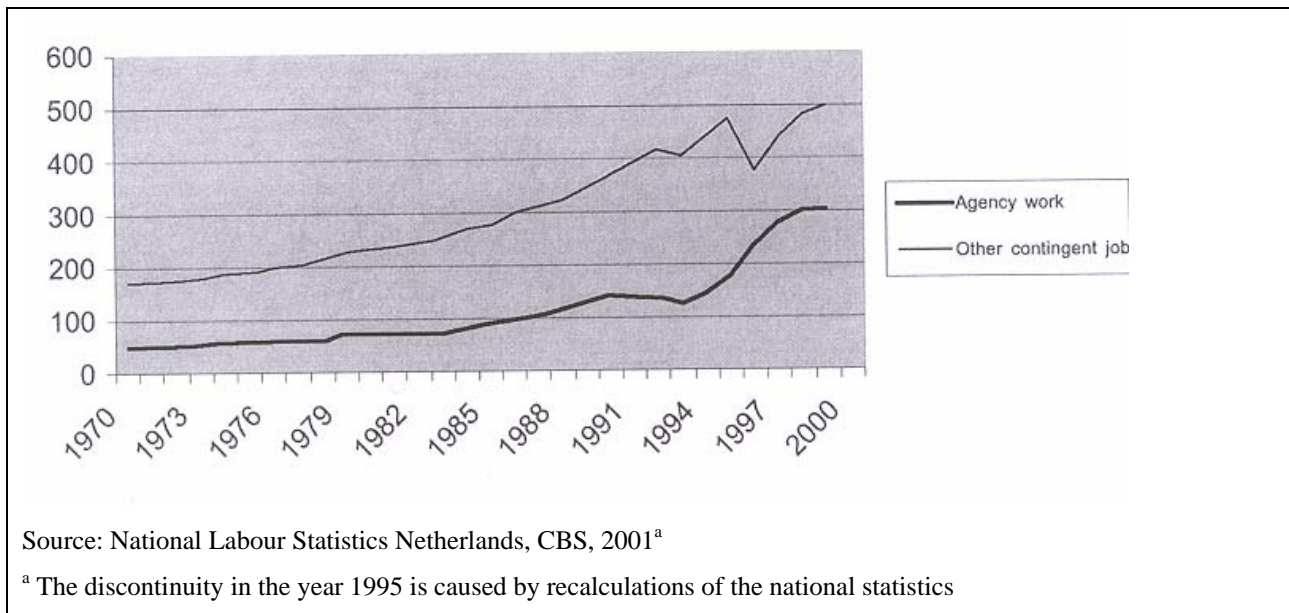
The growth of TAW over the past two decades in the Netherlands has been remarkable. Figure 1 shows the development of agency work and the use of limited-duration contracts. The Dutch use of TAW more than doubled from the early 1980s into the mid- and late 1990s (Koene *et al.*, 2003). Even now, after the worldwide slump in the agency sector, the Dutch volume of TAW, with an average number of 169,000 jobs in 2002, is still twice as high as in the early 1980s.

As the total number of contingent jobs in the Dutch labour market grew, the share of TAW in this category of contingent work increased from 22 to 24 per cent between 1970 and 1980, climbed to 28 per cent in 1990 and rose further to 38 per cent in 1999. To explain these developments, TCE would look for changes in the conditions governing the contracting of temporary agency workers or permanent employees. From that perspective, a growth of temporary work, as occurred in the Netherlands, should be the result of changes in the nature of the transaction (less frequency, less uncertainty, less asset specificity), or changes in the ‘rules of the game’, which would make temporary work less costly than the other options. Although accurate data on these issues is hard to get, indirect data does not point to such developments.

Studying the relationship between technological innovation (as an indirect indicator of asset specificity) and the use of agency workers in the Netherlands, Kleinknecht (1997) did not find any correlation between various measures of process innovation and the demand for agency workers or other temporary employees. Also, for the other dimensions of the labour transaction, uncertainty and frequency, no direct or indirect evidence can be found that would point in the

direction of structural changes in the labour market.<sup>4</sup> During the 1990s, the share of the different occupations in the volume of agency work has remained relatively stable, with low-skilled technical jobs accounting for almost half the temporary work hours in the Netherlands (CBS, 2000). Also, the other explanation of a change in the rules of the game is not confirmed in the Dutch case. Even when we broaden our understanding of TCE, not just focusing on changes in the attributes of the transaction but also considering changes in the underlying formal rules of the game (eg Williamson, 1998, 2000), TCE does not seem to be coming up with any clear answers for the the Netherlands' steep growth.

**FIGURE 1** *Development of the number of agency jobs (thousands), 1970-2000*



Changes in the legal framework might have reduced the costs of using agency work, increased the costs of using open-ended contracts or pushed work organisations to act more in line with the expectations of transaction cost theory. However, since the adoption of the Temporary Work Act in 1965, no significant changes in the legislation of agency work occurred

<sup>4</sup> Several recent studies did point out the relevance of frequency and uncertainty arguments for the pro-cyclical change of the use of TAW (eg Zijl et al., 2003) and the role of agencies in tight labour markets (Houseman et al., 2003). These studies, however, do not address structural changes that lead to long-term growth of the TWA industry and the use of TAW.

until 1998. Dismissal protection has been relaxed rather than strengthened (Van der Heijden, 1995), reducing the cost of open-ended contracts.<sup>5</sup>

The pursuit of flexibility in the workforce might also be regarded as a response to the increased competitive demands caused by the process of economic globalisation (eg CBS, 1996). According to Williamson (1994), competition pushes organisations to act more in line with transaction cost requirements. Examining this last relationship for the Netherlands, however, Vosse (1999) argues against it, finding no significant relation between the degree of internationalisation of organisations and their use of contingent employees.

In 1998 the Dutch government did adopt the Flexibility and Security Act (which came into force in 1999): this radically changed the legal position of TAW. Its implementation, however, should be seen more as the government's response to the increase in agency work than as a driving force behind its growth. The act did affect the relative costs of both agency work and limited-duration contracts, but in the opposite direction: over the past few years, the TWA industry in particular has stated time and again that the new regulation changed the 'rules of the game' to the disadvantage of TAW as it increased the relative costs of this form of employment.

### **Differences across Europe**

We encounter similar problems using TCE to explain the variation in the use of TAW in various European countries. Again, the conditioning factors highlighted from a TCE perspective are not instrumental in understanding the differences in proliferation of TAW among European countries. Table 3 shows the differences in relative use of agency work in eight European countries, and relates them to employer-sponsored, employer-specific vocational training as an indicator of job idiosyncrasy, and to type of regulation as a reflection of the 'formal rules of the game'.

Table 3 shows that in 1999 the market penetration rate of TAW appears to vary between a minimum of 0.16 per cent of the total number of jobs in Italy and a maximum of 4.5 per cent of the total number of jobs in the Netherlands. It appears that the penetration rate is substantial in three countries: the Netherlands, the UK and France. In the other countries, the penetration rate is still very low.

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<sup>5</sup> During the 1980s and the 1990s, the 'quick and dirty' dismissal procedures via the district court became common practice. Nowadays, more than a third of dismissal procedures pass via the courts instead of the lengthy bureaucratic procedure via the regional employment office. In the 1970s, dismissal cases at the courts were exceptional.

Employer-sponsored vocational training –focusing on employer-initiated ‘internal and external courses and structured on-the-job training, but excluding initial vocational training’ (OECD, 1999: 140, 142)– reflects the need for additional job-specific training of employees. Taking it as a measure of job idiosyncrasy, TCE would lead us to expectations very much at odds with the data presented in Table 3. High levels of employer-sponsored vocational training, such as found in the UK, the Netherlands and France, would predict low use of TAW. The lower levels of specific employer-sponsored training would lead us to expect less job idiosyncrasy in Italy and Spain, leading to a broader use of TAW.

**TABLE 3** *Factors theoretically associated with differences in use of agency work in Europe*

	Netherlands	UK	France	Germany	Spain	Italy	Sweden	Denmark
<b>Market penetration rate 1999</b>								
Temporary agency jobs <sup>a</sup>	4.5	4.0	2.7	0.7	0.8	0.16	0.8	0.19
<b>Attributes of the transaction:</b>								
<b>Employer-sponsored vocational training for total workforce <sup>b</sup></b>	17.2	15.8	20.1	8.2	10.0	6.1	-	12.9
Average hours of training <sup>c</sup>	1.5-	2.5-	1.5-	1.0-	0.5-	0.5-	-	1.0-
(maximum %) <sup>d</sup>	2.0	3.0	2.0	1.5	1.0	1.0		1.5
<b>Formal rules of the game</b>								
Regulation (since) <sup>e</sup>	L	L	M	R	R	M	L	M
	(1998)				(1994)	(1997)	(1993)	(1990)
a as % of total number of jobs b Data from EUROSTAT, CVTS, 1994 c average hours of training per employee d Employer training costs as share of total labour costs e Restrictiveness of national legislation: L = liberal, M = moderate, R = restrictive Source: CIETT (2000), OECD (2000) and OECD (1999)								

To assess the relationship between the penetration rate of agency work and the formal rules of the game, we use a composite measure to indicate the relative restrictiveness of the regulation of agency work. It is taken from the CIETT report on the TWA industry presented in December 2000 (CIETT, 2000: 39), drawing heavily on Clauwaert (2000), who describes the legal context for agency work in the countries of the European Union. We relate the penetration rate of agency work to the national legal context, scoring the legal framework on the basis of a three-point scale: liberal (L), moderate (M) and restrictive (R). In a liberal national legal context, there are few restrictions on agency work; its use and development is left to the market. Restrictiveness has to do with the conditions under which agency work is allowed, ranging from outright prohibition to restrictions on sectors in which it is permitted; limitation of reasons for which agency work is allowed (eg unusual work, bridging recruitments, replacing absent workers and temporary increase in workload); or time constraints (eg maximum period of assignments or synchronisation ban and prohibiting the end of a contract between a TWA and agency employee corresponding to the end of the assignment with the user company). If legal recognition of the industry is recent (as in Spain, Italy and Sweden), the year of legalisation is stated in the table. If major changes in the legislative context altered the level of restrictiveness, the date is mentioned in the table (Denmark and the Netherlands relaxed their legal constraints on TWAs in 1990 and 1998 respectively).

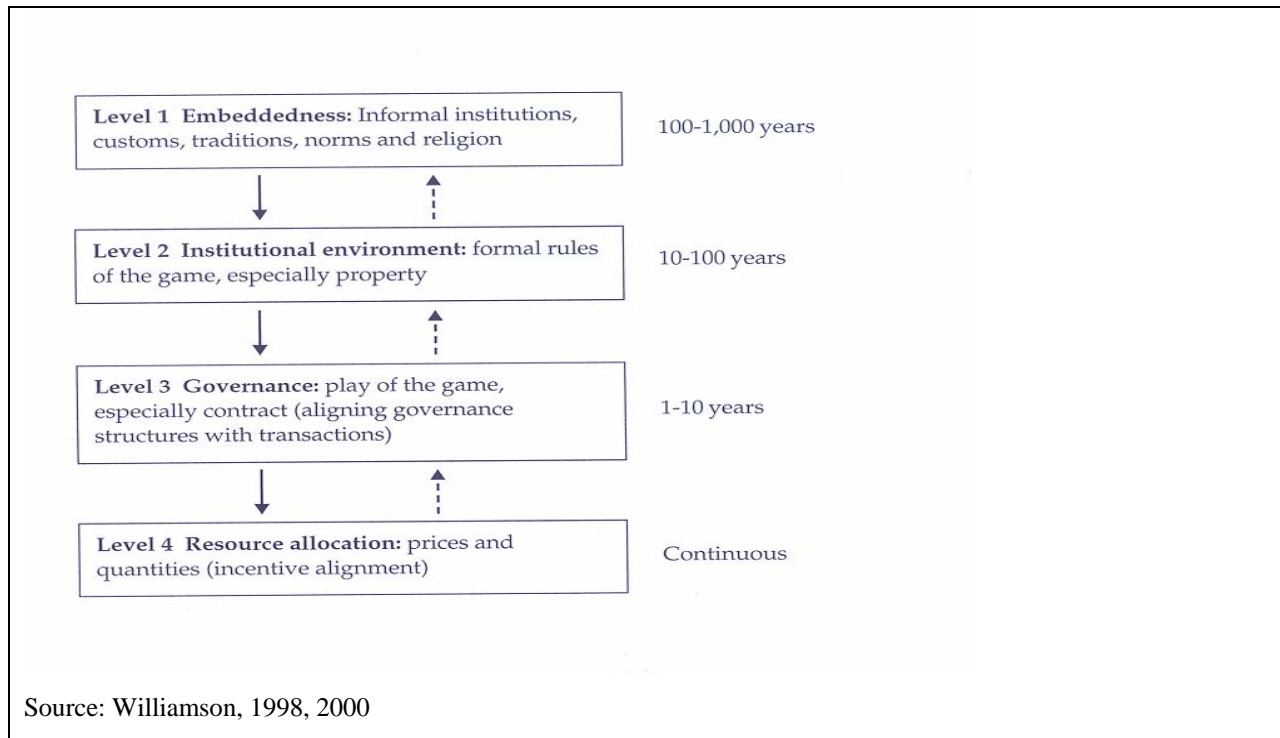
It appears from the table that no correlation can be observed between the relative restrictiveness of the legal framework governing agency work and penetration rate. The penetration rate in Sweden, which has had a liberal regulatory framework since 1993, is still relatively low. Countries with moderate regulation of agency work vary greatly in terms of penetration rates. While the Netherlands (the move from moderate to liberal was made only recently) and France have high levels of penetration, the levels of penetration in Italy and Denmark are very low. The countries with a relatively long history of legal recognition of the industry (Netherlands, UK and France) show the highest penetration rates. This may, however, be taken as an indication that the use of agency work in a specific country is not affected by changes of a legal nature as such, but more by subtle societal changes that occur in the general attitudes towards agency work over time. Legal changes can then play a role, either initiating such developments, or lagging behind and following broader societal developments as in the example of the recent changes in regulation in the UK and the Netherlands.

## **EXTENDING THE ANALYTICAL FRAMEWORK**

Consequently, although on the one hand the choice for TAW seems a typical ‘make or buy’ decision, ready to be handled and analysed through TCE logic, TCE logic falls short in explaining the longitudinal growth of the use of agency work and the international differences in its proliferation. Over a number of years, economic sociologists have addressed the question of how to consider the wider context influencing human behaviour in economic analysis. In their theorising, the ‘embeddedness’ of economic action in structures of social relations is a central issue (Granovetter, 1985). The embeddedness perspective looks on markets as both institutional enactments (eg Beckert, 2003) and normative and social arenas where ‘all economic exchange is a product of human activity and interpretation’ and, thus, ‘all exchanges are nested in opinions and judgments that frame the very nature of the economic transaction’ (Oliver, 1996: 170-171). Although TCE theorists mostly assume away variation in this broader sociocultural context over the short term, in ‘morally loaded’ choice situations, such as the choice to use or not to use TAW, our analysis might benefit from an understanding of variations in the sociocultural context over time and among countries.

In a review of the developments in TCE and in the adjacent fields of social analysis, Williamson (1998, 2000) provides us with an insight into the economist’s perspective on the issue of embeddedness, distinguishing four distinct, but interrelated, levels of social analysis. Figure 2 illustrates the relationship between the different levels and the issues relevant to the dynamic at each of them. Level 1 refers to the informal institutional environment of values, norms, customs and traditions. The relevant approach to understand this level is ‘social theory’, which can be understood as history, sociology and anthropology. Level 2 refers to the formal institutional environment, which includes the laws exerted by the polity, judiciary and bureaucracy of government grounded in the theory of property rights. Level 3 refers to the ‘institutional arrangements’ (North, 1990), or ‘governance structures’ in Williamson’s terminology, addressed by TCE. Level 4 describes the continuous micro processes of allocation in markets studied in neoclassical economic theory.

**FIGURE 2** *Four levels of social analysis*



Williamson's four-level framework does offer the possibility of taking into account the influence of different institutional environments. Moreover, it offers the possibility of a dynamic analysis in which interaction between the layers shows how, over time, specific elements of the informal and formal institutional environment gave birth to specific institutional arrangements and how the emergence and development of these arrangements influence the elements of the environment. However, when doing this, the framework is used in a totally different methodological setting than that of methodological individualism of TCE (Groenewegen and Vromen, 1996). The explicit introduction of interaction between the layers implies an approach of methodological interactionism, in which the definition of the choice situation (which is taken as a given in TCE) becomes part of the choice process influencing the eventual outcomes (see also Denzau and North, 1994; Beckert, 2003). The problems for TCE in making this shift in thinking are reflected in Williamson's description of the model where he recognises the interrelationships between the various levels of analysis, but at the same time assumes away the relevance of the embeddedness level by arguing that it is not relevant for the analysis of 'make' or 'buy' decisions in the short term. In his discussion of the four levels of analysis, Williamson argues that levels 2 and 3 are especially relevant to understand decision-making within



organisations from a transaction cost perspective: level 2 is where the rules of the game are set and level 3 covers how the game is played. Level 1, the social embeddedness level, 'is taken as a given by most economists' because it changes only very slowly – 'in the order of centuries or millennia' (Williamson, 2000: 596). This seems at odds with our understanding of its relevance for explaining the growth of agency work, which has taken place over a period of two to five decades at the most.

Although Williamson points out the relevance of level 1 explanations, his description of the embeddedness level remains rather superficial. He and others (Williamson, 2000: 610; Smelser and Swedberg, 1994: 18) argue for a further theoretical specification of the concept of embeddedness to be of practical use. For our purposes, we propose two changes in the definition of embeddedness.

First, we make a distinction between deep-seated basic values (deep embeddedness – ie deep level 1) and more superficial norms, attitudes and practices (dynamic embeddedness – ie dynamic level 1). This type of definition is congruent with developments in research on national and organisational cultures that distinguish deep-seated 'implicit values and basic assumptions', more consciously lived 'norms' and relatively superficial 'attitudes and practices' (eg Hofstede, 1980, 1991; Schein, 1992). Deep embeddedness changes very slowly and fits the original timeframe used by Williamson (for the Dutch: a caring society, striving for consensus, egalitarianism etc). Norms, attitudes and practices, however, can change relatively quickly, constituting 'dynamic embeddedness'. Aspects of organisational culture, perspectives on work and attitudes to work relationships are more dynamic and fluid, and develop more rapidly. They are influenced by changes in technology and the nature of work (such as the industrialisation of the late 18th century, the service and information age etc), and general societal trends such as individualisation and the recent widespread acceptance of the free market model.

A second, related, adaptation to Williamson's framework is our definition of 'defining moments', and has once more to do with changing the time horizon. Williamson gives as examples of defining moments: civil war, revolution and breakdown of economic systems such as those in Eastern Europe and the former Soviet Union. Such defining moments produce a sharp break from established procedures. Windows of opportunity to effect broad reform are thereby opened, according to Williamson (2000: 598). We believe that the occurrence of defining moments, which can result in major changes in the institutional environment, may be more

frequent than Williamson proposed. ‘Defining moments’ can be extended to include a wider range of events, such as key agreements between social partners – eg the Dutch Wassenaar agreement in 1982. This is generally considered to mark the revitalisation of the Dutch polder model of industrial relations that has come into full effect in less than 15 years. Another such event is the victory of Margaret Thatcher in the UK in 1979. This resulted in 11 years of ‘Thatcherism’, an era that had a profound impact on both the formal and informal rules of the game, as many a trade union leader discovered.

In the following sections, we will take this multifaceted approach to sociocultural embeddedness and use it to examine the development of TAW in the Netherlands over the past two decades and subsequently the variation in proliferation of TAW among European countries. Building on this examination, we add propositions about the sociocultural explanations for the issues at hand.

### **DYNAMIC EMBEDDEDNESS AND TAW GROWTH IN THE NETHERLANDS**

From an embeddedness perspective, the growth of agency work in the Netherlands can be explained by a growing societal acceptance in the country of this form of employment. In other words, agency work can flourish because of an increasing degree of societal legitimacy. As the developments we want to look at in the Netherlands span only three decades, it is not useful to focus on deep embeddedness for our analysis. We therefore focus on aspects of dynamic embeddedness.

We discern two clear trends in the development of the societal norms, attitudes and practices towards agency work that evolve from the 1980s onward. The first concerns the general attitude of the unions towards TAW, reflected in the public debate concerning its regulation. The second involves the attitude of government towards private TWAs, as reflected in the discussion surrounding the role of the Public Employment Services (PES) in the Dutch labour market. Table 4 demarcates the defining moments in the public debate about both the regulation of temporary work and the role of TWAs that preceded the growth of agency work in the Netherlands.

**TABLE 4** *Defining moments in the development of societal attitudes towards agency work in the Netherlands*

**Discussion of social partners on temporary agency work**

**1982** 'Wassenaar agreement'

**1993** Report on the renewal of collective bargaining in the Netherlands, which explicitly notes the need for more flexibility in work patterns, both from the perspective of employees and employers (StAr report, 'Flexibility and Security', 1996).

**1999** Flexibility and Security Act

**Changing position of TWA industry and Public Employment Services (PES)**

**1975** Increasing unemployment drives the PES to experiment with the agency formula to facilitate entry into the labour market for the unemployed.

**1978** The founding of 'Start', a temporary work agency established under the banner of the PES.

**1993** Dutch Court of Audit presents a report showing the ineffectiveness of the PES.

**1994** Discussions about the privatisation of the activities of the PES in the Social Economic Council (SER, 1994).

**1995** Extremely critical evaluation of the functioning of the PES.

**1998** Allocation of Workers via Intermediaries Act (WAADI)

**2002** Implementation Structure for Work and Income Act (SUWI)

The first trend, the changing attitude of the Dutch social partners towards agency work, has been documented in the reports of the Dutch Labour Foundation ('Stichting van de Arbeid, StAr', 1993, 1996). The Labour Foundation embodies a bipartite dialogue between employers and unions in the Netherlands. Until the 1980s, unions were suspicious of agency work, which was associated with bad employment conditions and illegal black market labour exchanges. It was considered undesirable, and was perceived to take advantage of people with a relatively weak labour market position. However, the Dutch employment crisis at the end of the 1970s and early 1980s created a 'sense of urgency' and worked as a 'triggering device' for national-level changes in industrial relations, social security and ensuing labour market policy. Unions and employers' associations reached what Visser and Hemerijck (1997: 60) labelled 'a shift in the hierarchy of

goals', emphasising the 'recovery of profits as a condition for investment and jobs'. The new intentions of the social partners were laid down in the StAr agreement of 1982, known as the Wassenaar agreement, which was the start of a period of wage moderation, welfare reform and labour market activation (Visser and Hemerijck, 1997: 16).

The Wassenaar agreement signalled the start of a general shift in the attitude towards TAW, as it included a basic understanding that more flexibility in the employment relationship was acceptable if it was combined with increased protection for employees in flexible jobs. From 1982 onwards, the social partners engaged in a constructive dialogue, building on the employers' wish for increasing labour flexibility and the unions' position that legitimate agency work needs to be supported by a social security system that takes into account the interests of agency workers. Three milestones that identify this dialogue are presented in Table 4. The final consensus on the need for 'flexibility and security' led to what Visser and Hemerijck label 'the first proper collective agreements for temporary workers' in 1995, introducing a right of continued employment and pension insurance after 24 months of service (Visser and Hemerijck, 1997: 44). The 1999 Flexibility and Security Act anchored these changed norms and attitudes towards agency work within a legal framework.

This analysis shows that, although the underlying national values did not change, the reconsideration of attitudes and the resulting changes in practices (dialogue and collective agreements), embodied in the three StAr agreements and in the 1995 collective agreement, clearly seem to precede the growing use of TAW in the 1980s and 1990s and the surge in its use after 1995.

The second trend involves the changing attitude towards the role of TWAs in the labour market, and the discussion about the effectiveness of the Dutch PES. Until 1975, there was a clear separation between the activities of the PES and TWAs. The former focused on permanent jobs; the latter on temporary jobs. The distinction was based on the idea that commercial agencies could not be entrusted with the care of disadvantaged groups in the labour market. At that time, commercial temporary placement of personnel was associated with exploitation. However, increasing unemployment drove the PES to experiment with the agency formula to facilitate entry into the labour market for the unemployed. The founding of 'Start' in 1978, a TWA established under the banner of the PES, was the result. From the mid-1980s, the effectiveness and efficiency of the PES was increasingly questioned. At the same time, the TWA industry had organised itself

and gained legitimacy as a result of its standard-setting industry association which, through its 10 largest members, covered more than 80 per cent of the TAW market. As a result of these developments, the Dutch government has over time minimised the role of the PES and stimulated the activities of the private TWA industry in the labour market. The 1998 Allocation of Workers via Intermediaries Act (WAADI) liberalised the TWA industry by lifting the licensing obligation for TWAs. Furthermore, seven years of preparation led to the final restructuring of the PES in 2002 (SUWI Act), creating public 'centres for work and income' and privatising activities related to reintegration of disadvantaged employees into the labour market (Struyven and Steurs, 2003). This second trend again shows a change in the attitudes and practices regarding the execution of labour market policy, rather than a significant change in Dutch national values regarding work or the relevance of labour market policies as such. The performance problems with the PES, and a general suspicion of public activities, combined with the increasing legitimacy of the TWA industry, have been major driving forces for the growth of agency work during the past decades.

**Proposition 2** *Regulation of TAW and open discussion about its possibilities and shortcomings stimulates the societal acceptance of the TAW alternative.*

**Proposition 3** *Acceptance of more risk in individual employment relationships (free market concept) supports acceptability and subsequent proliferation of TAW.*

## **DEEP EMBEDDEDNESS AND THE PROLIFERATION OF TAW**

Using the embeddedness argument to explain the variation in penetration rate of TAW across countries focuses on differences that may have a long history and thus may reflect differences in deep embeddedness – ie differences in basic national work-related values (eg Hofstede, 1991, 2001). However, as the formal acceptance of TAW is a relatively recent development in most countries (over the past 50 years), an explanation of country differences might also be found in the more superficial level of dynamic embeddedness – i.e. differences in norms, attitudes and practices.

Differences in deep embeddedness are reflected in national variations in work-related values and, as Visser (1996) argues, differences in national industrial relations models (eg Crouch, 1993):

Once established, such models of state-society relations and labour-capital bargaining change only slowly and have a nation-wide applicability, since they are embedded in, and support, historically evolved patterns of state formation, class relations and organisational behaviour which are intimately connected to national educational systems and cultural values.

**Visser, 1996: 28-29**

National differences in industrial relations systems are presented in the first section of Table 5. Visser (2001) distinguishes four models of industrial relations that describe the relationship between unions and employers, and the role of the state in Western Europe. In our comparison, the Netherlands and Germany represent the 'central social partnership' style. This combines disciplined attention to the interests of the social partners in a balanced, employer-led relationship. Sweden and Denmark represent the 'Northern corporatist' style, where the relationship between unions and employers is disciplined and balanced, but labour-led; social partners lead the way while government plays a facilitating role. Visser positions France, Italy and Spain in a cluster, with Portugal and Greece representing his 'Latin confrontational' model of industrial relations. In the Latin confrontational style, the relationship between unions and employers is volatile and characterised by rivalry and the relationship between the social partners is weak, resulting in a large intervening and regulatory role for the state; the notion of the welfare state is rudimentary, although the rights to work and welfare are stated publicly. Finally, the UK is representative of 'Anglo-Saxon pluralism', characterised by a volatile and unstable bargaining relationship between unions and employers, both operating from adversarial value systems: the state is relatively uninvolved; development of temporary work is 'left to the market'.

The indicators of deep embeddedness in Table 5 show no apparent relationship with the proliferation of agency work. A certain type of industrial relations system does not seem to favour or hamper the development of TAW as such. This leads us to conclude that although the emergence of TAW reflects a change in the governance structures concerning the employment relationship, TAW itself is not related to specific values (ie preferred states to be). Deep embeddedness, however, does affect the way in which TAW is regulated: carefully in the Netherlands, only reluctantly in the UK, paternalistically in Spain, and strictly through collective agreements in Sweden.

**TABLE 5** Penetration rate and indicators of societal legitimacy of agency work in Europe

	Netherlands	UK	France	Germany	Spain	Italy	Sweden	Denmark
Agency work								
Market penetration rate (1999) <sup>a</sup>	4.50%	4.00%	2.70%	0.70%	0.80%	0.16%	0.80%	0.19%
National industrial relations systems								
Industrial relations <sup>b</sup>	Central social partnership	Anglo-Saxon pluralism	Latin confrontation	Central social partnership	Latin confrontation	Latin confrontation	Northern corporatism	Northern corporatism
Role of state <sup>b</sup>	Facilitating and regulating	Abstaining	Intervening	Facilitating and regulating	Intervening	Intervening	Facilitating	Facilitating
Welfare state <sup>b</sup>	Fragmented right of income	Residual	Rudimentary right of work and welfare proclaimed	Fragmented right of income	Rudimentary right of work and welfare proclaimed	Rudimentary right of work and welfare proclaimed	Comprehensive right of work	Comprehensive right of work
Norms, attitudes and practices								
Strength of public labour office	Weak	Weak	Strong				Strong	
Attitude of collective labour to agency work	Accept	Distrust	Distrust	Distrust	Distrust	Distrust	Cautious	Cautious
Union density 1995 <sup>c</sup> (Change 1985-1995)	26% (-11%)	33% (-28%)	9% (-37%)	29% (-18%)	19% (+62%)	44% (-7%)	91% (+9%)	80% (+2%)

Adapted from:

<sup>a</sup> CIETT (2000)

<sup>b</sup> Visser (2001)

<sup>c</sup> ILO (1997)

**Proposition 4** *National culture does not affect the choice for TAW per se. It does, however, affect the typical institutionalisation of TAW (ie the way in which acceptable TAW is regulated in a specific national context).*

The second half of Table 5 compares the countries in our analysis on variables reflecting differences in dynamic embeddedness. The variables resemble the norms, attitudes and practices that we used in the analysis of the Dutch case: a broad evaluation of the general attitude in a society towards TAW reflected in the unions' position towards this type of work (acceptance, caution, distrust), the strength of collective labour in the public debate (reflected in union density and change in union density from 1985-1995), and the relative strength of the PES in comparison with the role of TWAs in the labour market (strong or weak). The country scores are based on an evaluation of industrial relations regimes presented by Visser (2001) and ILO data for unionisation (ILO, 1997).

Although similar to industrial relations models, the IR climates of the Netherlands and Germany differ significantly. In the Netherlands, indigenous multinational enterprises have a relatively large impact whereas the ethic of craftsmanship in Germany has created strongly voiced labour participation, sceptical of innovations in the employment relationship affecting employee security. The different attitudes towards agency work seen in the Netherlands (ie acceptance) and Germany (ie distrust) may well result from this relative lack of power of the unions in the Netherlands, which leads to an accommodating position trying to regulate, rather than ban, TAW. In Sweden and Denmark, the 'Northern corporatist' style takes a comprehensive approach to welfare (Ebbinghaus and Visser, 1997) with a traditionally large role for the PES in securing the 'right to work'. The attitude towards contingent employment is cautious: accepting, but very strictly regulated. Temporary work is seen as a solution to a specific set of problems in the labour market.

In the 'Latin confrontational' model of industrial relations (France, Italy and Spain), the attitude towards agency work is distrustful, especially because of its possible effects on employment security and working conditions. Significant mutual distrust between social partners and problems in upholding rules and regulations in the area make legislators reluctant and very strict in regulating the sector. In all three countries, the PES fulfils an important role in the labour market as unemployment is relatively high and politics proclaims the need for protection of employees against opportunistic employment practices. In comparison with Italy and Spain, union strength in France is relatively weak, which is reflected in the low degree of unionisation and a sharp decrease from 1985-1995.

In the UK's market-based model of 'Anglo-Saxon pluralism', the role of the PES is weak. Union attitudes towards temporary work have until recently been negative (Heery, forthcoming), but their impact on the public debate is small. Traditionally, unionisation in the UK was high, but since the early 1980s the country's embrace of the free market doctrine has resulted in a notable decrease in union density from 1985-1995.

The summary of this analysis is presented in the second part of Table 5. The table shows that the penetration rate of agency work correlates well with norms, attitudes and practices that support national experimentation with, and dialogue about, the legitimacy of TAW in each country. For example, countries such Germany and Sweden are critical of agency work, and labour representatives only accept it while watching its development closely. Furthermore, in Sweden



the PES holds a strong position. In both countries, the attitude towards the use of agency work is less favourable. In contrast, countries such as the Netherlands, the UK and France demonstrate either a more accepting attitude towards agency work or a weaker position of unions (there is a lower degree of unionisation in France) or the PES (its operation is much criticised in the Netherlands).

Although relatively superficial (and thus easier to change), these indicators of dynamic embeddedness signal crossnational differences that create different starting positions for the development of TAW and the TWA industry in each country. Looking at these differences, we conclude that the degree of perceived legitimacy of a national discussion about the possibilities of TAW might be pivotal in understanding its penetration rate. These findings confirm our conclusions from the Dutch case. Again, the proliferation of TAW does not depend on value congruence between this form of employment and the national cultural value system. It does, however, seem to depend on the norms, attitudes and practices that affect the national discourse on TAW, confirming its legitimacy and facilitating its use in the labour market.

## **CONCLUSION: COMPARING EXPLANATIONS FOR GROWTH**

In this article we have analysed the development and growing use of agency work over the past decades. We developed a framework extending an analysis based on economic logic with a sociocultural explanation. TCE did help to understand the choice for temporary agency workers in general. However, the economic analysis could not explain the strong growth of agency work over time in the Netherlands, or the variation in proliferation of agency work among different European countries.

The analysis of these phenomena benefited from a careful evaluation of the sociocultural context in which TAW and the related TWA industry developed. The interest in the social embeddedness of economic action is not new. Social theorists have argued for its relevance for decades (e.g. Granovetter, 1985; Oliver, 1996; Beckert, 2003). Furthermore, economists also recognise the importance of societal norms and values, especially when performing inter-temporal, international or cross-cultural comparisons. Nevertheless, the informal institutions in which work transactions are embedded are often given too little attention. Summarising the leading approach in transaction cost economics, Williamson argues that, considering the timeframe of the dynamics, TCE should leave the analysis of sociocultural embeddedness to economic historians

and social scientists as these kinds of developments occur over ‘centuries or millennia’ (Williamson, 2000: 596). Our analysis shows that attempts to understand the development of agency work over time and across nations are hampered by such disciplinary boundaries.

By extending Williamson’s description of embeddedness to include changes in societal attitudes that happen over a relatively short period, it becomes possible to incorporate valuable sociocultural explanations into our analyses. The changes in societal attitudes towards TAW over the past two decades in the Netherlands, and the relevance of sociocultural differences for understanding the European variation in national proliferation of agency work, illustrate this point. These examples clearly show the consistent interrelatedness between economic factors and the sociocultural variables defining the very nature of economic transactions (e.g. Oliver, 1996). Therefore, when building models that relate ‘different levels of social analysis’ (Williamson, 2000), the greater challenge is to integrate them sensibly, rather than to uncouple and separate them. These kinds of integrated frameworks can help to analyse the processes by which industries establish legitimacy and create societal acceptance of their products, which seem crucial for understanding industry growth.

Analyses combining these perspectives present us with a rich area for further exploration of the possibilities for cross-fertilisation between TCE and institutional theory.

## **IMPLICATIONS**

The preceding sections have outlined the rise and acceptance of TAW, and the associated TWA industry, as a legitimate part of the labour market in the Netherlands. They have also shown the importance of societal acceptance of TAW for its proliferation in various European countries. Our analyses indicate that the growing use of agency work over the past two decades is not just an economic and numerical fact, but also reflects a normative change in the societal attitude towards temporary work. These findings have implications for our understanding of the sociocultural embeddedness of HR choices, and for our understanding of factors contributing to the development of the TWA industry in Europe.

What are the implications at an organisational level and for HRM? The increasing emphasis on flexibility seen in firms over the past two decades has produced an increased blurring of organisational boundaries. These have become permeable not only in firms involved in joint ventures or networks, but also in individual companies. The questions of whether to ‘make’ or

'buy', and how to choose the right partner, are continual concerns, not only with respect to the production of goods or services but also in relation to functional areas such as marketing, purchasing, accounting and HRM.

The field of HRM is confronted with an increasing differentiation of the workforce, creating new opportunities for labour sourcing. At every hierarchical level of the organisation we encounter employees with open-ended contracts, but also agency workers, freelancers, consultants etc. Strategic HRM emphasises the organisational impetus for these changes, explaining the growing need for different kinds of employment relations depending on, for example, strategic value and uniqueness of an employee's contribution to the organisation (e.g. Lepak and Snell, 1999).

However, HR experts, especially when operating in an international context, need to realise that the acceptance of temporary work as 'normal work' next to, for example, open-ended contracts and project work, is not self-evident everywhere. In countries in which the use of agency work has grown, this is not a pure consequence of economic necessity, but also a matter of societal acceptance of a specific employment relationship with its own merits and effects. Our findings show that sociocultural processes, enhancing the societal embeddedness of temporary work and the role of the TWA industry, provide an explanation for the proliferation of agency work over time and across European countries. The present EU-level interest in TAW (EU directive proposal, 2002), although proceeding only slowly at the European level, may speed up national dialogues on characteristics, consequences and possibilities of TAW. In the process, it may also lead to a further local embedding of agency work and support its proliferation in European countries in which the social partners (mainly trade unions) have until now demonstrated a hesitant (eg Germany, Italy, Spain) attitude towards TAW or have almost ignored it completely (eg Greece). A critical factor for success, however, seems to be a positive attitude towards the definition of a societally acceptable form of TAW and the role that the TWA industry can fulfil in the national and international labour markets.

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