

RF



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

Business survey results

Lindsay Judge

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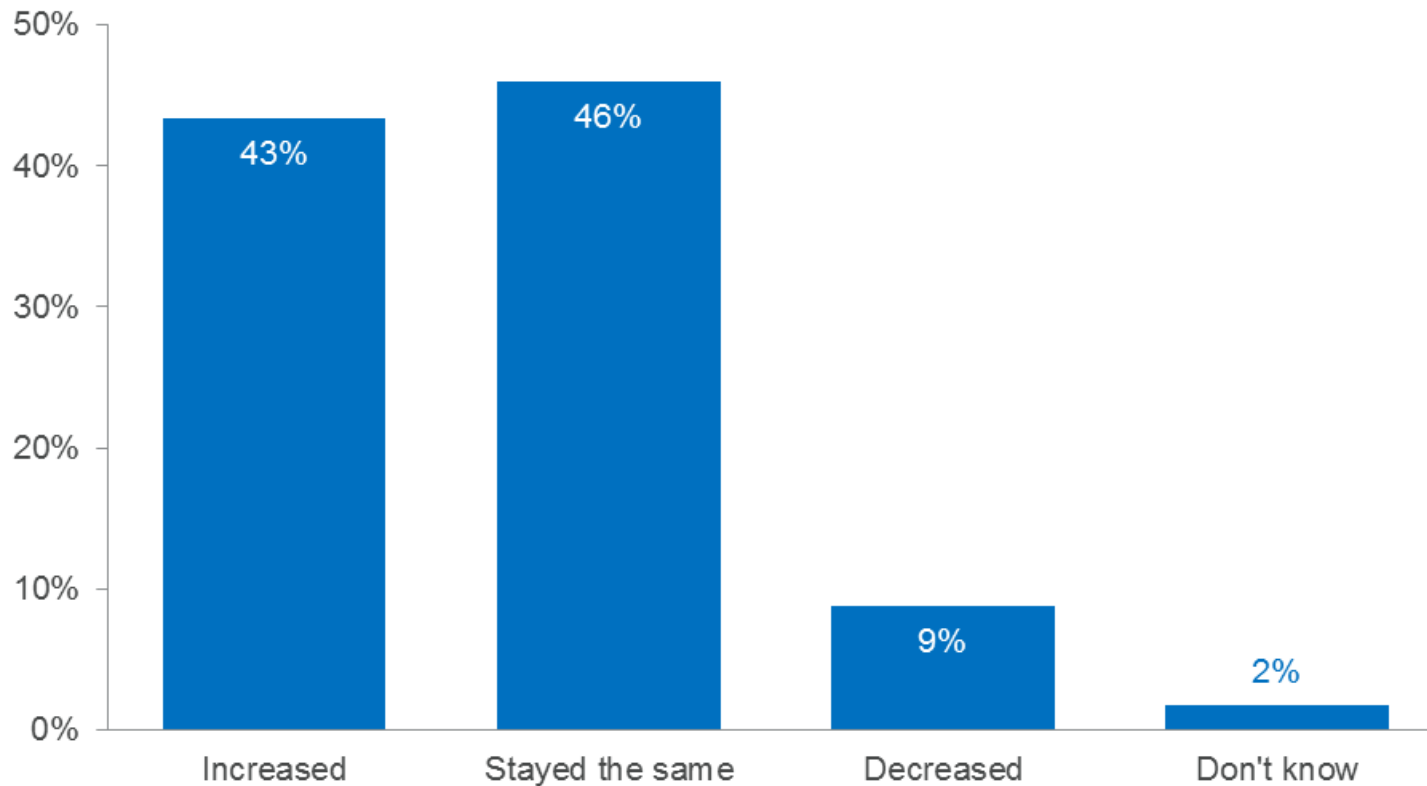
- In previous RF research (*Secret Agents, 2016*) we noted a growing number of agency workers in the labour force (with an agency worker defined as someone who provides services in a workplace, but who is contracted by an intermediate agency). At around 800,000 workers, this is a small but significant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



In December 2017 we commissioned ComRes to survey 500 human resources decision makers in UK private sector firms that hire agency workers. 43 per cent of such firms reported intensifying their use of agency workers over the last 5 years. This is only slightly lower than the proportion of firms that have maintained their agency worker share, and stands in stark contrast to the 9 per cent of firms that have decreased their use over time.

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



*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

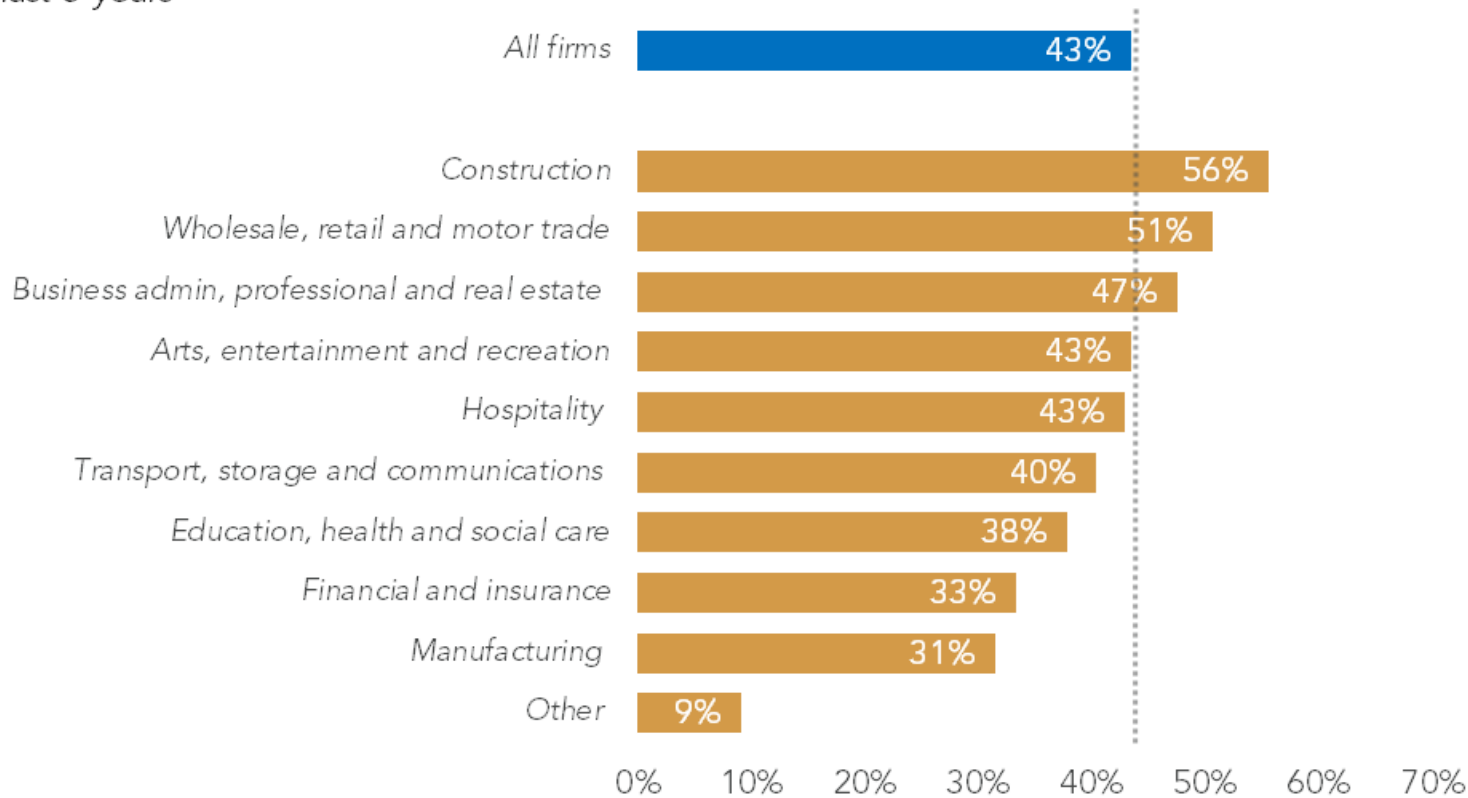


The survey shows that more than half of firms that make use of agency workers in the construction industry and the wholesale, retail and motor trade have increased their agency worker share over the last 5 years.

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.

Proportion of firms surveyed by sector who have increased their agency worker share over last 5 years



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

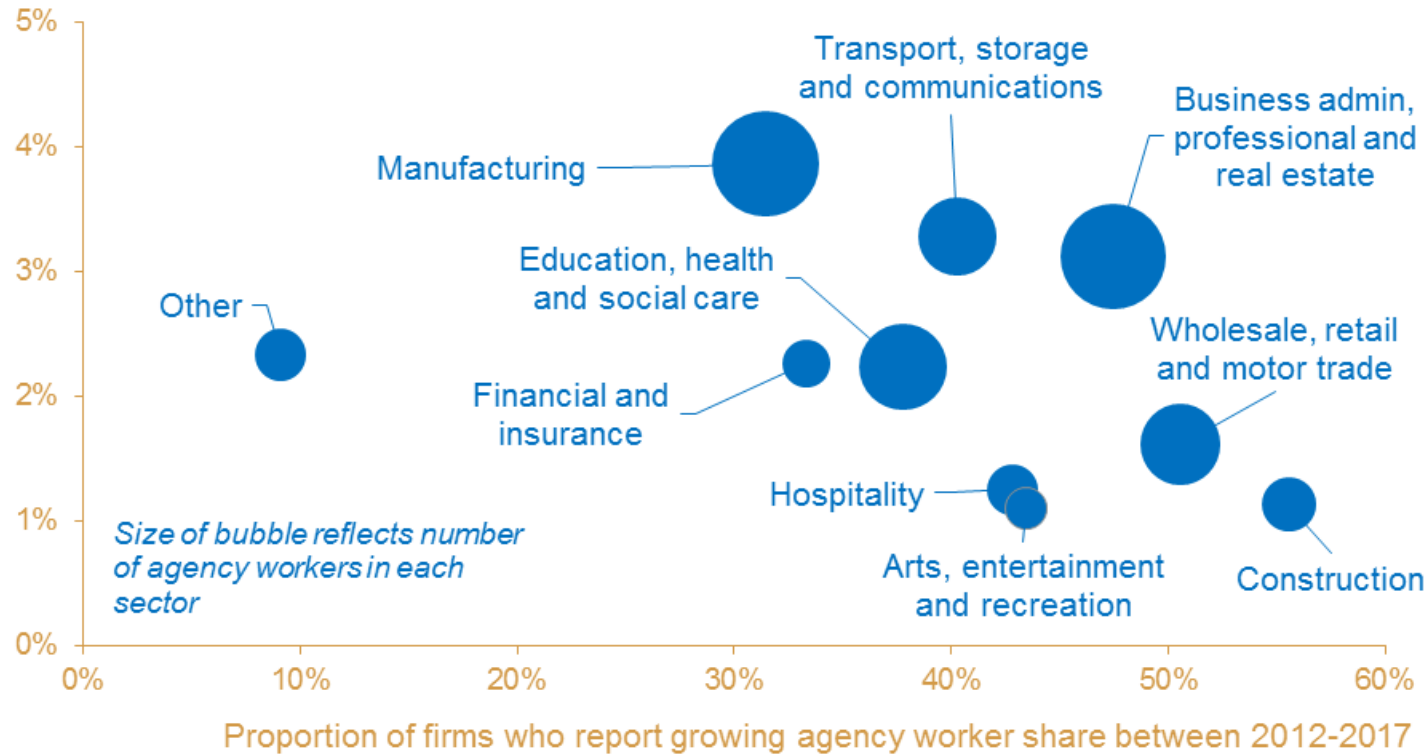
Notes: n=500

Firms that have increased their hiring of agency workers are not all concentrated in high-use sectors



Sector agency worker use by level and change: UK

Proportion of sector workforce = agency worker in 2012



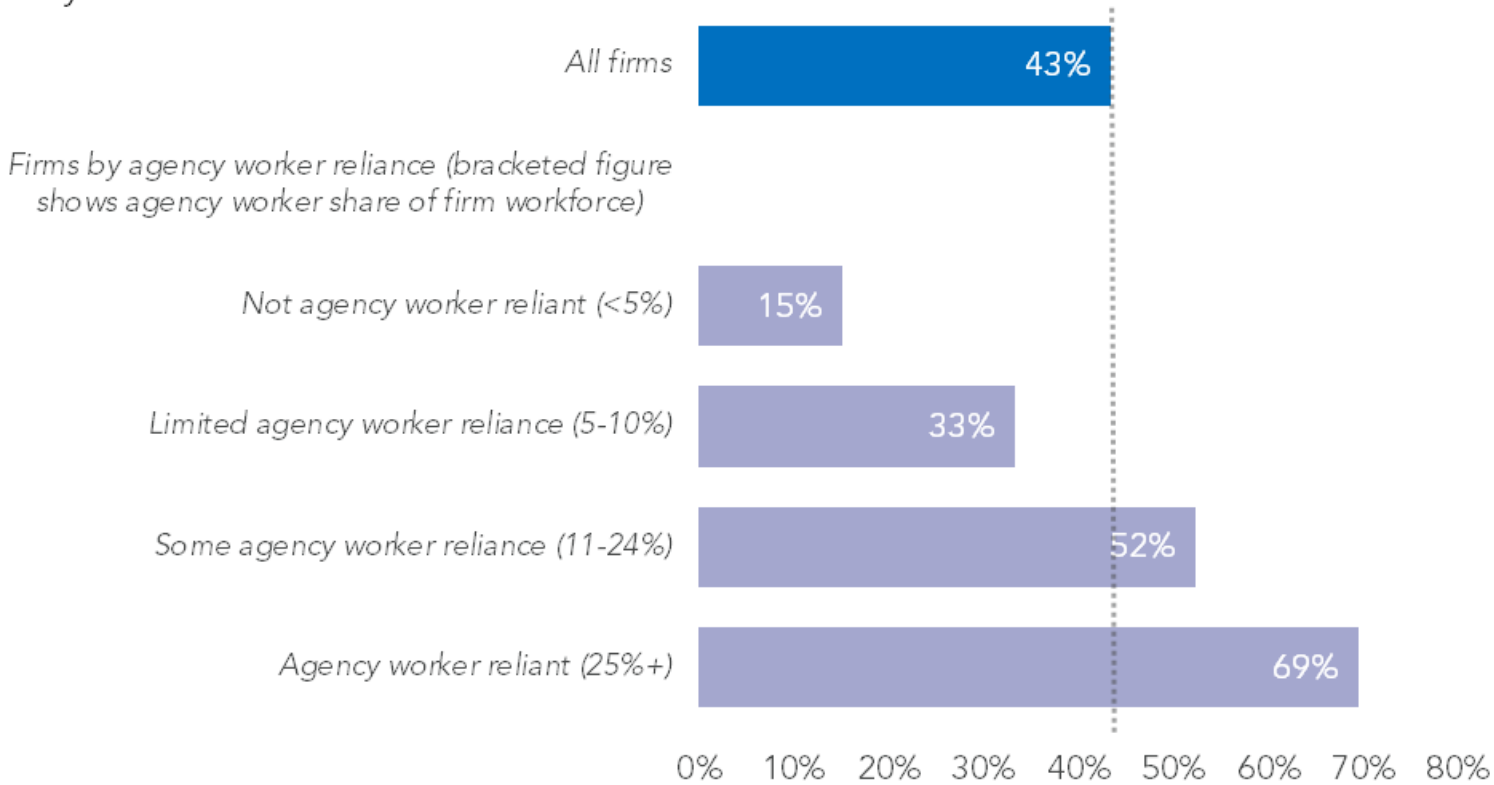
Those sectors that have intensified their use of agency workers are not always the biggest hirers. For example, construction firms report a significant rise in use, but they still hire relatively few agency workers both as a share of their total workforce and in numerical terms. In contrast, manufacturing, with the highest share and number of agency workers of any sector, has experienced a lower level of growth in their agency worker share.

Source: RF analysis of agency worker business survey, ComRes 2017 and ONS, Labour Force Survey 2012

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



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?

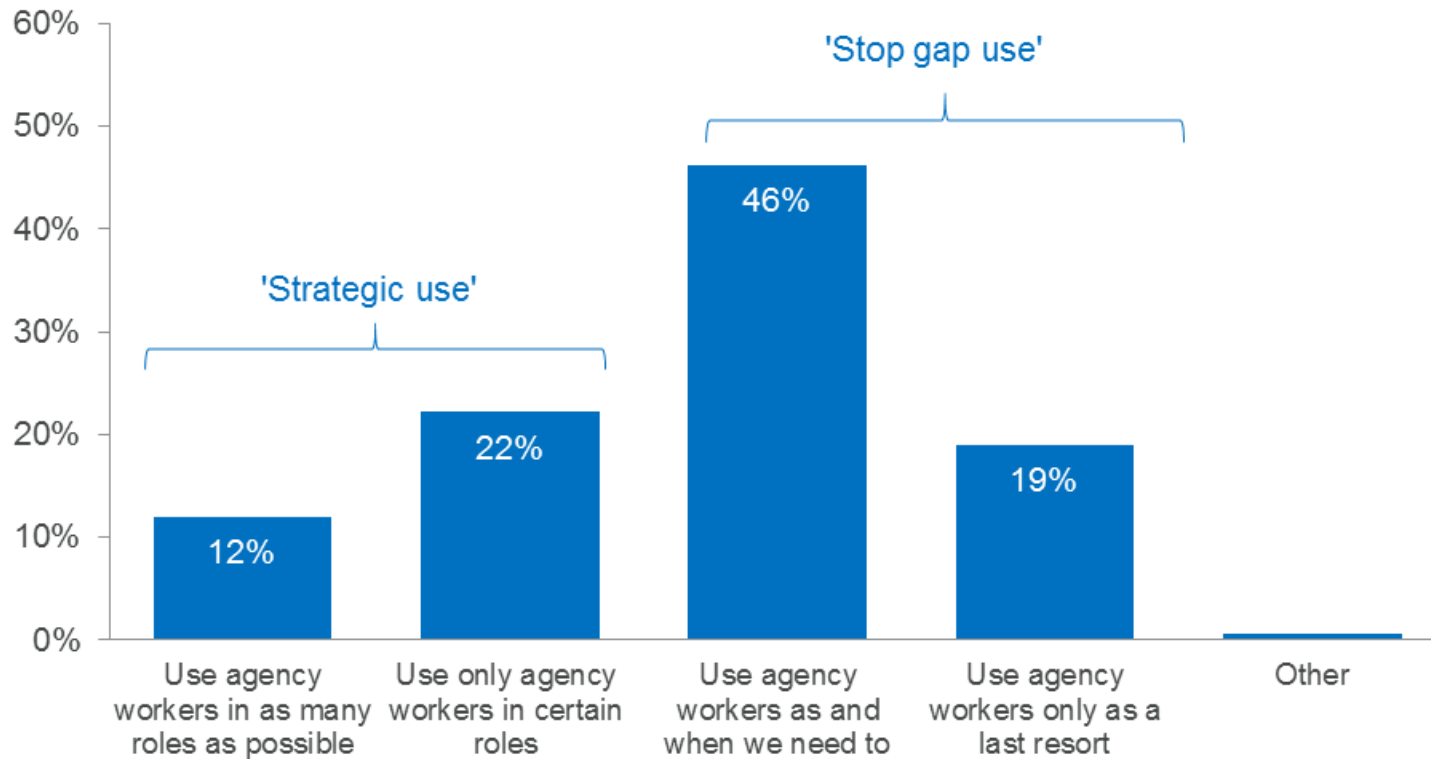


- Conventionally agency workers have acted as a short-term solution for firms, filling in as needs be. So has the increase in use we observe simply a passive response on the part of firms to the testing economic conditions of the period?
- Alternatively, the intensified use of agency workers could signal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



Our survey shows that the majority of firms that make use of agency workers still hire them primarily as 'stop-gaps'. For such firms, agency workers are expedient, brought in when needed or as a last resort.

However, one-third of firms are taking a more strategic approach. The survey shows such firms have made an active business decision to hire agency workers either extensively or exclusively for certain roles.

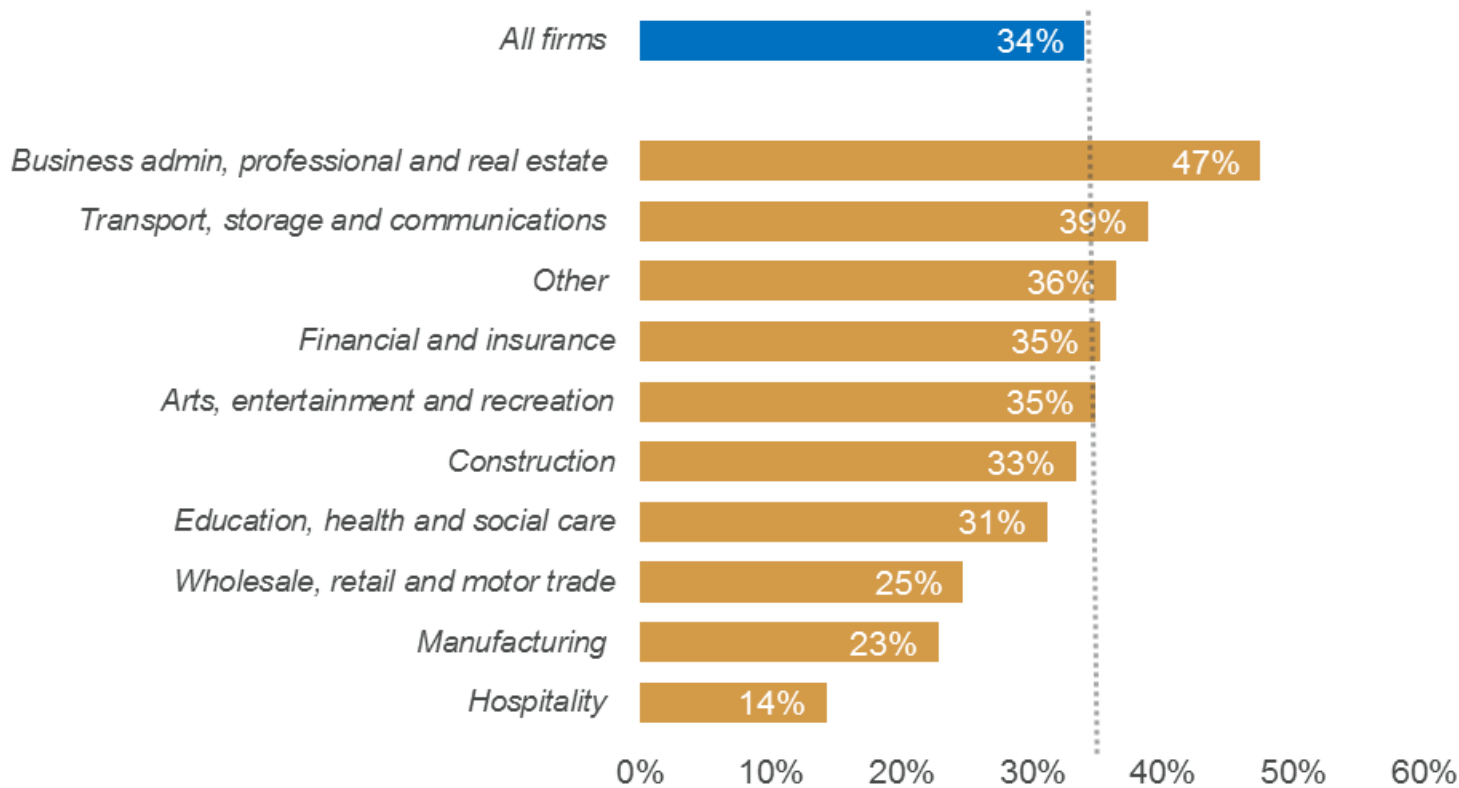
Source: RF analysis of agency worker business survey, ComRes 2017

Notes: n=500

Some sectors are much more likely to have taken a strategic decision to hire agency workers than others



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



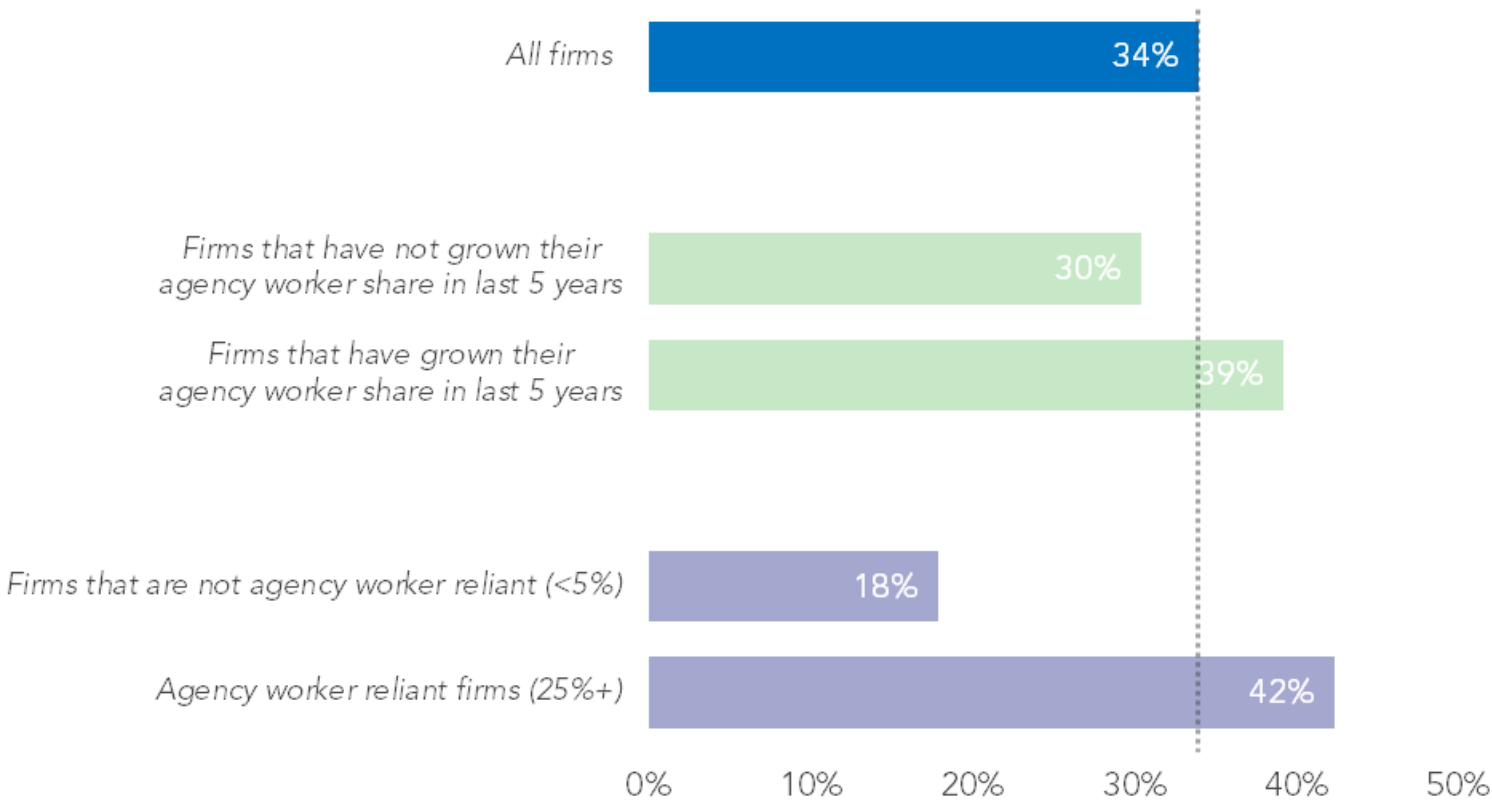
Firms in some sectors are more likely to be hiring agency workers as a matter of policy. Almost half of firms who use agency workers in business administration, the professions and real estate make an active choice to do so, as are 4 in 10 firms in the transport, storage and communications sector. At 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



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



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.

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

Notes: n=500

Digging deeper into firms' motivations

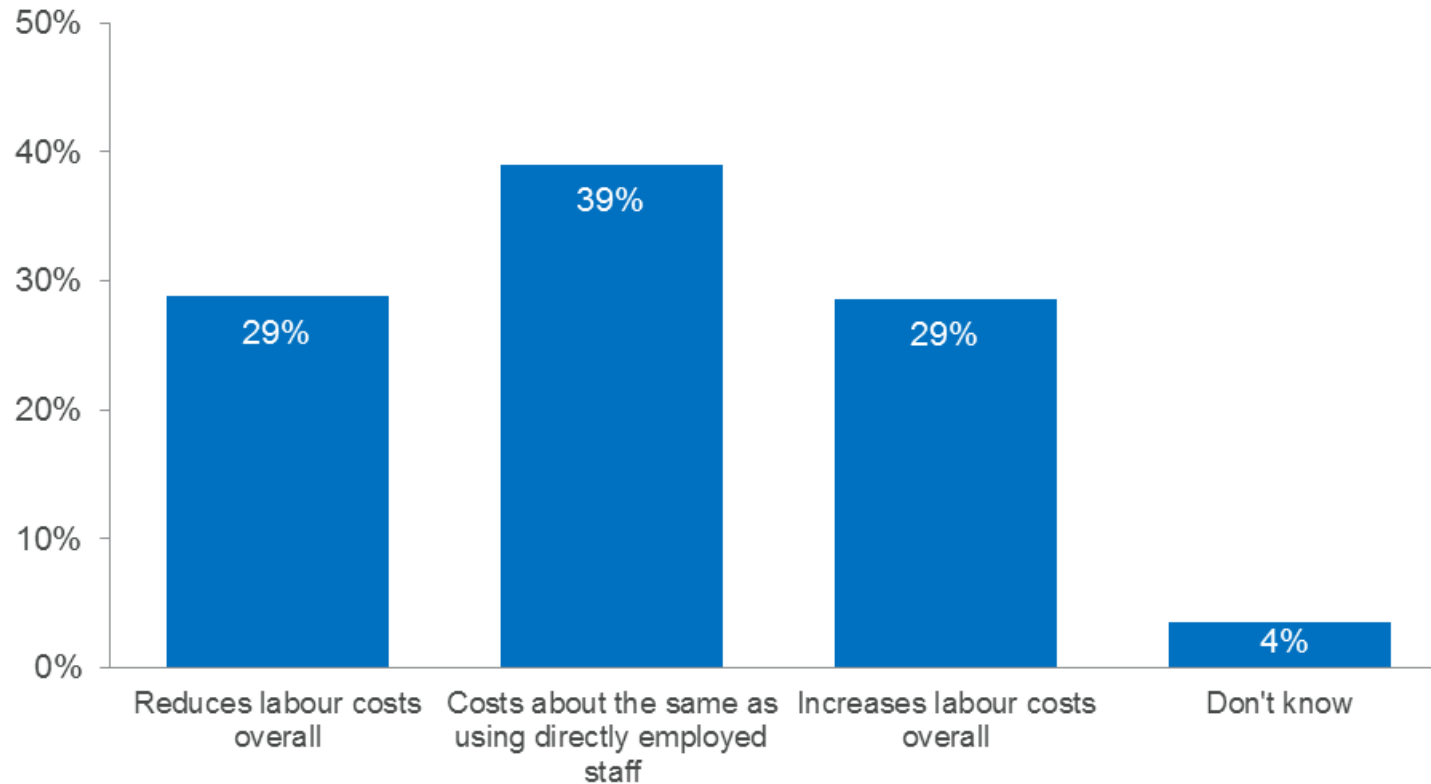


- While our survey suggests firms are still using agency workers primarily to fill gaps, a significant minority clearly do treat agency workers as part of their business model
- We asked firms to reflect on a number of reasons why they may (or may not) have turned more to agency workers in recent years, 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



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



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

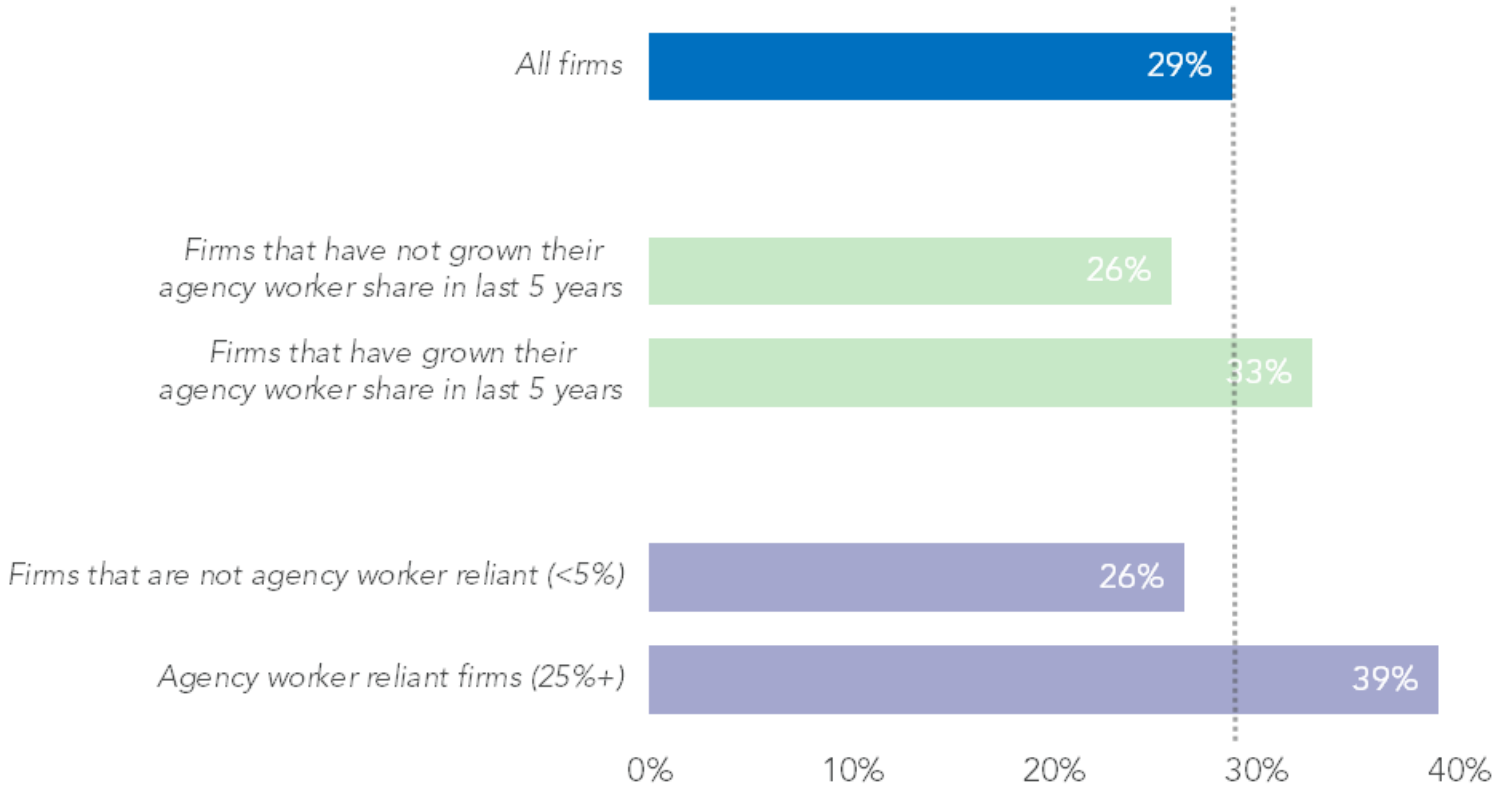
Notes: n=500

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?

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



In fact, just one-third of firms that have grown their agency worker share in the last 5 years think there are savings attached to this approach.

However, agency worker reliant firms are more likely to see cost benefits than light-use firms.

So if the effect on the bottom line is not the key driver of rising agency worker use, what else could be?

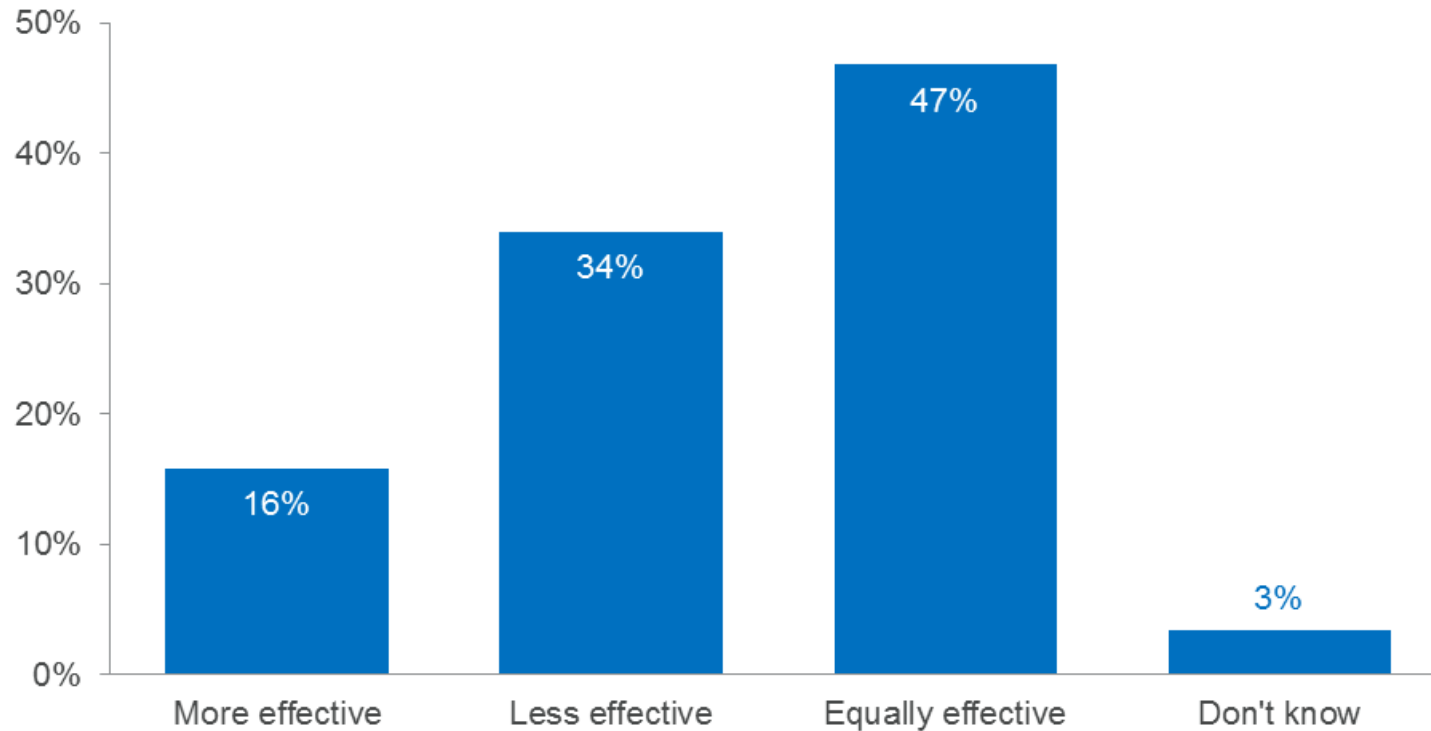
Source: RF analysis of agency worker business survey, ComRes 2017

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?



Another possible reason why firms may have increased their agency worker use is that they think such workers are more effective in the workplace than directly employed staff.

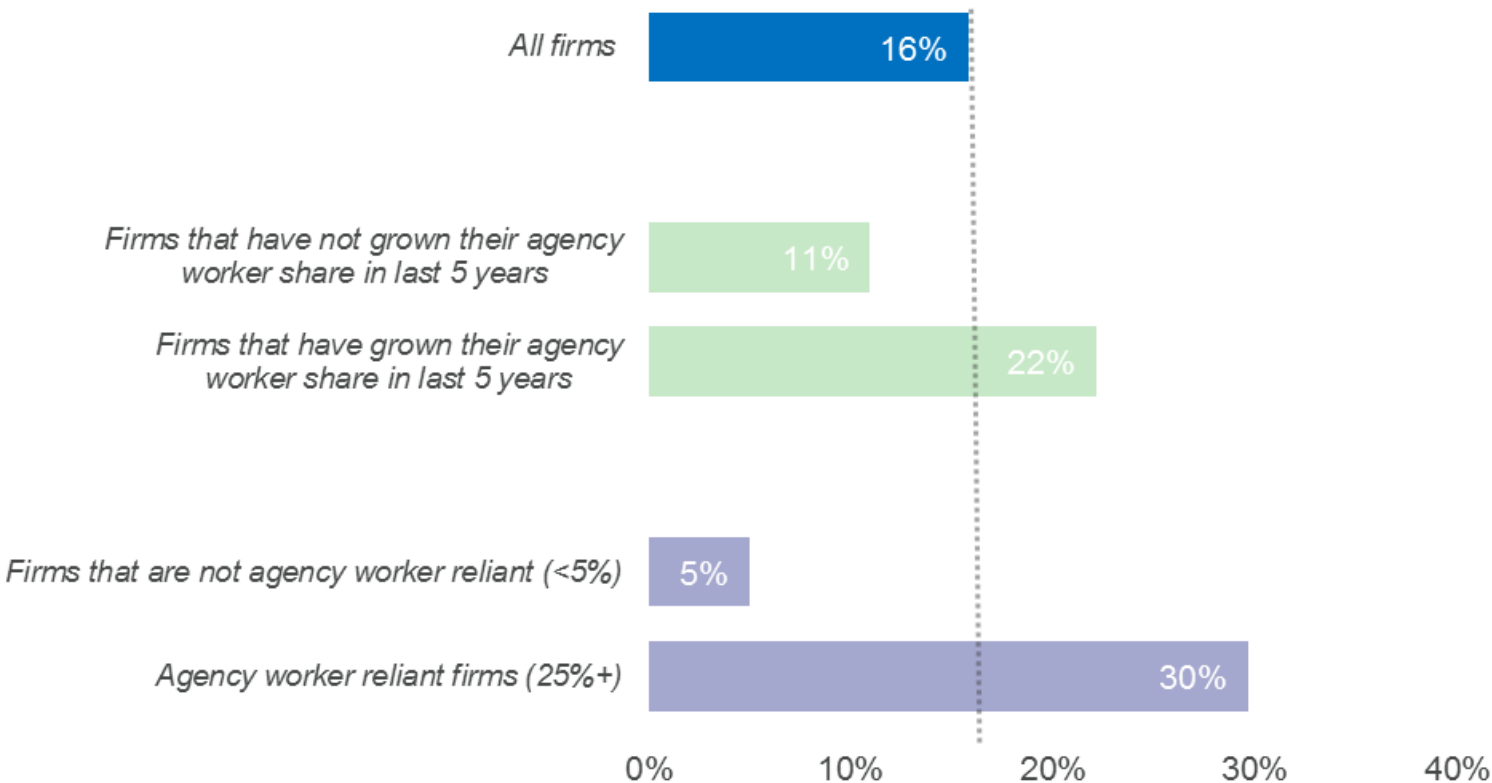
In fact, only 1 in 6 firms that use agency workers think this is the case, compared to 1 in 3 that say the opposite holds true. Close to half of respondents do not believe there is any difference in the performance of agency workers and direct employees.

*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



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.

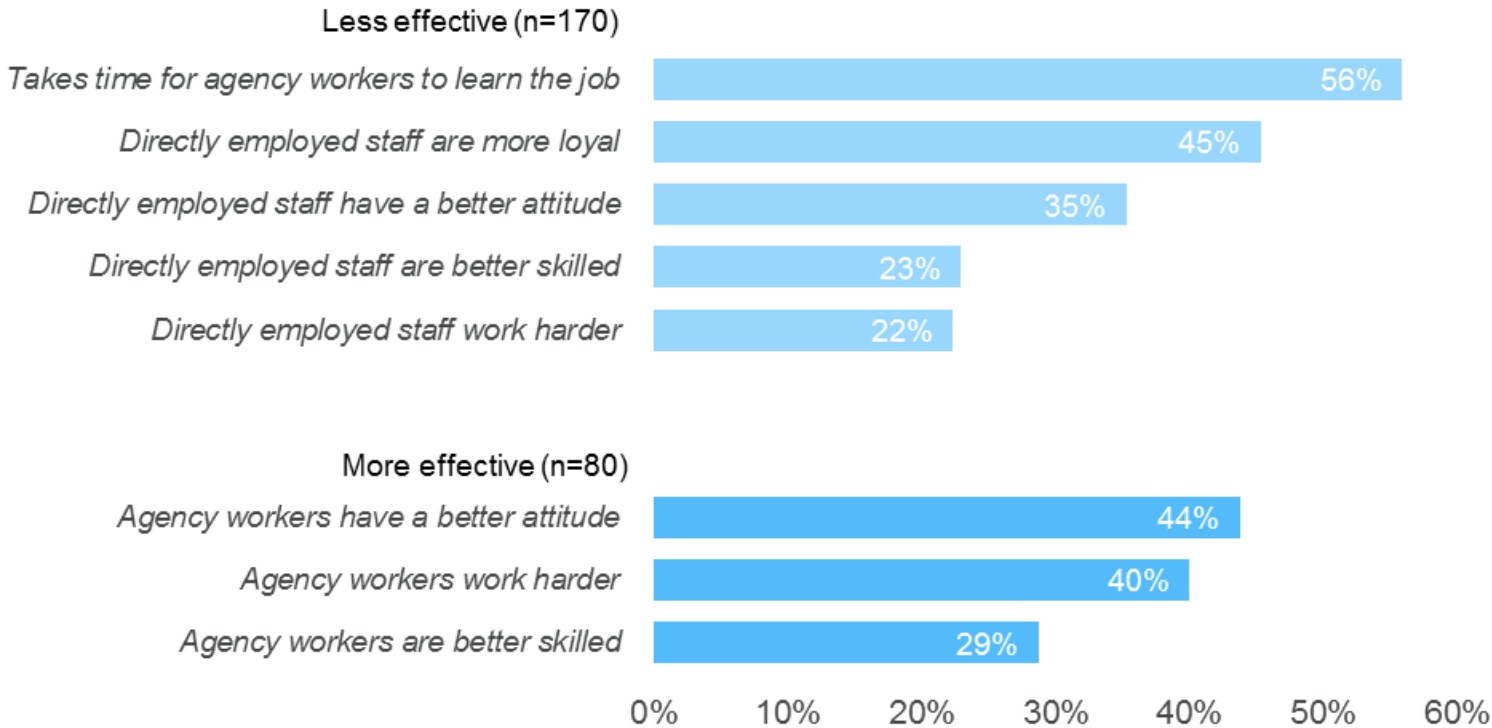
Source: RF analysis of agency worker business survey, ComRes 2017

Notes: n=500

Job - rather than personal - characteristics are the key reason firms think agency workers are less effective



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



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.

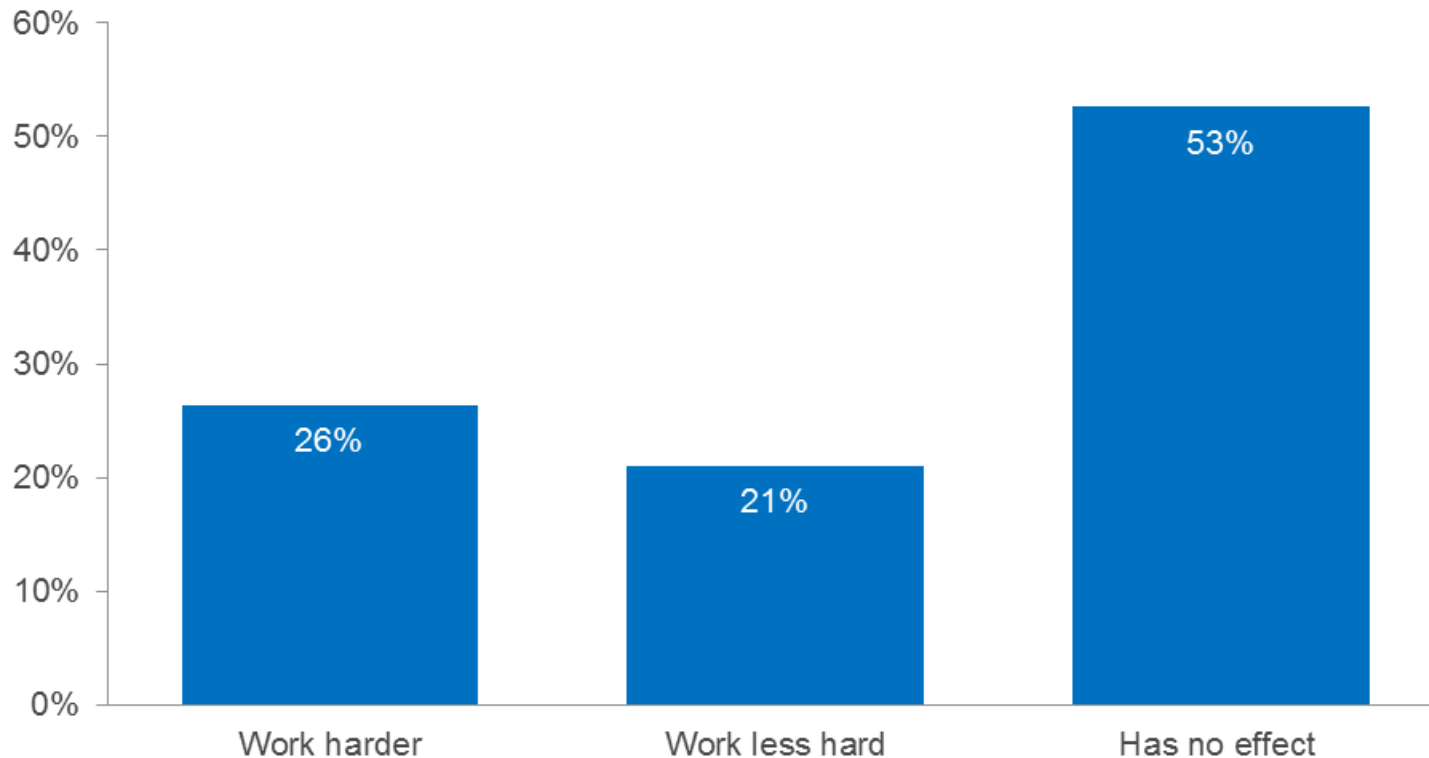
Source: RF analysis of agency worker business survey, ComRes 2017

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



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.

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

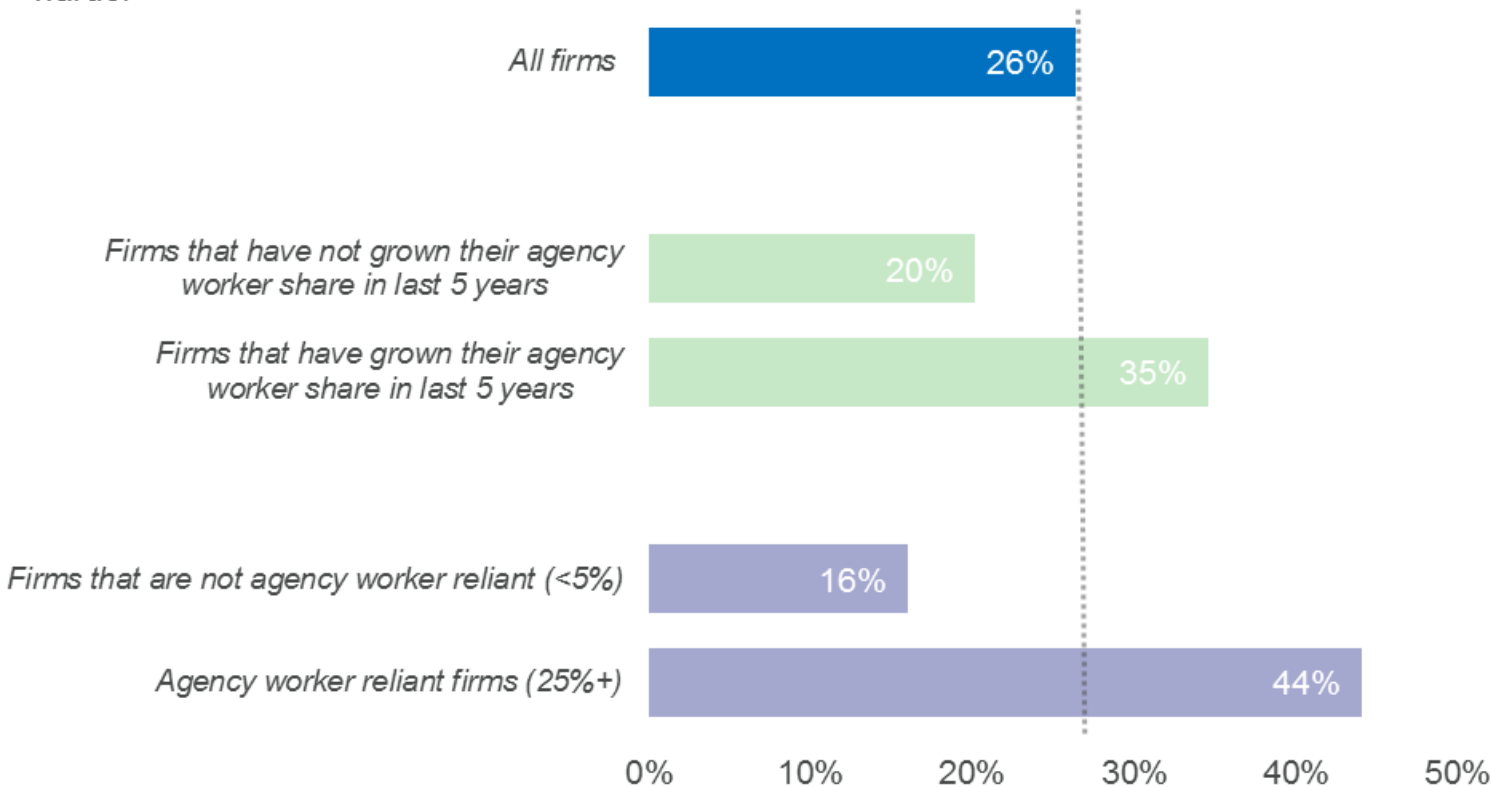


*Source: RF analysis of agency worker business survey, ComRes 2017
Notes: n=500*

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



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.

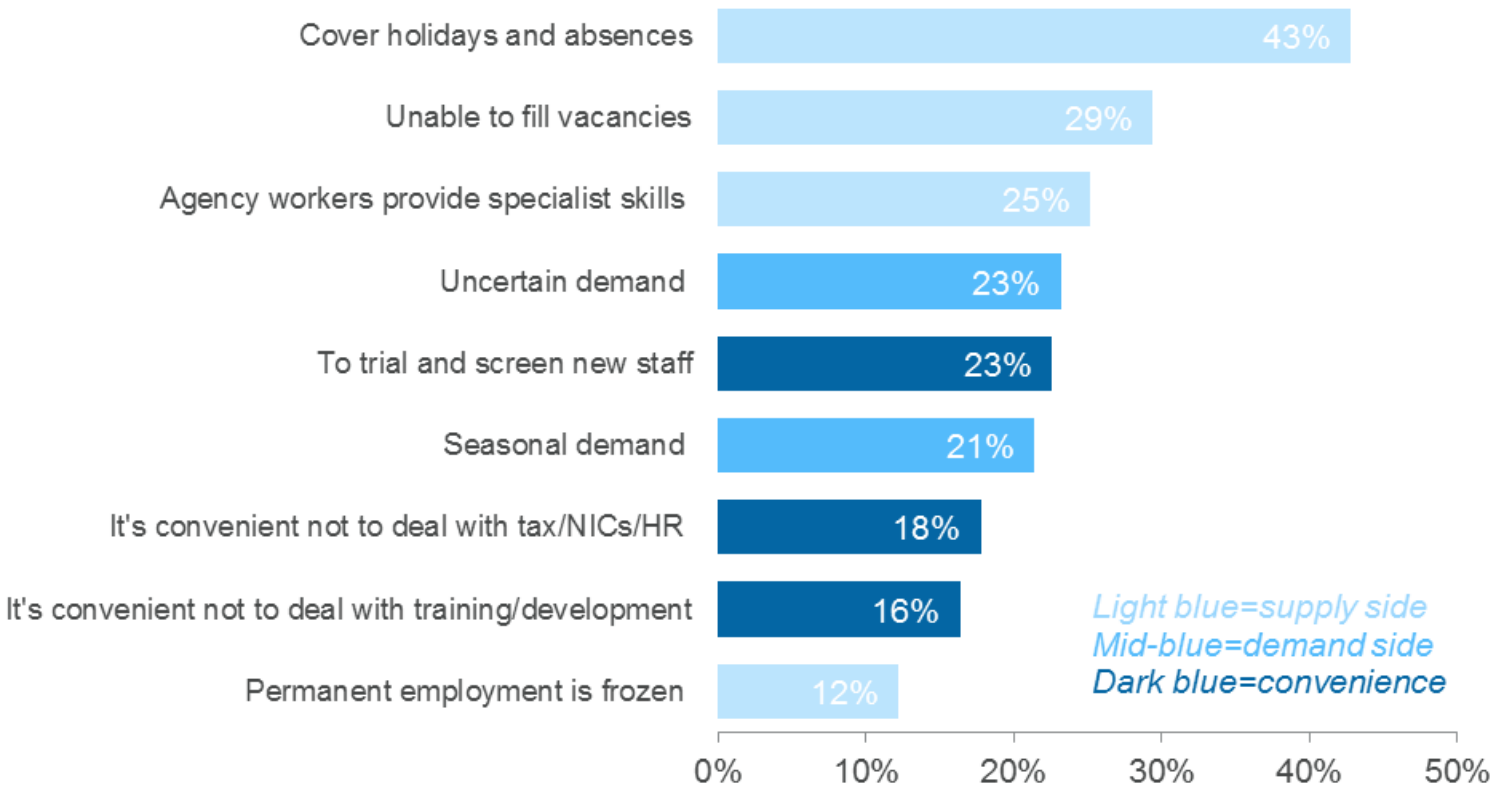
This is a particularly interesting finding given we know only 30 per cent of agency worker reliant firms think agency workers are more effective in their own right (slide 15).

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)



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.

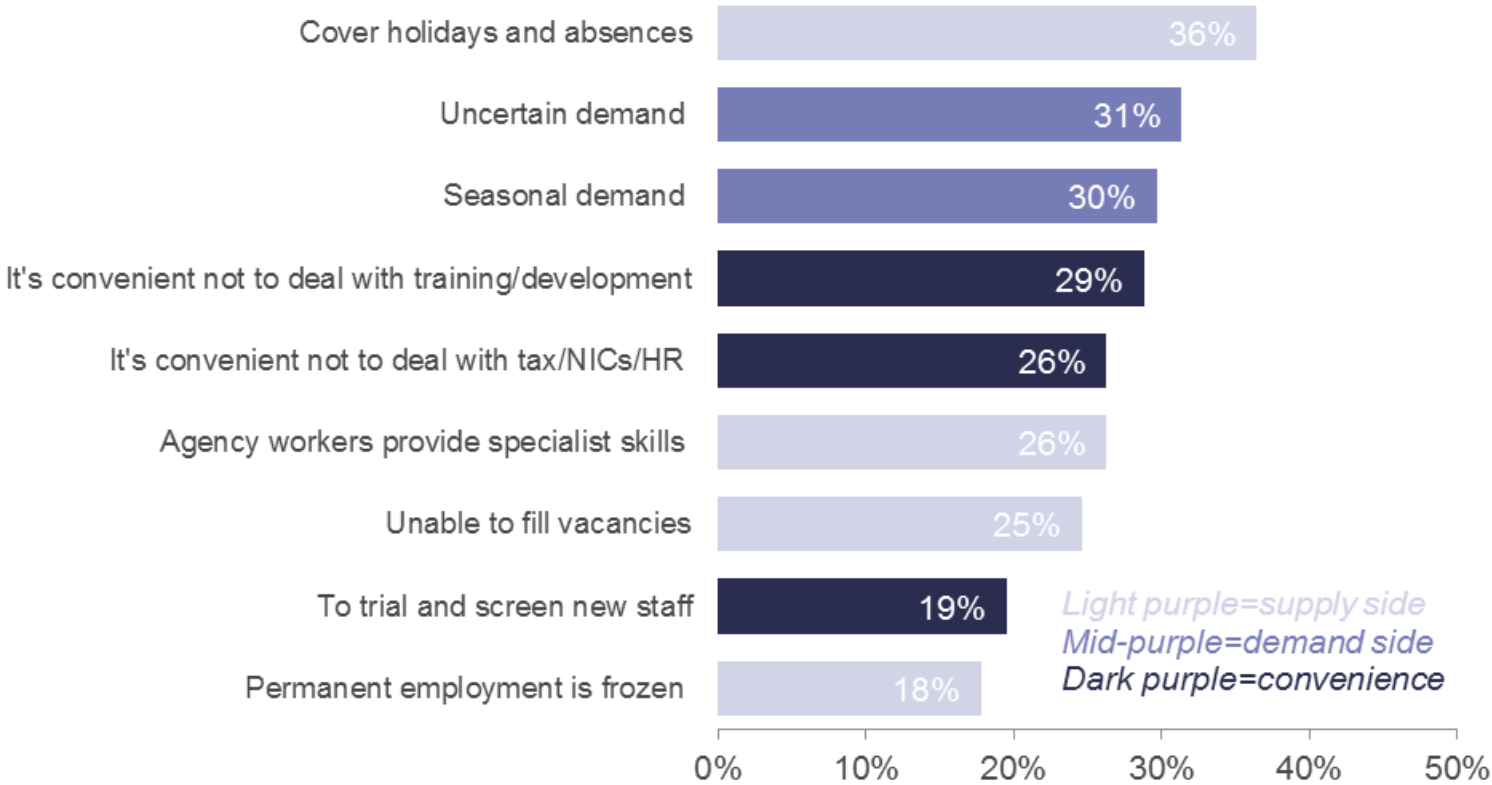
Source: RF analysis of agency worker business survey, ComRes 2017

Notes: n=500

But managing demand and convenience are more important considerations for agency worker reliant firms



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



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.

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

Notes: n=118

Looking to the future



- 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?

4 out of 5 firms that hire agency workers expect to increase or maintain levels in the next five years

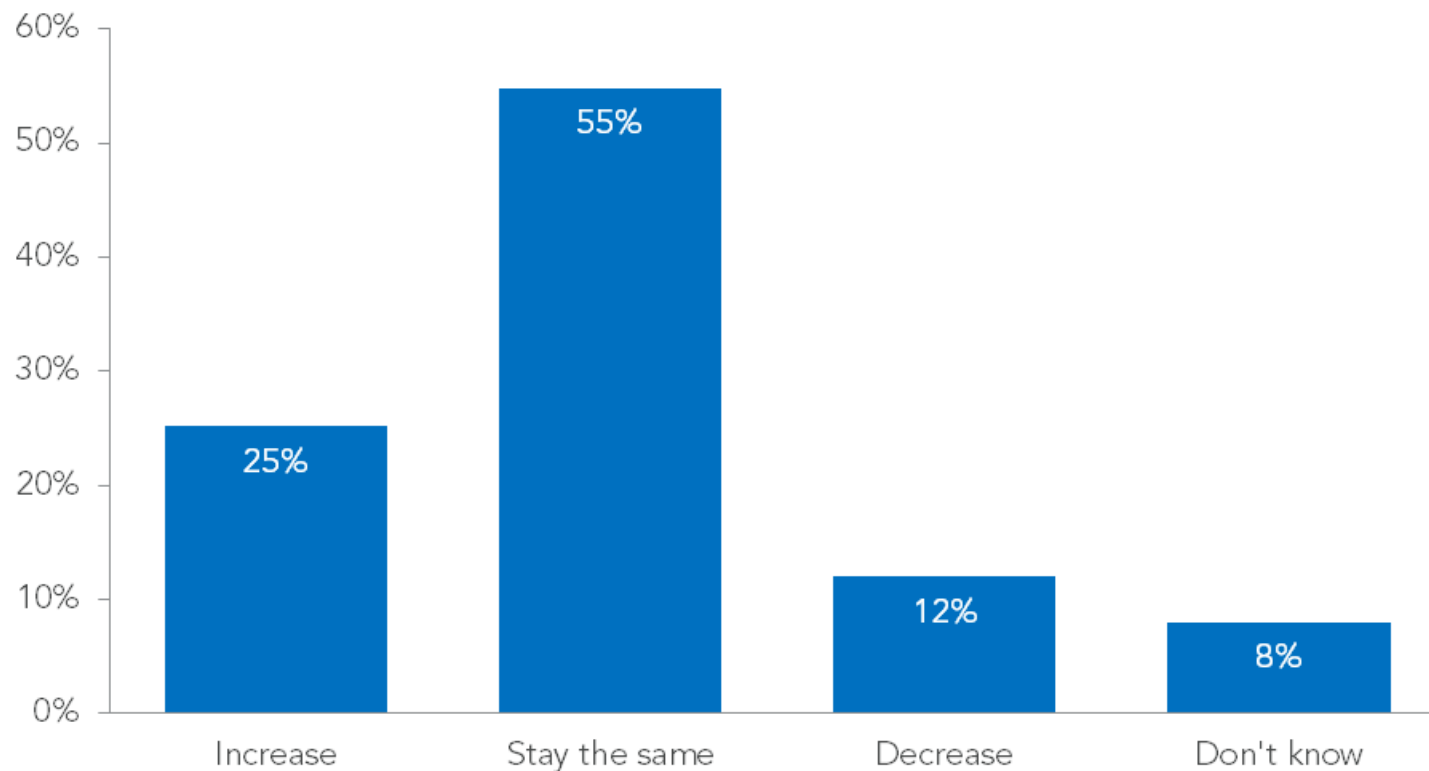


Our survey suggests that many firms remain upbeat about using agency workers over the next 5 years.

One-quarter say they expect to increase their share of agency workers over the period, while more than half anticipate maintaining current levels.

Taken together, this means 4 out of 5 firms that already use agency workers do not expect to reduce their reliance on this type of labour in the medium term.

Thinking about the next 5 years, do you expect the share of your workforce that is agency workers to...



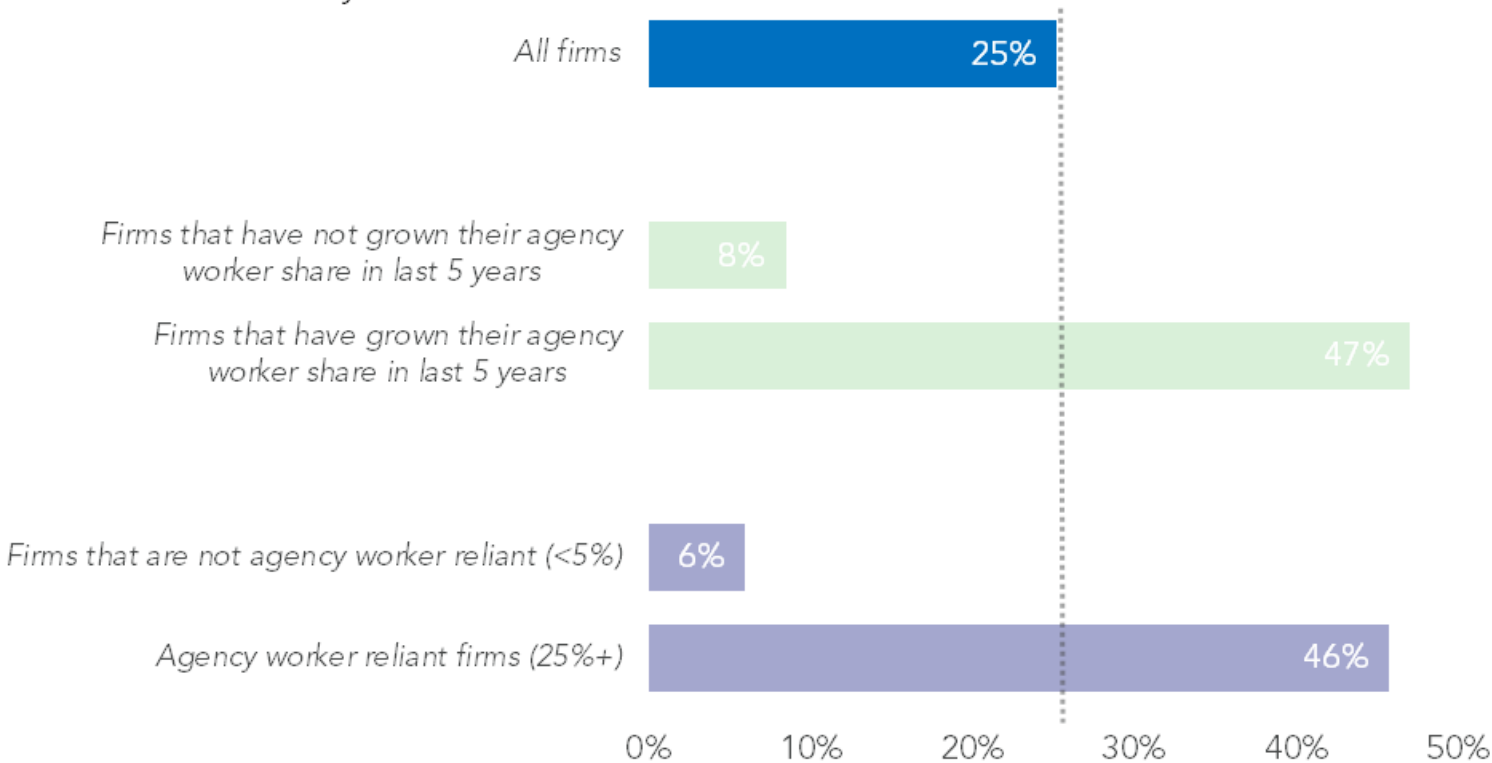
Source: RF analysis of agency worker business survey, ComRes 2017

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



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.

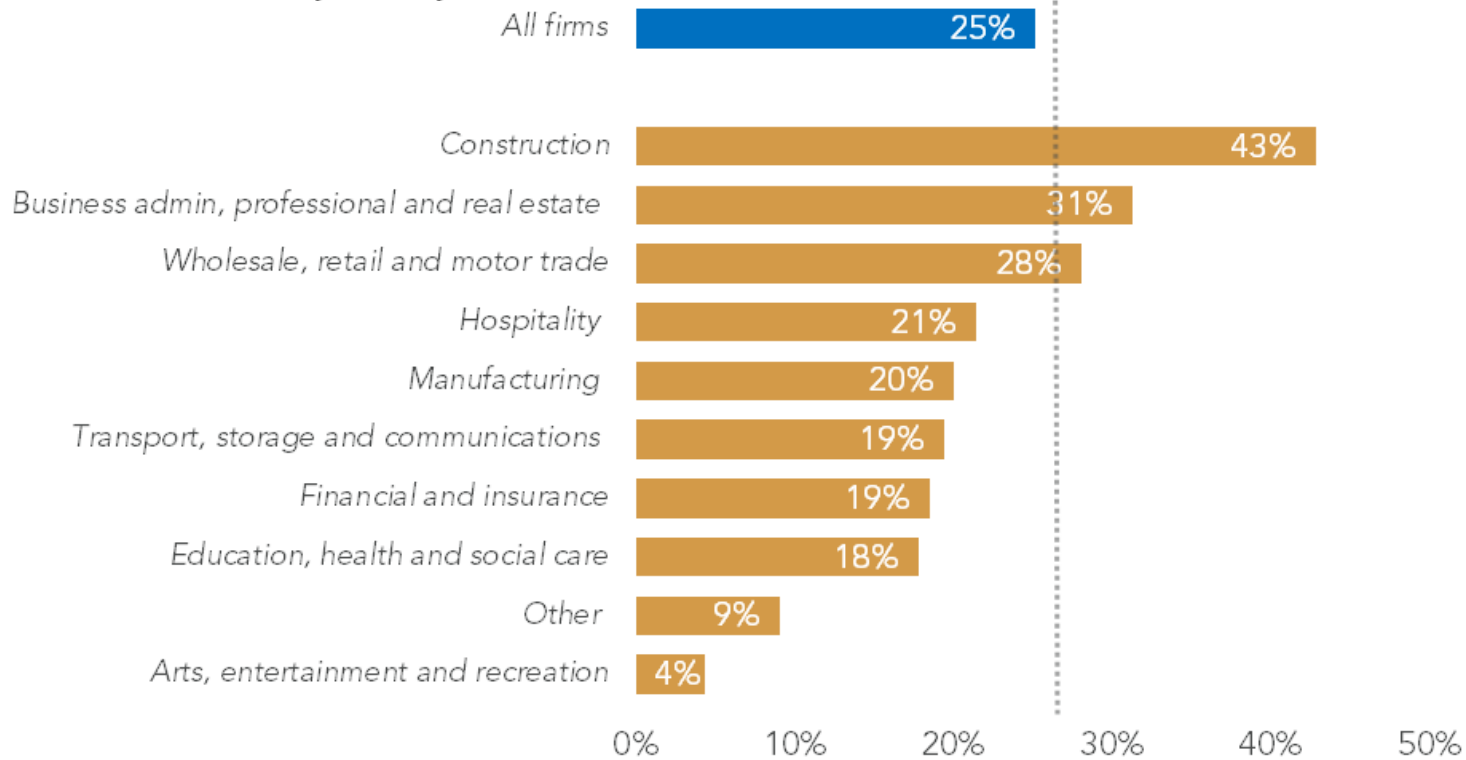
Source: RF analysis of agency worker business survey, ComRes 2017

Notes: n=500

Some sectors are more bullish about agency workers than others



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



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

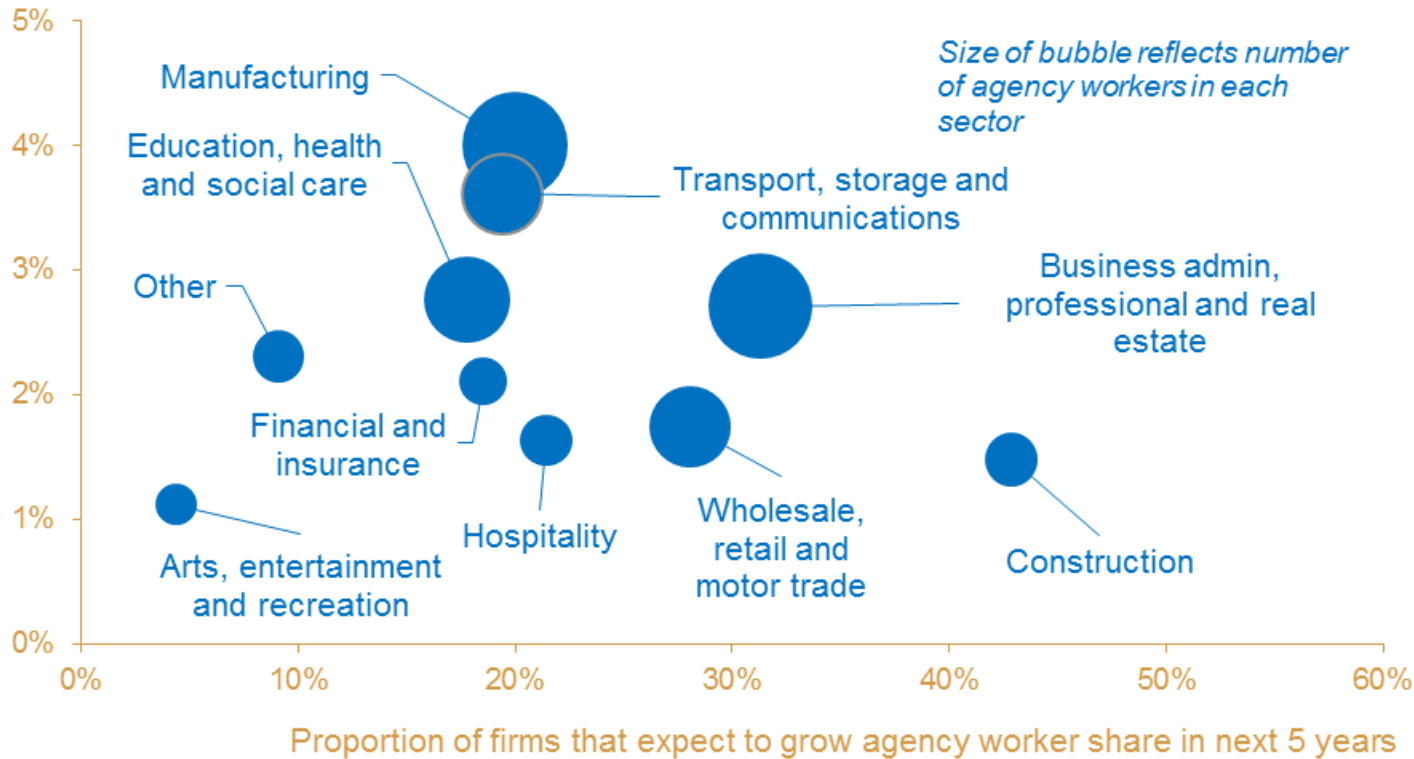
The construction industry, the business administration, professional and real estate sector and the wholesale, retail and motor trade all expect to increase their use of agency workers over the next 5 years at a greater rate than the average firm that uses agency workers. It's worth noting that these are the sectors which also report the highest levels of intensification in the previous 5 years, once again suggesting firms like what they have seen.

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



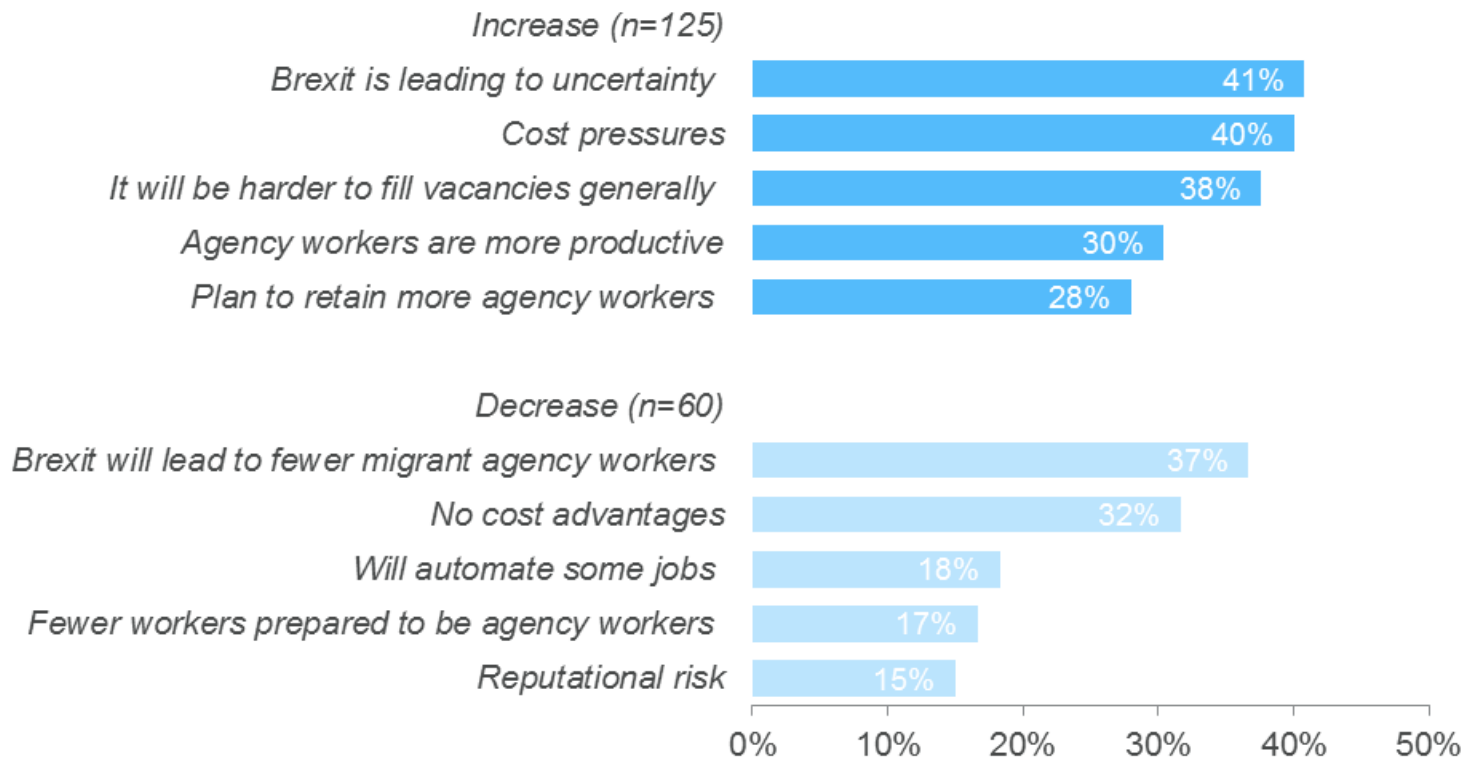
Moreover, with the exception of the construction industry, those sectors that are keenest to hire more agency workers in the next 5 years are the biggest users either in terms of share of their workforce or absolute numbers. Close to 1 in 3 firms in the business administration, professional and real 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

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)



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.

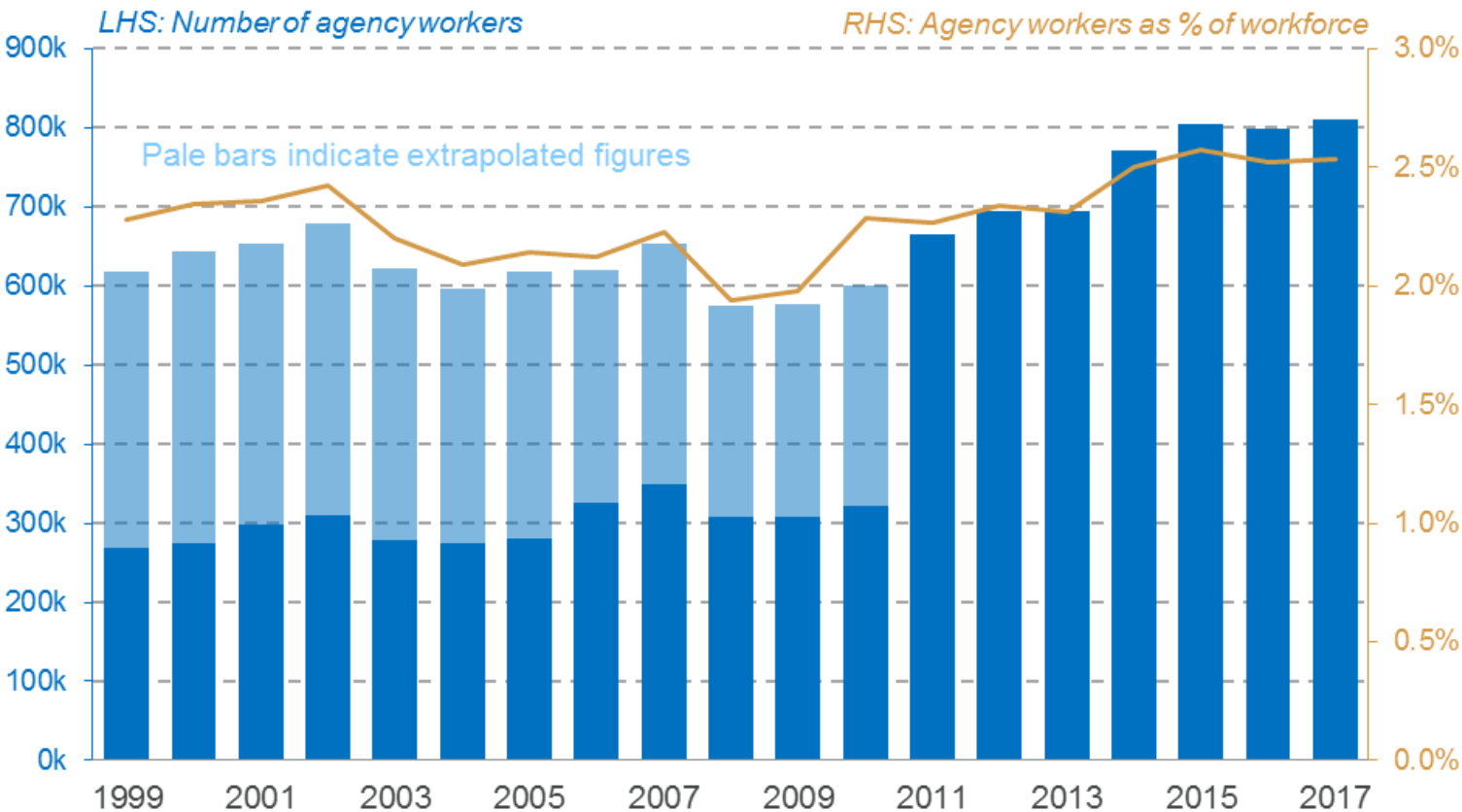
A falling number of migrant agency workers is the number one reason some firms expect to decrease their share. Close to 1 in 5 of such firms plans to automate some jobs and a further 1 in 6 are worried about the reputational risk of agency worker use.

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

Could firms be disappointed? A tightening labour market suggests they might



Agency workers over time: UK



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.

Source: RF analysis of ONS, Labour Force Survey



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