Choices, choices... Why do firms use agency workers?

Business survey results

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Introduction

• In previous RF research (Secret Agents, 2016) we noted a growing number of agency workers in the labour force (with an agency worker defined as someone who provides services in a workplace, but who is contracted by an intermediate agency). At around 800,000 workers, this is a small but significant part of the labour force similar in scale to those on zero-hours contracts.

• At the same time, firm-level data suggests a growing number of organisations have hired agency workers in recent years. In 2011, the Workplace Employment Relations Study found that 11 per cent of UK firms made some use of agency workers; in 2017 a survey commissioned by the Recruitment and Employment Confederation showed this figure had risen to around 20 per cent.

• While the growth in agency worker use has tailed off recently, taken together these two findings suggest some interesting questions:
  – Which types of firms were behind the rise in agency worker use?
  – What motivated firms to increase their reliance on agency workers at a time when the labour market was relatively slack?
  – Do firms intend to unwind their use of agency workers in the future?
  – Or are there reasons why firms may plan to maintain or even expand their reliance on agency workers in years to come?
Four times as many UK firms have increased their use of agency workers over the last five years than have decreased their use.

Thinking about the last 5 years, has the share of your workforce that is agency workers...

- Increased: 43%
- Stayed the same: 46%
- Decreased: 9%
- Don't know: 2%

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
It is not just blue collar firms that have turned more to agency workers over the period.

The survey shows that more than half of firms that make use of agency workers in the construction industry and the wholesale, retail and motor trade have increased their agency worker share over the last 5 years. But it is not just blue collar firms that have intensified their use. Firms engaged in business administration, the professions and real estate are also more likely than the average to have increased their agency worker share.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms</td>
<td>43%</td>
</tr>
<tr>
<td>Construction</td>
<td>56%</td>
</tr>
<tr>
<td>Wholesale, retail and motor trade</td>
<td>51%</td>
</tr>
<tr>
<td>Business admin, professional and real estate</td>
<td>47%</td>
</tr>
<tr>
<td>Arts, entertainment and recreation</td>
<td>43%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>43%</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>40%</td>
</tr>
<tr>
<td>Education, health and social care</td>
<td>38%</td>
</tr>
<tr>
<td>Financial and insurance</td>
<td>33%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>31%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
</tbody>
</table>

*Source: RF analysis of agency worker business survey, ComRes 2017*

*Notes: n=500*
Firms that have increased their hiring of agency workers are not all concentrated in high-use sectors.

Those sectors that have intensified their use of agency workers are not always the biggest hirers. For example, construction firms report a significant rise in use, but they still hire relatively few agency workers both as a share of their total workforce and in numerical terms.

In contrast, manufacturing, with the highest share and number of agency workers of any sector, has experienced a lower level of growth in their agency worker share.

Firms that are ‘agency worker reliant’ are significantly more likely than the average to have increased their use over time.

Proportion of firms surveyed by type that have increased their agency worker share over last 5 years

<table>
<thead>
<tr>
<th>Category</th>
<th>Increase in Agency Worker Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms</td>
<td>43%</td>
</tr>
<tr>
<td>Not agency worker reliant (&lt;5%)</td>
<td>15%</td>
</tr>
<tr>
<td>Limited agency worker reliance (5-10%)</td>
<td>33%</td>
</tr>
<tr>
<td>Some agency worker reliance (11-24%)</td>
<td>52%</td>
</tr>
<tr>
<td>Agency worker reliant (25%+)</td>
<td>69%</td>
</tr>
</tbody>
</table>

The picture is slightly different when we look at the firm level. 7 out of 10 firms that we class as ‘agency worker reliant’ (meaning one-quarter or above of their workforce is agency workers) have increased their agency worker share in the last 5 years. While there may be a degree of circularity here - the growth we observe is part of what may have made firms agency worker reliant - the intensified use of agency workers is clearly less about heavy-using sectors, and more about heavy-using firms.

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
What approach do firms take to agency workers?

- Conventionally agency workers have acted as a short-term solution for firms, filling in as needs be. So has the increase in use we observe simply a passive response on the part of firms to the testing economic conditions of the period?

- Alternatively, the intensified use of agency workers could signal a change in approach. Have firms made a more active business decision to increase their agency worker share rather than simply responding to a challenging external environment?

- Our survey allows us to explore firms’ high-level motivations. In particular, we can take a closer look at:
  - The sectors where firms take a more or less active approach to hiring agency workers
  - Those firms that have increased their agency worker share over the last five years
  - Firms that are highly reliant on agency workers (which, as we have already seen, are strongly correlated, but not coterminous, with those firms that have grown their agency worker share in recent years)
One-third of UK firms that hire agency workers take a ‘strategic’ rather than a ‘stop-gap’ approach to their use

Over the last 5 years, what best describes your organisation’s approach to using agency workers?

- Use agency workers in as many roles as possible: 12%
- Use only agency workers in certain roles: 22%
- Use agency workers as and when we need to: 46%
- Use agency workers only as a last resort: 19%
- Other: 0%

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
Some sectors are much more likely to have taken a strategic decision to hire agency workers than others.

Approximately half of firms using agency workers in business administration, the professions and real estate make an active choice to do so, as are 4 in 10 firms in the transport, storage and communications sector. At the other end of the spectrum, firms in hospitality are much less likely than the average to have adopted a strategic approach to agency worker use.

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
Firms that are agency worker reliant are more likely to take a strategic approach to their use than the average firm

More than 4 in 10 agency worker reliant firms take a strategic approach to their use, suggesting there is a segment of firms who view agency workers as a key part of their business model.

Moreover, firms that take a strategic rather than stop-gap approach are more likely to have grown their agency worker share in the last 5 years, although overall, underlying economic uncertainties clearly play a larger role in explaining the upward trend in use.

Proportion of firms surveyed by type that take a 'strategic approach' to agency worker use

- All firms: 34%
- Firms that have not grown their agency worker share in last 5 years: 30%
- Firms that have grown their agency worker share in last 5 years: 39%
- Firms that are not agency worker reliant (<5%): 18%
- Agency worker reliant firms (25%+): 42%

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
While our survey suggests firms are still using agency workers primarily to fill gaps, a significant minority clearly do treat agency workers as part of their business model.

We asked firms to reflect on a number of reasons why they may (or may not) have turned more to agency workers in recent years, including:

- Are firms making more use of agency workers because they are cheaper than direct employees?
- Do firms believe agency workers are more effective in the workplace than directly employed staff?
- Could firms find that agency workers affect productivity through other channels by, for example, keeping directly employed staff on their toes?
- Are firms mainly turning to agency workers in response to ups and downs in demand?
- Do firms use agency workers largely because suitable staff are hard to find?
- Or is it simply more convenient to use agency workers in place of direct employees?
Firms paint a mixed picture when it comes to the impact of using agency workers on labour costs.

There is no consensus across firms on the effect of agency workers on labour costs. While 3 in 10 businesses report that using agency workers decreases their labour costs, an equal number took the opposite view while the remainder are agnostic.

Could it be, however, that those firms that do see a cost advantage are the ones who have driven the increase in use of agency workers in recent years?

Which best describes the impact of using agency workers as opposed to directly employed staff on your organisation’s labour costs?

- **29%** reduce labour costs overall
- **39%** costs about the same as using directly employed staff
- **29%** increase labour costs overall
- **4%** don't know

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
Only one-third of firms that have increased their agency worker share think this helps them save money.

Proportion of firms surveyed by type that think using agency workers reduces overall labour costs:

- All firms: 29%
- Firms that have not grown their agency worker share in last 5 years: 26%
- Firms that have grown their agency worker share in last 5 years: 33%
- Firms that are not agency worker reliant (<5%): 26%
- Agency worker reliant firms (25%+): 39%

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
Just 1 in 6 firms think that agency workers are more effective than directly employed staff

Do you think agency workers are more, less or equally effective at their work than directly employed staff?

- More effective: 16%
- Less effective: 34%
- Equally effective: 47%
- Don't know: 3%

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
But agency worker reliant firms are almost twice as likely than average to think agency workers do a better job

Proportion of firms surveyed by type that think agency workers are more effective than directly employed staff:

- All firms: 16%
- Firms that have not grown their agency worker share in last 5 years: 11%
- Firms that have grown their agency worker share in last 5 years: 22%
- Firms that are not agency worker reliant (<5%): 5%
- Agency worker reliant firms (25%+): 30%

Firms that have grown their workforce share in recent years take a slightly more positive view of agency workers’ comparative effectiveness than the average firm. What is more striking, however, is the difference between firms with a high and a low level of agency worker use: only 1 in 20 light users think agency workers are more effective than directly employed staff, compared to 3 in 10 agency reliant firms.

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
Job - rather than personal - characteristics are the key reason firms think agency workers are less effective

The survey also gives us insight into why firms think that agency workers are more or less effective than their directly employed counterparts. Those firms that think agency workers are less effective point first to the time it takes time to learn the job. Interestingly, skills and hard graft are less important than attitude and loyalty to both firms that say that agency workers are less effective and those that believe they are more.

### Reasons why firms think agency workers are less/more effective than directly employed staff (multiple answers possible)

<table>
<thead>
<tr>
<th>Less effective (n=170)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Takes time for agency workers to learn the job</td>
<td>56%</td>
</tr>
<tr>
<td>Directly employed staff are more loyal</td>
<td>45%</td>
</tr>
<tr>
<td>Directly employed staff have a better attitude</td>
<td>35%</td>
</tr>
<tr>
<td>Directly employed staff are better skilled</td>
<td>23%</td>
</tr>
<tr>
<td>Directly employed staff work harder</td>
<td>22%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>More effective (n=80)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency workers have a better attitude</td>
<td>44%</td>
</tr>
<tr>
<td>Agency workers work harder</td>
<td>40%</td>
</tr>
<tr>
<td>Agency workers are better skilled</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: RF analysis of agency worker business survey, ComRes 2017
Majority of firms say think agency workers in the workplace has no effect on directly employed staff – but a quarter think it makes them up their game.

Working alongside agency workers makes our directly employed staff...

Agency workers do not necessarily need to be more effective in the workplace, however, to have an impact on productivity. Instead, their presence could keep directly employed staff on their toes.

We asked firms what impact they thought working alongside agency workers had on their directly employed staff. While the majority said it had no effect, one-quarter believed the presence of agency workers in the firm incentivised their directly employed staff to work harder.

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
Agency worker reliant firms are more likely to observe a disciplining effect

Proportion of firms surveyed by type that think agency workers make direct employees work harder

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms</td>
<td>26%</td>
</tr>
<tr>
<td>Firms that have not grown their agency worker share in last 5 years</td>
<td>20%</td>
</tr>
<tr>
<td>Firms that have grown their agency worker share in last 5 years</td>
<td>35%</td>
</tr>
<tr>
<td>Firms that are not agency worker reliant (&lt;5%)</td>
<td>16%</td>
</tr>
<tr>
<td>Agency worker reliant firms (25%+)</td>
<td>44%</td>
</tr>
</tbody>
</table>

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500

44 per cent of agency worker reliant firms say that agency workers in the workplace result in direct employees working harder. This is a particularly interesting finding given we know only 30 per cent of agency worker reliant firms think agency workers are more effective in their own right (slide 15). Taken together, this seems to suggest that the disciplining effect of agency workers in the workplace may be a more important consideration for firms than perhaps might be thought.
Overall, firms turn to agency workers largely because of supply-side constraints

Which of the following are the main reasons your organisation uses agency workers? (up to 3 responses possible)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cover holidays and absences</td>
<td>43%</td>
</tr>
<tr>
<td>Unable to fill vacancies</td>
<td>29%</td>
</tr>
<tr>
<td>Agency workers provide specialist skills</td>
<td>25%</td>
</tr>
<tr>
<td>Uncertain demand</td>
<td>23%</td>
</tr>
<tr>
<td>To trial and screen new staff</td>
<td>23%</td>
</tr>
<tr>
<td>Seasonal demand</td>
<td>21%</td>
</tr>
<tr>
<td>It’s convenient not to deal with tax/NICs/HR</td>
<td>18%</td>
</tr>
<tr>
<td>It’s convenient not to deal with training/development</td>
<td>16%</td>
</tr>
<tr>
<td>Permanent employment is frozen</td>
<td>12%</td>
</tr>
</tbody>
</table>

As well as exploring questions of costs and effectiveness we asked firms to rank a number of other reasons that potentially explain rising agency worker use. While an orthodox view is that firms commonly bring agency workers in to manage fluctuating demand, the survey suggests that firms turn more to agency workers to manage staffing issues – whether that is absence, problems filling vacancies or the need for specialist inputs.

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
But managing demand and convenience are more important considerations for agency worker reliant firms

Agency reliant firms have a slightly different set of motivations however. While covering holidays and absences remains the number one reason for taking on agency workers, managing fluctuations in demand is a much more important consideration for this type of firm. Moreover, more than a quarter of agency reliant firms highlight the convenience attached to outsourcing functions such as payroll, training and development.

Which of the following are the main reasons your organisation uses agency workers? (up to 3 responses possible), agency reliant firms only

- Cover holidays and absences: 36%
- Uncertain demand: 31%
- Seasonal demand: 30%
- It’s convenient not to deal with training/development: 29%
- It’s convenient not to deal with tax/NICs/HR: 26%
- Agency workers provide specialist skills: 26%
- Unable to fill vacancies: 25%
- To trial and screen new staff: 19%
- Permanent employment is frozen: 18%

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=118
Overall, our survey suggests firms use agency workers first and foremost in a stop-gap manner, and in particular to manage with supply-side constraints. However, for a significant minority of companies, the use of agency workers is a more active business decision, driven increasingly by questions of costs, convenience and control.

So what are firms’ future plans? A number of possibilities suggest themselves:

– Will those firms that have hired agency workers mainly as a passive response to the economic conditions of the recent period turn more or less to agency workers in the future?
– Do firms that have taken on agency workers as a stop-gap like what they see, and plan to grow their agency worker share in the future for more strategic reasons?
– Are agency reliant firms maxed out, or do they intend to intensify their use of agency workers still further in the future?
– And finally, how realistic are all these different types of firms’ ambitions when it comes to agency worker use?
Thinking about the next 5 years, do you expect the share of your workforce that is agency workers to...

- **Increase**: 25%
- **Stay the same**: 55%
- **Decrease**: 12%
- **Don't know**: 8%

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
Close to half of firms with a history of increased agency worker use plan to expand their share

Proportion of firms surveyed by type that expect to grow the agency worker share of their workforce in next 5 years

- All firms: 25%
- Firms that have not grown their agency worker share in last 5 years: 8%
- Firms that have grown their agency worker share in last 5 years: 47%
- Firms that are not agency worker reliant (<5%): 6%
- Agency worker reliant firms (25%+): 46%

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500

Strikingly, close to half of firms that have increased their agency worker share in the last 5 years plan to continue with an expansionary strategy.

This suggests that those firms that have intensified their agency worker use, whether actively or reactively, over the last 5 years have discovered there are advantages to their use – advantages that they hope to continue to enjoy in the future.
Some sectors are more bullish about agency workers than others

<table>
<thead>
<tr>
<th>Sector</th>
<th>Expected Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms</td>
<td>25%</td>
</tr>
<tr>
<td>Construction</td>
<td>43%</td>
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<tr>
<td>Business admin, professional and real estate</td>
<td>31%</td>
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<tr>
<td>Wholesale, retail and motor trade</td>
<td>28%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>21%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>20%</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>19%</td>
</tr>
<tr>
<td>Financial and insurance</td>
<td>19%</td>
</tr>
<tr>
<td>Education, health and social care</td>
<td>18%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
<tr>
<td>Arts, entertainment and recreation</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500
High-use sectors are more likely to have expansionary plans when it comes to agency workers than low-level users.

**Sector agency worker use by level and change: UK**

Proportion of sector workforce = agency worker

- **Manufacturing**
- **Education, health, and social care**
- **Transport, storage, and communications**
- **Business admin, professional, and real estate**
- **Financial and insurance**
- **Hospitality**
- **Wholesale, retail, and motor trade**
- **Arts, entertainment, and recreation**
- **Construction**

Size of bubble reflects number of agency workers in each sector.

Moreover, with the exception of the construction industry, those sectors that are keenest to hire more agency workers in the next 5 years are the biggest users either in terms of share of their workforce or absolute numbers. Close to 1 in 3 firms in the business administration, professional, and real estate sector which hires the second largest number of agency workers after manufacturing intend to expand their use, for example.

**Source:** RF analysis of agency worker business survey, ComRes 2017 and ONS, Labour Force Survey 2017

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Both positive and negative motivations lie behind firms’ future plans

Main reasons why firms expect future agency worker share to increase/decrease in next 5 years (multiple responses possible)

**Increase (n=125)**
- Brexit is leading to uncertainty: 41%
- Cost pressures: 40%
- It will be harder to fill vacancies generally: 38%
- Agency workers are more productive: 30%
- Plan to retain more agency workers: 28%

**Decrease (n=60)**
- Brexit will lead to fewer migrant agency workers: 37%
- No cost advantages: 32%
- Will automate some jobs: 18%
- Fewer workers prepared to be agency workers: 17%
- Reputational risk: 15%

For those who expect to grow their agency worker share, uncertainty and cost pressures loom large but there are also positive reasons behind their plans.

A falling number of migrant agency workers is the number one reason some firms expect to decrease their share. Close to 1 in 5 of such firms plans to automate some jobs and a further 1 in 6 are worried about the reputational risk of agency worker use.

Source: RF analysis of agency worker business survey, ComRes 2017
Could firms be disappointed? A tightening labour market suggests they might

With low unemployment and migration levels falling, firms already appear to be finding it harder to attract agency workers into the workplace.

In the final analysis, our survey suggests firms may find themselves in something of a bind, as a tighter labour market stimulates demand for agency workers just at the time when the supply of this contingent form of labour looks likely to contract.

Agency workers over time: UK

LHS: Number of agency workers
RHS: Agency workers as % of workforce

Pale bars indicate extrapolated figures

Source: RF analysis of ONS, Labour Force Survey

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