

Recruitment agencies in the UK

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Corrected version (November 2001) Corrections in *bold italic*

The recruitment industry is gaining importance in most industrialised countries. Information about the sector is limited. A survey commissioned by the DTI shows that existing sources of information provide widely differing estimates of the extent of temporary placements in the labour market.

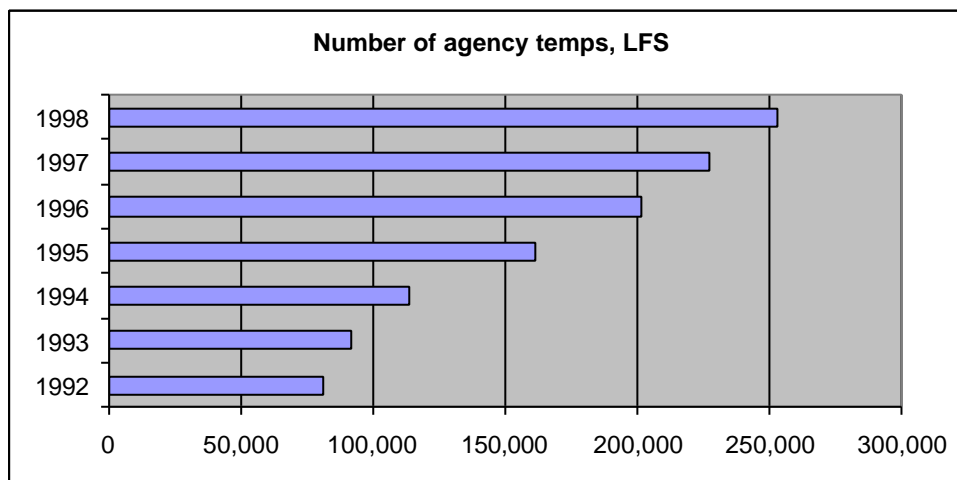
Key Points

- Recruitment agencies are a diversified and strategically important part of Britain's modern service economy. Market information about this industry provides widely differing estimates of the size of sector measured in temporary placements.
- The DTI commissioned a survey to examine the sector. This complements the existing sources of primary information, both based on surveys, and allows the strengths and weaknesses of current market information to be highlighted.
- The LFS underestimates the number of temporary agency workers in Britain. The main reason for this underestimation appears to be the specific methodology of the LFS and the lack of awareness by agency workers of their employment status.
- Estimates provided by the main trade association, the Recruitment and Employment Confederation (REC, formerly the Federation of Recruitment and Employment Services, FRES), overestimate the number of temporary agency workers.
- The DTI results suggest that the ONS quarterly inquiry into the distributive and service sector industries provides the most reliable estimate of agency activity in Britain.
- The DTI survey confirms that the sector is characterised by a large number of small enterprises.
- Most of the temporary workers employed by the industry are male. There is also a distinct difference in the occupational profile of men and women.
- Two of the primary sources (LFS and REC) provide time series information that shows a strong increase in the number of temporary workers placed by agencies over the past few years.

THE FOLLOWING article summarises the results of a survey of employment agencies commissioned by the DTI in 1998 and conducted in 1999 by the Bostock Marketing Group (BMG). In this article the term 'agency' will be used for all types of businesses interviewed. Agencies typically operate in one of three ways: by supplying or finding workers with particular skills in particular sectors; through general operators supplying workers of all kinds within their locality; and through specialist agencies dealing with head-hunting, out-placement or information provision. Common to all is that the agency acts as an intermediary or channel through which parties find each other for the purpose of doing work or getting work done. The survey was commissioned to enable the DTI to estimate costs and benefits of proposed changes in employment agency legislation. The review of the legislation proposes a complete over-haul of the existing legislation, which is nearly 25 years old, with the aim of simplifying and reducing the number of regulations. It also seeks

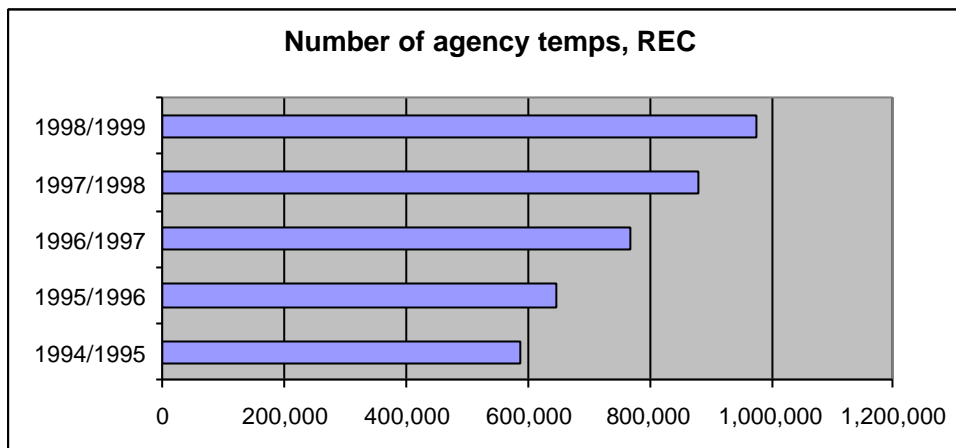
to increase clarity in the contractual relationships in the sector by spelling out information that has to be provided to workers and hirers. By limiting the circumstances when 'temp to perm fees' may be charged – i.e. fees charged by agencies when a temporary worker becomes permanent staff of a hirer – the new regulations seek to promote labour market flexibility. Details of the proposed regulations can be found in *Regulation of the Private Recruitment Industry, A Consultation Document*, DTI, May 1999. The DTI website address for agency regulations is <http://www.dti.gov.uk/er/agyreg/index.htm>. The BMG survey confirms that the employment agency sector continues to grow strongly. Respondents highlight an increase in both the number of people working in the sector itself and in the number of temporary and permanent workers who find jobs with the help of agencies. *Figure 1*, based on LFS data, shows that the industry has been growing over the past several years (1992-1998), reflecting wider changes in the economy and society which have seen greater labour market participation and more flexible patterns of working. The BMG survey also poses significant questions about the accuracy of the LFS and REC survey data series in terms of the numbers employed and placed by the sector. *Figure 2* presents the data provided by REC. The data for 1998/99, for example, are calculated on the basis of 638 usable answers from a survey population of 11,950 establishments. This sample reflected 8.4 per cent of the population. Despite the significant differences in the estimates of the number of temporary agency workers between the two surveys, both show the main trend is very much one of a steady increase.

Figure 1



Source: LFS spring quarters

Figure 2



Calculation of 1994/1995 and 1995/1996 using the %-increases as given in the report by FRES
Source: REC (FRES) Annual Report, various editions

Results of the BMG Survey

The sample for the DTI survey, conducted by BMG, was selected from the Standard Industrial Classification Class 74.50: labour recruitment and provision of personnel. The sample was originally selected to reflect the size distribution of agencies according to the number of staff employed in the agency establishment itself. Upon inspection, however, it was found that many of the original statistics on the number of people employed at the establishments were incorrect as they included both the workers placed by the agency *and* staff working for the agency. While the sample was subsequently corrected for this, it resulted in an under-representation of the required number of large agencies (for more information on methodological issues, see *technical note*). In total, the BMG survey covered 1,218 establishments in Great Britain. Interviews were conducted by telephone. The response rate varied from question to question, the lowest being for questions asking for financial information. There were also differences in response rates according to the occupational groups of workers to be placed. Agencies serving the IT sector were more likely to have and provide figures than those filling secretarial or catering jobs, suggesting a possible bias in the results. The survey was conducted in January 1999, a month commonly perceived within the industry as providing a trough in recruitment activity. This should be borne in mind when interpreting the results.

Agencies

The sector itself directly employs a workforce of 78,000. Most agencies, however, have less than 10 employees. **Around 20** per cent of those directly employed work in single-site establishments. Agencies with over 100 direct employees account for **between 8 and 14** per cent of the industry. Some 63 per cent of agencies provide both temporary and permanent job-finding services, while 23 per cent specialise in permanent services and 14 per cent specialise in temporary work. **Single-site agencies are less likely to specialise in temporary placements than agencies with more sites. 30 per cent of establishments had been in the market for more than 10 years, and 17 per cent of the establishments are new entrants.** New entrants in the manufacturing industry account for 29 per cent of firms while in the hotels and restaurants sector the figure is 41 per cent, and in financial mediation it is 33 per cent.

It should be borne in mind that these comparisons are based on a different method of data collection and are limited to VAT registered companies.¹ The BMG data estimates industry turnover at around £18 billion. The ONS quarterly inquiry estimates turnover to be £13.8 billion, while the REC estimate is £14 billion. The regional distribution of agencies shows a North/South divide. Some 53 per cent of all recruitment agencies were in the South (South East, East *Anglia*, London, and South West) accounting for 60 per cent of staff employed directly by agencies themselves. The North (Yorkshire and the Humber, North West, North East, and Scotland) accounts for 26 per cent of employees directly employed.

People who are placed by agencies as temporary workers

The range of skills and occupations of people working as agency temps reflects the economy as a whole. The following paragraphs briefly illustrate this. Most temporary workers supplied by agencies are male (70 per cent of all temporary workers), although there are substantial variations between professions. *Figure 3* shows the proportion of men in the main occupational groups. In the occupations building labourers, building tradesmen/craftsmen, drivers, and engineering and electronics, more than 90 per cent of temporary workers are men. In the occupations nannies and au-pairs, medical, nursing and healthcare men account for only around 20 per cent. *Table 1* shows that there are statistically significant differences between the distribution of men and women across occupational groups. Some 25 per cent of female agency temps work as secretarial, clerical and junior office staff compared with 4 per cent of male agency temps. On the other hand, 17 per cent of males work in engineering and electronics and 16 per cent as drivers. For female staff, these figures are 3 per cent and 2 per cent respectively. Because some agencies tend to specialise in specific professions this naturally affects the gender composition of their workforce.

Figure 3



Source: BMG survey

Table1: Distribution of temporary workers supplied by occupational area in %

	MEN	WOMEN	MEN AND WOMEN
Executive and management	1	1	1
Accounting and finance	3	8	5
IT, computing, and telecommunications	21	16	22
Medical, nursing and healthcare	1	5	2
Secretarial, clerical, junior office staff	4	25	10
Hotel and catering	3	7	3
Nannies and au pairs	*	1	*
Engineering and electronics	17	3	12
Drivers	16	2	10
Building tradesmen/craftsmen	5	1	3
Building labourers	3	*	2
Other unskilled/semi skilled manual workers	12	13	12
Other	14	19	16

Source: BMG survey, * indicates less than 0.5%.

People who are placed by agencies as permanent workers

Most agencies provide permanent workers as well as temporary workers. *Table 2* shows that permanent placements provide for a different occupational distribution. This is particularly marked in the area of professional employment such as executive and management, which accounts for a significantly larger share of permanent placements. Drivers, engineering and electronics workers and unskilled workers are more likely to be employed on a temporary basis (10 per cent temporary compared with 4 per cent permanent, and 12 per cent temporary compared with 5 per cent permanent respectively). The IT, computing and telecommunications sector is the largest in temporary and permanent placements, accounting for 20 per cent and 22 per cent respectively followed by secretarial, clerical and junior office staff at 18 per cent and 10 per cent.

Table 2: Distribution of temporary and permanent workers supplied by occupational area in %

	PERMANENT	TEMPORARY
Executive and management	13	1
Accounting and finance	12	5
IT, computing, and telecommunications	20	22
Medical, nursing and healthcare	3	2
Secretarial, clerical, junior office staff	18	10
Hotel and catering	2	3
Nannies and au pairs	*	*
Engineering and electronics	8	12
Drivers	4	10
Building tradesmen/craftsmen	1	3
Building labourers	1	2
Other unskilled/semi skilled manual workers	5	12
Other	14	16

Source: BMG survey, * indicates less than 0.5%.

Comparison of data sources on agency workers

The findings from the BMG survey show up the weaknesses and strengths of current market information. *Table 3* summarises the position with respect to a number of measures. These figures show that there are significant differences in the reporting of some key indicators such as the number of people employed and the number of temps. The following paragraphs look at likely explanations for these differences. The final paragraph highlights the conclusions for future research and surveys in this area. The four surveys summarised in *Table 3* can not be compared directly. While the BMG survey asked the owners or managers of agencies how many ‘temps’ or ‘perms’ they employed, the LFS asked workers about their jobs. The ONS inquiry² is interested only in employees and workers on the hirer’s payroll. It therefore excludes temps who are employed by an agency but work for a hirer, and staff who work in the agency itself. *Table 3* shows that the survey by REC provides significantly higher estimates of temps being placed by agencies than the LFS survey. The BMG survey provides an estimate between the two. However, with respect to sales turnover the BMG survey provides the lowest estimate.

Comparison between the BMG survey and the LFS

The LFS estimates the number of people having jobs as agency temps to be 239,000. This is substantially lower than any of the other surveys. Comparing the LFS with the BMG survey, the methodologies used most likely provide for a significant part of the explanation. In the LFS, people are asked about their employment status and it is therefore based upon self-assessment. There are three potential sources that might account for an underestimation in the LFS. These relate to the definitions of:

- self-employment;
- second jobs; and
- fixed term contracts.

Table 3: Statistics on agency employment from various sources

Measure	BMG (GB)	LFS (GB)	REC (UK)	ONS (UK)
Turnover (1997/8)	18 billion	n.a.	14 billion	13.8 billion
Number of establishments	9,900	n.a.	9200	n.a.
Proportion of turnover from temps	73%	n.a.	93%	n.a.
Number employed	78,000 (Jan 1999)	88,000 (Winter 1998/9)	63,134 (April 1998)	523,000 (Dec 1998)
Number of temps	550,000 (Jan 1999)	250,000 (Winter 1998/9)	878619 (Nov 1997)	n.a.
Men as % of temps	70%	48%	n.a.	n.a.
Number placed into permanent jobs (1997/8)	Up to 600,000	240000	378,760	n.a.

Source BMG survey

The BMG survey suggests that 14 per cent of agency temps are *self-employed*. However, many respondents in the LFS survey might not consider themselves agency workers. For example, the LFS identifies 40,000 *self-employed* people in clerical and secretarial jobs and 8,000 nurses, both occupations in which agencies play a substantial role. The biggest nursing agency is currently not an employer (this may change in due course), suggesting that many of the workers who find jobs with this agency might consider themselves to be self-employed. Some workers use agencies to find a *second job*. While the LFS asks workers whether they have a second job, fewer questions are asked regarding the nature of the second job (e.g. JOBTYP and JOBTMP, see *technical note*). In general, more detailed information is given

regarding the main job and one can assume that a respondent's working as a temp for an agency is generally regarded as a *second job*, and not the main job. For example, among those people with a second job there are 50,000 nurses and 30,000 other associate professionals in care work. Both are areas heavily served by agencies. The final group are workers on *fixed term contracts*. As in the case of the self-employed, workers on a fixed term contract may not consider themselves to be agency temps but rather as professionals, e.g. teachers or as employees of their workplace. These include approximately 6,000 teachers at all levels. Again, many of these are supplied by agencies. Although it is not possible to put exact figures to these three elements, it is considered that, taken together, the results from the BMG survey are a plausible estimate.

Comparison between the BMG survey and the REC Survey

The survey conducted by the Recruitment and Employment Confederation (REC, formerly the Federation of Recruitment and Employment Services, FRES), the largest trade organisation in this industry, shows 60 per cent more agency temps than the BMG survey commissioned by the DTI. First, the methodology used by the REC has to be examined. The survey is conducted among REC members and non-members. This may lead to a bias as members are more likely to answer the questionnaire. Only 48 per cent of agencies asked in 1999 were members of REC. Some 42 per cent of agencies have no formal links to trade associations. The membership of REC contains a relatively large number of agencies providing temporary staff. Only 8 per cent of their members specialise in permanent placements. The BMG survey showed that 23 per cent of agencies supplied only permanent workers. The response rate of the REC survey is 7-8 per cent. The figures reported in *Table 3* have been grossed-up by REC from this base.

Comparison between the BMG survey and ONS' quarterly inquiry into distributive and service sector industries

The ONS inquiry is a measure of employment based on a survey of employers (see *technical note*). It does not differentiate between employees of the agencies who work in the agencies itself and workers hired to other businesses who are effectively employees of the agencies. It does also not include those that are not employed by the agencies, i.e. either self-employed or employed by the hirer. Only a few adjustments have therefore to be made to be able to compare the BMG estimate of 557,000 temps with the ONS estimate of 523,000 employees of agencies. Starting from the 557,000 of the BMG:

- a) deduct those working abroad (negligible);
- b) deduct those who were employed by the hirer or self-employed. It is estimated that this could be (at least) 19 per cent of temps – or 106,000; and
- c) add in agency staff: 78,000.

This suggests that 529,000 are employed by agencies. This is remarkably close to the ONS figure of 523,000. It may be coincidence but it does suggest that for short-term movements in the number of temps, the ONS inquiry probably provides the best indicator.

Assessment

Considering the biases of all the different surveys, the BMG survey commissioned by the DTI seems to give a reasonable picture of the industry, although it also has methodological problems which will need to be addressed in any further sectoral surveys. One of the major methodological problems arising in any survey relates to the source of the sample. In this case there were two alternatives: the British Telecom (BT) *Yellow Pages* database and the Inter-Departmental Business Register (IDBR). The BT database was chosen because of the completeness of individual records. The use of the IDBR would have required extra work by matching the IDBR details with a list of business telephone numbers etc., which would have increased time and expense. However, the number of records in the IDBR is considerably larger than in the BT database. Some of the difference may be due to the fact that records in the BT database are more up to date, although it has not been possible to confirm this. Other things being equal, e.g. the distribution within the two populations and the proportion of invalid records, it is estimated that a survey using the IDBR could have produced an estimate 6 per cent higher. The IDBR includes more large agencies – measured by the number of staff working for the agencies – than does the BT database. In some cases, agency temps who work for hirers may have been counted as staff working for the agency, an error that also appears to occur in the BT data set, but to a lesser extent. It is considered that, for the most part, the BT database records just the office staff. The difference in treatment of temps for measurement is hinted at by the observation that the number with over 100 staff in the IDBR is 14 times higher than the BT database. Any further survey or research done in this industry would require a cleaning up of existing databases in order to get a fuller picture of the sector and its role in the economy.

Conclusion

The employment agency industry is a new and very dynamic sector in the British economy. It plays a considerable role in providing jobs for those who are not necessarily interested in permanent employment for whatever reason and therefore contributes substantially to the creation of a flexible labour market. Some 42 per cent of those who work in temporary jobs do so because it best fits their lifestyle (Workplace Employee Relations Survey, WERS 98). Additionally employers can use agency temps to cover for short-term needs. The marginal effect can be significant for many businesses, and according to WERS 98, 28 per cent of all workplaces currently use agency temps. The growth of the industry makes it increasingly important to have methodologically sound data on it. The absence of reliable information makes it difficult for both the industry and policy makers to estimate the effect of outside changes on the industry. This article has shown that the existing sources of information based on surveys still lack methodological soundness. The study commissioned by the DTI has shed some light on the weaknesses of other studies, and shows that there is scope for improvements in the existing methods of data collection and recording.

Acknowledgement

The author would like to thank Paul Teasdale for his substantial contribution to the design of the research, and interpretation of the results, which cannot be recorded in

every detail. The use of the IDBR would have required extra work by matching the IDBR details with a list of business telephone numbers etc., which would have increased time and expense. However, the number of records in the IDBR is considerably larger than in the BT database. Some of the difference may be due to the fact that records in the BT database are more up to date, although it has not been possible to confirm this. Other things being equal, e.g. the distribution within the two populations and the pro-portion of invalid records, it is estimated that a survey using the IDBR could have produced an estimate 6 per cent higher.

Notes

1 'Survival rates of VAT registered businesses in each industrial sector', SME Statistics Unit, DTI 1995.

2 ONS monthly and quarterly inquiries into distributive and service sector industries.

Further information

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Technical note

The article compared results from 4 different surveys of employment agencies. They are all based on different methodologies which are briefly outlined below.

(i) The Bostock Marketing Group (BMG) survey

The population surveyed comprised establishments in the SIC 74.50: Labour recruitment and provision of personnel. It used the BT *Yellow Pages* database as the sampling frame. Quotas were set for the number of completed interviews according to size bands. The sample consists of 1,218 establishments of a total of 9,940 in the BT database. It became clear during the research that in some establishments classified on the BT database as having 50 or more employees the number included agency staff and agency workers. This led to adjustments of the weights and had consequences on the grossing-up. It also caused under achievements of set quotas as can be seen from *Table 4*. There might still be some tendency to overestimate the number of larger establishments. *Table 5* gives the revised distribution. The interviews were conducted over the telephone and were designed to last about 20 to 25 minutes. The interviews took place between 11 January and 12 February 1999. The questions concerned the profile of the agency, the number of individuals placed, the number of staff working in the agency, the terms and conditions offered by the agency, as well as financial aspects such as the fees charged and turnover. Response rates varied between different questions. They were lowest for questions concerning financial issues. Many establishments were unable to provide the information required and there appeared to be biases in the types of establishments that did give information.

Table 4: Number of establishments in the survey

<u>Number of staff</u>	<u>Quota</u>	<u>Achieved</u>
1	100	96
02-Apr	350	374
05-Oct	300	284
Nov-49	300	288
50-99	100	120
100-199	50	40
200+	25	16
Total	1225	1218

Source: BMG survey

Table 5: Revised distribution of establishments in population

<u>Number of staff</u>	<u>Number of establishments</u>	<u>%</u>
1	745	7.5
2-4	4,423	44.4
5-10	3,360	33.8
11-49	1,290	13
50-99	38	0.4
100-199	12	0.1
200+	7	0.1
Total	9,940	100

Source: BMG survey

(ii) Labour Force Survey (LFS)

Details of the Labour Force Survey can be found on pp 2-3. Question 79 and 80 ask for the job type (permanent / temporary employment) and if temporary, in what way the job was not permanent:

79. JOBTYP

Leaving aside your own personal intentions and circumstances, was your job...

1. a permanent job
2. or was there some way that it was not permanent

80. JOBTMP

In what way was the job not permanent – was it...

1. seasonal work
2. done under contract for a fixed period or for a fixed task
3. agency temping
4. casual type of work
5. or was there some other way that it was not permanent?

(iii) FRES (REC) survey

REC sends a questionnaire to all its members as well as to a mailing list of 6,925 non-members. In 1999 793 replies were received, of which 638 were usable. These responses cover 1,510 branches – out of an estimated total of 11,950.

(iv) Monthly and quarterly inquiries into distributive and service sector industries. The inquiry commenced in 1991. In 1995 the quarterly employment inquiry was added. Turnover data are collected quarterly and monthly. The collection of the data is statutory. Quarterly data on employees are collected by sex and full-time / part-time. The survey is aimed at businesses in the services sector (other than retail). The sample size is 22,000 businesses (representing 4 per cent of the business population) of which 5,000 include employment data. The monthly turnover survey includes 13,000 businesses. The sample is a stratified random sample. The turnover data are published in a quarterly news release and implicitly in the national accounts. The employment figures are part of the employee jobs data published in the labour market statistics First Release and in main ONS economic publications.