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BEYOND THE NUMBERS:

Labor Market Information Research and Writings

An Occasional Paper Series Published by Texas State Occupational Information Coordinating Committee
3520 Executive Center Drive, Suite 205, Austin, Texas 78731-1637 (512) 502-3750

September 1, 1997

Number 6

Government Publications
Texas State Documents

The "Contract and Flexible" Workforce

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DEC 03 1997

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What Is Meant By A Contract And Flexible Workforce?

According to Charles Handy (*The Age of Unreason*, 1989) the new, more flexible workplace of the 21st century will be characterized by a workforce consisting of three distinct subsets:

The **core workforce** will be employed, for the most part, in large businesses and the public sector. These workers will have more job security, but their jobs within more flexible organizations will change frequently as the organization changes to remain competitive. To keep up with their changing work environment, they will have to become generalists, continually evolve with their employers and constantly acquire new specialized skills. They will be relatively well-paid, but pay increasingly will be based on performance. This core workforce will also be increasingly staffed through the "temp-to-hire" method of personnel management.

The temp-to-hire method of personnel management is where a company hires new workers through a second party company (within the personnel supply services industry). These agencies make their money by charging the employers and/or workers a percentage of the worker's fees. This is called a margin and usually averages about 20%, though there have been instances of margins as high as 45%, or as low as 10%.¹

These second party companies perform many of the duties of a human resources department. They test and screen candidates prior to placement. The companies then have four options in regard to the future of this worker. The primary company may buy the worker's contract from the leasing firm; they may wait until the contract expires and hire the worker as a core employee; they may continue to keep the worker as a contract employee

through several contract renewals, or they may choose to let the contract expire and replace the contract worker with a new contract worker.

The second type of employment subset will be the **contractual workforce**. These workers will supply knowledge or skill-intensive services on a contractual, fee-for-service basis as needed; usually during peak periods or for specific projects and often on short notice. Many workers will offer back to the labor market the same services they once performed within downsized organizations. As contractors, they may have less job security and may have to be more entrepreneurial in terms of managing their finances (i.e., budgeting for social security and income taxes, planning for retirement, providing health benefits). They will also have to be able to adjust to labor market fluctuations that cause either too little or too much demand for their services.

The final categorization will be the **floating, flexible workforce**. This group will generally be made up of youth, early retirees and lower-skilled adult workers. They will tend to work on a part-time, occasional basis in a series of temporary jobs with no career focus or security. Depending on the economy, they could experience longer spells of unemployment.

A National Trend

Handy also predicts that all workers will be constantly challenged to manage their own careers and expand their skills. They will move laterally through leaner, flatter organizations to tackle projects and problems as they arise. "Promotion may be across—not necessarily up—the organizational structure, and pay will be based increasingly on performance." Continuous learning will be required of everyone in an organization. He also

suggests that in this environment, there will be more diverse work arrangements in terms of hours, location and conditions, less employer-specific job security, and less formal employment relationships.

Allison Thomson, an economist in the Office of Employment Projections within the Bureau of Labor Statistics, recently stated that there were 1.7 million people in the United States working in the temporary help industry compared to 732,000 in 1985.² Even more recently, Samuel Sacco of the National Association of Temporary Agencies suggested this number was around 2.4 million. "This is nothing short of another industrial revolution going on in terms of how work is being structured and people are being paid. According to David Hofrichter, managing director of the Hay group, in more and more cases a company's workforce will consist of a core of highly skilled permanent workers aided by temporary employees brought in during peak periods or for special projects.

Use of Temporaries in Texas

Current information about Texas does indicate a significant increase in the personnel supply services industry. It's the third fastest growing industry in the state. Yet, there is no measure of which occupations are employed most frequently by "temp agencies" and thus no way of providing guidance to counselors or students about which occupations are driving this increase.

According to Mr. Sacco "the average number of temporaries on the job every day has climbed in Texas during the last 7 years with the temporary agency payroll last year estimated at nearly \$2 billion." He suggests that, on any given day, Texas has more than 155,000 temporary workers. Actual employment and wages data from the Texas Workforce Commission indicate that Mr. Sacco may have underestimated the impact of the temp industry in Texas. The TWC numbers indicate over \$3.1 billion of total wages were paid to an annual average of 172,000 workers during 1996. Many of these workers are employed as helpers, movers, general office clerks, data entry specialists, and secretaries. Other occupations include management support occupations, information clerks, health technicians, registered nurses, assemblers and fabricators, home health aides, nursing aides, computer and semiconductor personnel, and engineering, manufacturing and science technicians. In reality, companies can hire a temporary worker to perform just about any job they wish and workers can choose to be temporaries in just about any job for which they qualify.

How Does This Trend Affect Stakeholders In The Texas Labor Market?

One of the purposes of the SOICC's emerging and evolving occupations study was to create an on-going method for identifying new high-growth occupations from industry-level employment and program follow-up data. The primary source of industry employment information comes from Unemployment Insurance data collected on every employer covered under the Texas Workers Compensation Act doing business in Texas.

The current procedure for projecting occupational demand from the industry employment data involves collecting information through the Occupational Employment Statistics (OES) survey. The OES survey is used to develop occupational staffing patterns from employment counts provided by an employer survey. This mail and telephone follow-up survey helps state planners develop an accurate profile of occupational employment by industry. The Texas OES program is designed to survey most, but not all of the Texas labor force.³ It uses a nationally recognized sampling process to collect information from a representative sample of employers. This information is subsequently used to ascertain current and projected employment levels by occupation.

The primary tool for projecting occupational employment information is the OES industry/occupation matrix, generated with state and selected national data. The OES program is designed to provide very detailed information on the occupational employment outlook for over 700 occupations for use in career guidance and planning of employment and training programs. Outputs from the Matrix program show base year employment, projected employment in the target year, and the estimated number of average annual job openings. Occupational projections in Texas are based on these data.

This process may overlook the importance and the impact of temporary agencies. Currently, there are significant limitations in the state's system for documenting the use of contingent workers. To preface this discussion, a clear distinction should be drawn between staff leasing companies and temporary help agencies. Staff leasing companies generally provide long-term, contractual administrative services, such as payroll processing, to a client firm. In Texas, staff leasing firms are licensed by the Texas Department of Licensing and Regulation. Temporary help agencies are firms which supply contracted labor directly to client firms. This distinction is particularly important from a data perspective because workers supplied by staff leasing firms are classified and

"Promotion may be across—not necessarily up—the organizational structure and pay will be based increasingly on performance."

counted in the industry in which they *actually work*. Temporary help employees, however, are classified and counted as employees of the temporary help firm itself.⁴ Temporary agencies do not report which occupations they hire nor the industries in which they place temporary employees. Thus, state labor market information analysts currently have no way of documenting the occupational component of this new trend. The problem is compounded when we try to predict the industries which actually hire temporaries or the occupations which appear to be growing.

One example is in the semiconductor industry. While working with a consortium of semiconductor manufacturers, the SOICC was asked why information on semiconductor-related occupations was not included in the publications we provide to public school counselors. The consortium representative told us that they were facing a major labor shortage and they could not understand why it was so difficult for them to get information on their industry included in government publications. They predicted they would hire over 4,000 new employees in the semiconductor industry in Texas over the next two years. Nonetheless, they were having trouble convincing government officials that they should approve a program of study to prepare Texans for these new jobs.

After looking at labor market information, staff discovered that the data on companies in the semiconductor industry did not reflect the dramatic growth in employment that they said they were experiencing. After speaking at length with one of the representatives of the consortium, staff realized that the semiconductor industry is well-known for using leasing and temporary companies to hire new employees. They use contract employment to adjust for seasonal variations in product demand. From a business perspective, this is a good decision. However, from a labor market information point of view, the workers who physically work in the semiconductor industry are counted as working in the personnel supply services industry. This leaves actual semiconductor industry employment under-represented in several government labor market reports.

Another example of this problem occurred when SOICC was contacted by an out of state company, considering relocating to Austin, Texas, based on the city's reputation for being a "high-technology corridor." Unfortunately, when they looked at labor market information for the state of Texas, the data showed that Austin employment in the high-tech industry was no higher than many other major cities in the United States. The indi-

vidual who called seemed confused because she really believed that Austin was the right place for her company to relocate. Unfortunately, she could not prove this to her board of directors because she could not find any hard data to support her views. After explaining to her the prevalence of temp-to-hire and temporary/contract employment in Texas, she seemed more at ease about her prospects and the advantages of relocating to Austin.

These two examples are not isolated events and give rise to the question of how many other potential employers have been discouraged by limitations in the data (in respect to occupations hired or employed through temporary help agencies). It also provokes earnest discussions aimed at improving the LMI system with respect to certain emerging business practices.

While labor market analysts can begin to develop alternate techniques to estimate employment, it is in the mutual best interest of government, leasing firms and primary contractors to address this data anomaly. Without such collaboration, industries which use large numbers of temporaries may soon find fewer appropriately skilled workers available because there are no data to support education and training needs. Public officials may be unable to document industry or occupational growth and miss opportunities to better shape economic development policy, job placement and workforce development programs. Voluntary participation by leasing firms may delay a tighter regulatory environment and encourage the use of temporary workers as part of future business practices. Each of these parties has joint responsibility and opportunities to improve the system.

What is the Future of Contracting and Temporary Personnel Services?

The data indicate that independent contractors represent almost seven percent of the workforce and are being used with increasing frequency. The trend "... represents a structural change in how business is done. It's not just a cyclical change."⁵

One aspect of this trend is to hire the independent contractor simply to do the work that was previously done by a "regular" employee, an activity which recently brought Microsoft Corporation to the headlines. This corporation has used "independent contractors" to hold jobs like software tester and proofreader. However, a recent decision by the U.S. Court of Appeals for the 9th Circuit in San Francisco ordered Microsoft to pay employee benefits to hundreds of these so called "independent contractors" because these people were

treated as regular employees and not as independent contractors. In essence, this federal appeals court set a precedent, perhaps a warning, to company leaders that it may not be acceptable to adopt hiring procedures which replace regular workers with independent contractors simply to avoid having to pay benefits.

Still, employers may be unwilling to reverse this trend. Many reasons justify the use of personnel supply services agency employees. These agencies shoulder some of the employer's human resource burdens by arranging interviews, negotiating with job seekers, paying the workers and administering contracts. "As a drive to cut costs spreads throughout the economy, the temporary concept has taken hold in professional firms such as accounting firms, software companies and law firms."⁶ Recruiting is a time-consuming task and layoffs can be painful. Companies which use temporary workers point out that "temps" enable them to ramp-up and downsize quickly, avoiding time-consuming recruiting and complicated layoffs. Several employers report that one use of the "contract and flexible workforce" is to maintain the morale in their permanent "core" workforce. These employers report that the core employees felt that they were more secure in their jobs and would not be the first to be laid off during an economic downturn.

While these temporary agencies have added value in terms of meeting the needs of local employers, there are also some benefits for the employees who *choose* to enter the contract or flexible workforce. The most obvious one is the chance to earn more money. If a worker has a particular mix of skills that are in short supply and is prepared to work long hours, earnings can be far higher than those in the core work force. Another major benefit is the opportunity it gives for widening skills and experience. Many agencies provide free classes to help workers update their skills. This arrangement also offers the worker who is unsure about his/her career choice an opportunity to "test the waters," doing different jobs in a multitude of work environments.

There are also disadvantages to being a contingent employee. There is usually no holiday or sick pay. Also most temporary employees do not receive health benefits. There may be gaps of unemployment between contracts. If a project is canceled or recession strikes, then non-core workers are the first to be laid off.

The best advice counselors can give to young people is to help them understand the business practices of temporary agencies in the context of their own career planning activities. An even stronger message should be given to actual job seekers. The average job seeker thinks that companies hire through the traditional method of considering job applications, setting up interviews and making a

selection at the end of this process. In fact, entry-level jobs in many companies may be made available only through a temporary or contract agency. For this reason, job seekers must include these agencies in their repertoire of resources. Many of these agencies will conduct assessment tests, personal interviews and provide basic training prior to job placement. Applicants should consider the temporary agencies as a representative of the would-be hiring company. They should strive to make a positive impression regarding their experience, skills, and most importantly, their availability and dependability.

As we continue to build a better workforce development system in Texas, we cannot over-emphasize the need for using both traditional and other non-traditional methods for getting a job. Career and employment assistance professionals also must be aware of this new trend in order to provide the most effective guidance to their clients.

For those who are making career decisions, it is important to realize the current limitations of the information that is available in terms of occupational demand and the impact of the temporary help agencies. Given this current business practice, the most straightforward message we can provide is for job seekers to do their homework and recognize the importance and impact the "contract and flexible" workforce is having on labor market dynamics and career choice.

¹ Charles Handy, *The Age of Unreason*, 1989, New York.

² Occupational Outlook Quarterly/Spring 1995.

³ The military and agriculture sectors are not covered.

⁴ TWC-LMI unit, Texas Labor Market Review June 1997.

⁵ Austin American Statesman, December 10, 1995 quoting Jill Cochran, Cochran and Company - this Austin company provides lawyers and paralegals on contract.

⁶ Austin American Statesman, December 10, 1995.



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Page layout by Gary Tucker.