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**Implications of Triangular Employment Relationships for
Human Resource Management: The Case of Temporary
Agency Work in Germany and the US**

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ABSTRACT

The paper is concerned with examining the implications of triangular employment relationships for Human Resource Management referring to the example of temporary agency work. Despite the significant growth of temporary agency work in the last years, research on this topic remains rather limited with the existing studies drawing mainly on new institutional theoretical approaches. As these approaches do not fully consider the special issues associated with triangular employment relationships in the case of temporary agency work, a more comprehensive, Human Resource Management oriented perspective will be added in order to analyse the implications of using temporary agency work for the Human Resource Management of client companies. This includes questions that focus on the concern of HR departments to shift from an inward orientation towards managing complex, contractual and implicit relationships, as boundaries of organizations are getting more blurred. Additionally, the influence of different institutional factors on the use of agency work and the consequences for Human Resource Management are included in the study. The paper concludes with some insights on the contradictions and tensions inherent in triangular employment relationships for the employees and managers involved, as well as for Human Resource Management and the HR functions of client companies.

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IMPLICATIONS OF TRIANGULAR EMPLOYMENT RELATIONSHIPS FOR HUMAN RESOURCE MANAGEMENT: THE CASE OF TEMPORARY AGENCY WORK IN GERMANY AND THE US

Lars Mitlacher ^a

1. INTRODUCTION – TRIANGULAR EMPLOYMENT RELATIONSHIPS AND HUMAN RESOURCE MANAGEMENT

The boundaries between standard and non-standard employment relations have become increasingly blurred as a consequence of technological improvements and rapid changes in the organisation of work. As a result, non-standard employment relations such as temporary agency work have become increasingly important ways of organizing work in recent years (Alewell et al 2004; Nienhüser & Matiaske 2003; Bothfeld & Kaiser 2003; Jahn & Rudolph 2002). Consequently, debates about the changing nature of work and the prospects for the employment relationship are increasing in the academic literature (Suppict 2001; Capelli et al 1997). In a changing work environment however, the concept of a clearly defined employment relationship becomes difficult to uphold. The literature has used many different terms to define non-standard employment relations (Kalleberg 2000). Some authors label them as flexible staffing arrangements (Abraham 1988, Houseman 2001), as flexible working practices (Brewster et al 1997), simply as atypical employment (Delsen 1995, De Grip et al 1997, Córdova 1986), as contingent work (Polivka & Nardone 1989) or even as market-mediated arrangements (Abraham 1990). All these different definitions have in common that all forms of non-standard employment depart from

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the standard employment relationship. The traditional, standard employment relationship is generally associated with full-time positions that are based on an indefinite contract and are performed at the employer's site under the employer's direction (Mückenberger 1985; Bosch 1986; Talos 1999; Rogowski & Schömann 1996).

Temporary agency work can be classified as one example of triangular employment relationship because the temporary employee works at the client's site and not at the business site of the agency (Kalleberg 2000). Temporary agency work is now a common practice in all kind of work organisations (Koene et al 2004) involving the externalisation of administrative control and responsibility (Pfeffer & Baron 1988) and creating a triangular relationship where a worker establishes connections with different companies (Bronstein 1991; Vosko 1997).

However, research on temporary agency work is still at the beginning. Empirical and theoretical studies that focus explicitly on temporary agency work are not very widespread and the few existing studies are primarily concerned with the question why companies use this special form of employment relationship (e.g. Houseman 2001; Lautsch 2002; Lautsch 2003; Mitlacher 2004; Mitlacher & Ruh 2003; Johst 2000; Bellmann 2004; Bellmann & Promberger 2002; Schenk 2002; Schörer 2001; Nienhüser & Baumhus 2002). With research on this topic being rather limited, the paper wants to add more insight on agency work related topics by exploring the question what implications the development of agency work has for Human Resource Management.

2. INSTITUTIONAL FACTORS INFLUENCING THE DEPLOYMENT OF TEMPORARY AGENCY WORK IN GERMANY AND THE US

When talking about institutional factors that influence the use of temporary agency work and thus the implications for Human Resource Management two factors are relevant in an international comparison: the structure of the temporary work industry or market for temporary agency work and the legal regulation of agency work. First the characteristics of the market for temporary agency work in Germany and the US

will be summarized before dealing with the legal regulation of agency work in both countries.

The structure of the market for temporary agency work

Information about the size of temporary agency work is quite varied (Alewell 2005; Nienhüser & Matiaske 2003). In general, the share of temporary agency work has risen steadily in Germany and the US over the last few years (Neugart & Storrie 2002).

In Germany, temporary agency work accounted for 1.4% of total employment (Jahn 2005), with the absolute number of temporary agency workers increasing from 134.443 in 1994 to 399.789 in 2004. Temporary agency work is mainly used in the industrial sector. In 2005, 34.8% of temporary workers were assigned to production jobs, whereas 15.5% of workers were employed in the service sector (Federal Employment Service 2005). Up to a certain point, the sectoral distribution is reflected in the qualification of the temporary agency workers. About 30% of German workers in the temp industry are low skilled (Storrie 2002; Federal Employment Service 2005), showing that temporary agency work is still mainly used in the low qualified segment of the German labour market, which is dominated by men. Only a quarter of all temporary workers are women. The duration of assignments is generally very short with 75% of all assignments to client companies lasting less than three months (IAB 2004). Only 5% of the assignments last more than one year (Bellmann et al 2004). The duration of the employment relationship with the agency is also rather short with only 15% of newly employed temporary agency workers staying for more than one year with the temporary work agency. This number is with 75% much higher for all other industries in Germany (Jahn & Rudolph 2002), reflecting that labour turnover is much higher in the temporary work industry than in other sectors of the labour market (Alewell et al 2005). Concerning the pay differentials between core employees and temporary agency workers, recent studies show that German temporary agency workers earn between 22% and 40% less than permanent staff (Nienhüser & Matiaske 2006).

Agency work has also been growing in the United States accounting for as much as 2.6% of total employment according to establishment data from the Bureau of Labor Statistics (Houseman 2001; Autor 2001). The number of temporary agency workers increased from roughly one million in 1992 to 2.9 million in 2005 (American Staffing Association 2006). Contrary to Germany, where temporary agency work is above all deployed in the industrial sector, the service sector dominates in the US with 42.4% of all temporary workers being employed in this sector (Mitlacher 2004). Thus, it is not surprising, that the proportion of female temporary agency workers is with 53.8% much higher than in Germany (Bureau of Labor Statistics 2005). A look at the qualification of American temporary workers reveals that just 16.9% have less than a high school diploma. In Germany this number is with roughly 30% about twice as high (Bureau of Labor Statistics 2005; Mitlacher 2004). On the other hand 32.4% of temporary agency workers possessed a college or associate degree and 21.2% had a bachelor's or higher degree indicating an increased use of temporary agency work in the higher qualified sectors of the labour market (Bureau of Labor Statistics 2005). Pay differentials between temporary agency workers and permanent staff are also in place in the United States (Nollen 1996). According to data supplied by the Bureau of Labor Statistics temporary agency workers earned on average around 24% less than permanent employees holding a comparable position (Bureau of Labor Statistics 2003), with wage gaps varying according to qualification and type of assignment (Kalleberg 2000). The following table summarizes the market characteristics in Germany and the US.

Characteristics	Germany	United States
Sectoral distribution	Mainly industry & production	Mainly service sector
Level of qualification	High proportion of unskilled workers	Many high qualified workers
Gender distribution	Male dominated	Even distribution (53.8% female)
Wage differentials	Yes	Yes, depending on qualification

Table 1: Characteristics of the temporary work industry in Germany and the US

Legal regulation of temporary agency work in Germany and the US

In the case of temporary agency work, client companies demand temporary rights of directive authority over workers who are contractually employed by the temporary work agency (Alewell et al 2005; Raab 2003). Thus, a triangular relationship between the client company, the temporary work agency and the temporary agency worker is established (Purcell et al 2004). In Germany this triangular relationship is comprehensively regulated by the so called Personnel Leasing Act (Mitlacher & Ruh 2003). It requires temporary work agencies that commercially hire out workers to obtain an operating licence that is handed out by the federal employment service (Waas 2003), which monitors the activities of the agencies. Non-observance of the Personnel Leasing Act can result in a withdrawal of the current licence or applications for further licences may be refused (Storrie 2002). One of the main legal problems in triangular employment arrangements is the question, who should be considered the legal employer of the temporary worker (Davidov 2004). In Germany the temporary work agency is regarded as the single employer of the temporary agency worker as the employment contract exists only between the temporary work agency and the temporary worker (Waas 2003; Urban-Krell & Schulz 2003).

The temporary work agency and the client company engage in a contractual relationship closing a personnel leasing contract (Furier & Kaus 2004). This special form of contract of personnel services stipulates that the temporary work agency owes the client a specific kind of service but no guaranteed output or success (Alewell 2005). It requires the client company to pay a personnel leasing fee in order to acquire the right of directive authority over the temporary worker (Schönfeld 2003). There is no contractual agreement in place between temporary agency workers and client companies to which they are assigned (Urban-Crell & Schulz 2003). However, based on the personnel leasing contract, the client acquires the right of directive over the temporary agency worker (Furier & Kaus 2004).

As a consequence of the proposals of the so called Hartz-Commission (Mitlacher 2005a), the Personnel Leasing Act underwent various legal changes lately. The latest of these changes came into effect in January 2004. These changes aimed at

deregulating some of the existing restrictions on temporary agency work. For instance, the maximum period of assignment was formerly restricted to 24 months (Schönfeld 2003), but has been completely lifted now (Wank 2003). At the same time, the introduction of the principle of Equal-Pay and Equal-Treatment has strengthened the incentives for concluding collective wage agreements (Alewell et al 2005). The Equal-Pay principle places temporary work agencies under the obligation to pay their employees the same wages that the employees of the client company receive beginning at the first day of the assignment (Thüsing 2002). As the parties to a collective agreement can dispose of the principle of Equal-Pay, there has been an increase in the number and scope of collective agreements in the temporary work industry (Mitlacher 2005a; Lembke 2003; Behrens & Richter 2003). This has been accompanied by a gradual increase of wage costs for temporary agency workers (Alewell et al 2004). If this trend continues, the future development of temporary agency work in Germany remains to be seen. First empirical studies show mixed results concerning the future development of temporary agency work (Mitlacher 2004, 2005; Alewell et al 2004).

The US regulation of temporary agency work is in many ways different from the German regulation. On a national level, there are no regulations in place that can be compared to the German Personnel Leasing Act (Flämig 2003; Klös 2001; OECD 2001). For instance, temporary work agencies do not need to apply for an operating licence in most parts of the US (Mitlacher 2004). Contrary to Germany, where the temporary work agency is legally regarded as the single employer, the US jurisprudence has developed a concept of single and joint employer (Freeman & Gonos 2005; Metha & Theodore 2003; van Jaarsveld 2004). The concept of co-employment makes it possible that separate entities can be observed as the employers of an employee at the same time (Davidov 2004). To be considered as an employer one has to be able to meaningfully affect matters relating to the employment relationship such as hiring, firing or supervision (Davidov 2004). According to this doctrine, it is possible that temporary work agencies and client companies are considered co-employers, being thereby both liable for purposes for example of the National Labour Relations Act (Metha & Theodore 2003) and the Fair Standard Act (Moberly & Gramming 1999). However, Equal-pay or Equal-treatment principles are not in effect in the United States. The following table summarizes the

main features and differences between the regulation of temporary agency work in Germany and the US.

	National regulation of temporary agency work	Co-employment possible	Equal-pay and Equal-treatment principle	Licence required on a national level
Germany	Yes	No	Yes	Yes
United States	No	Yes	No	No

Table 2: Regulation of temporary agency work in Germany and the US

3. TEMPORARY AGENCY WORK AND TRIANGULAR EMPLOYMENT RELATIONSHIPS: A MISSING CONCEPT IN HRM RESEARCH

A look in the relevant literature reveals that there are not many studies that take up the aspect of triangular relationships and especially focus on temporary work agencies. A very limited number of studies of temporary agency work can be found in the economic as well as in the Human Resource Management and Industrial Relations literature (Forde/Slater 2005; Bellmann/Promberger 2002; Kress 1998), although some new theoretical discussions on temporary agency work have recently emerged in the German Human Resource Management literature (e.g. Nienhüser/Baumhus 2002; Alewell et al. 2004; Friedrich/Martin 2004; Föhr 2000; Mitlacher 2005b; 2006). Additionally, some micro econometric studies that are dealing with the use of temporary agency workers have been conducted lately (e.g. Bellmann 2004; Hagen/Boockmann 2002). In the US as well as in the UK research on temporary agency work has seen some studies using qualitative research approaches rather than quantitative methods to assess the deployment of agency work (e.g. Houseman/Kalleberg/Erickcek 2003a; Houseman/Kalleberg/Erickcek 2003b; Erickcek/Houseman/Kalleberg 2002; Purcell/Purcell/Thailby 2004). While studies on agency work are sparse in a national context, international comparative

studies are hard to find, with only a few exceptions (e.g. Wierlemann 1995; Mitlacher 2004).

Nonetheless, when summing up the small number of studies available there are a few theoretical arguments drawing primarily on new institutional economic approaches that have been used in most studies to explain the growth of temporary agency work. However, the analysis of these common arguments from new institutional economic approaches will show that the special issues of the employment relationship in the case of temporary agency work cannot be fully addressed by these theories thus making it necessary to add a more Human Resource Management oriented perspective to the discussion. After a short outline of these common arguments derived from new institutional economic approaches, the problems of the approaches in explaining the implications for Human Resource Management associated with the deployment of temporary agency work will be discussed.

First, there is the notion of transaction costs to explain the emergence of temporary agency work (Vosberg 2001, 204). Transaction cost theory, developed by Coase (1937) and Williamson (1975) seeks to explain why companies choose buying goods and services on the market rather than producing them by themselves. One of the central elements involved is that the choice of a particular contractual arrangement is associated with different kinds of costs (Vosberg 2003). For instance, market transactions create costs from several sources (Williamson 1975). First of all, asymmetric information results in higher costs as buyers and sellers are unlikely to possess the same amount of information. Further, contracts are incomplete, meaning they cannot include all possible outcomes. This is in particular true for the standard employment relationship as the labour service being purchased is inseparable from the employee providing it. Additionally, there are uncertainties about each party's role and responsibilities that cannot all be anticipated in the employment contract. Firms must therefore decide whether it is more efficient to use temporary agency work or establish a traditional standard employment relation with workers internally. In terms of the transaction theory this "make or buy" decision depends on the transaction costs associated with the establishment of a standard employment relationship like costs for hiring employees, administrative costs and costs for terminating the

employment relationship. Thus temporary agency work will be used when the price for the service of the temporary work agency is lower than the cost for producing this service by themselves. To realise the described cost difference temporary work agencies have to offer advantages (in terms of cost or special services) that the client companies cannot create by themselves.

Second, agency theory is used to explain the deployment of temporary agency work (Glasgow 2001; Föhr 2000). Developed by economists, agency theory tries to explain how contractual arrangements can be structured with regard to asymmetrical information and the allocation of risks (Ebers/Gotsch 2001; Jensen/Meckling 1976). The employment relationship is conceptualized as a contract whereby the contract is regarded as a way to align the objectives of principals and agents (Glasgow 2001). According to agency theory, the use of temporary agency work is explained by the lack of information and uncertainties on labour markets which cause employers to distribute risk to employees or a third party like temporary work agencies (Kalleberg et al. 2000). The temporary work agency serves in this case as a labour market intermediary that processes information in order to reduce the asymmetrical information between employee and employer and consequently reallocates the risk between the two parties (Föhr 2000, 71). The client company is willing to pay a fee to the temporary work agency, if it is provided with temporary workers suitable for the tasks needed and can reduce its risk of hiring an unsuitable employee.

Finally the property-rights theory (Grossman/Hart 1986; Furobotn/Pejovich 1974; Alchian/Demsetz 1972; Coase 1937) can be used to explain the emergence of temporary agency work. As the establishment of an employment relationship causes costs, the advantage of temporary agency work results from the complex distribution of property rights in the case of labour (Föhr 2000, 69). The property rights that are associated with the standard employment relationship include the usage of labour in the form of the right to issue instructions to employees and the right to acquire resulting profits (Föhr 2000, 69). In the case of temporary agency work the agency transfers the right to issue instructions to the worker to the client company (Mitlacher 2004). Sharing this property-right creates advantages for all parties involved (Föhr 2000, 70). The client company is able to use the employee without establishing a standard employment relationship (Peipp 1996, 169), the temporary work agency

earns a profit through relocating the property right and the temporary worker is paid a salary for his or her work.

As this brief outline shows new institutional economic approaches are helpful to explain the existence of temporary agency work in the first place. However they are not sufficient to analyse all issues and effects that an increased deployment of temporary agency work has on organisations and the HRM in client companies. For example transaction cost theory implies that temporary agency workers could be used in the sense of a commodity. Thus temporary agency workers would represent human capital that is generic, of limited strategic value and can be purchased easily on the market (Lepak/Snell 1999). This might reflect an effective organisational approach when using contractors such as for instance consultants who are hired to deliver a specific service or product (Koene/Riemsdijk 2005) but in the case of temporary agency work, agency workers operate under direct supervision of the client's management. This is important to note as typical problems with agency workers are often related to behavioural and attitudinal issues associated with temporary work leading to problems in such issues as loyalty, commitment or career advancement (Ward et al 2001, 15). This indicates that the employment relationship concerning temporary agency workers is more than a transactional relationship (Koene/Riemsdijk 2005) and that more attention has to be paid to the management of this triangular employment relationship and the underlying social and "human resource" aspects. To explore these issues Human Resource Management aspects must be included in the analysis of the employment relationship of temporary agency workers as the neo classical assumptions of transaction cost theory – e.g. about price-setting mechanisms – neglect the social embeddedness of activities concerning triangular employment relationships (Granovetter 1985). For example for transaction cost theory the issue of trust in relationships is unnecessary (Walgenbach 2000) or, if it is obtained at all, reserved for special relationships between family members or friends (Williamson 1993). However trust, loyalty or commitment are relevant with regard to the employment relationship, meaning that new institutional economic approaches are not sufficient to explore and to offer explanations and solutions for HRM when using temporary agency workers.

Similar arguments can be put forward regarding the principal agent theory. As temporary agency work is a triangular relationship, multi-agency problems arise making the principal-agent relationship more complex. Although agency theory implies that the client company can transfer some risks associated with the employment relationship to the temporary work agency it does not take fully into account problems that are arising during the period of fulfilment of the contract (Williamson 1985). Because of the ex ante perspective of agency theory the future seems predictable at the time the contract is concluded (Ebers/Gotsch 2001). Consequently all problems associated with the contractual relationship can be solved through the implementation of “governance mechanisms” - such as information, control and monitoring systems or incentive schemes (Ebers/Gotsch 2001). As the complexity of the contractual relationship increases in the case of triangular employment relationships so will the problems during the fulfilment of the contract. Examples are supervision and control. In the case of temporary agency work the problem concerning control is that the employer is not physically present at the workplace (Rubery et al 2002). Additionally it is not possible to anticipate all misbehaviour of employees. Although agency theory suggests that the implementation of proper control systems could solve this problem (Walgenbach 2000) this question can be very complex in triangular employment arrangements. Even though the temporary work agency is the legal employer (Urban-Crell/Schulz 2003) and has its own disciplinary procedures it is hard to imagine how these can be operated in isolation from those of the client company in which the agency employee is working (Rubery et al 2002). Questions that might arise in a disciplinary matter may concern basic questions such as whose rules to apply as well as how discipline can be initiated for example in the case when a worker commits an act that is regarded as misconduct in the client company but not by the agency (Rubery et al 2002). This leads to another aspect of problems in triangular employment arrangements that are not covered by agency theory. As agency theory focuses only on the principal's perspective (Ebers/Gotsch 2001) the problems that might arise for the employee when working as a temporary agency worker are neglected. These are however important from a HRM perspective as they concern for example pay systems, performance measurement, career advancement and even organisational commitment of temporary agency workers that have to be taken into account.

This is also true for the property rights theory. Although from a legal point of view the transfer of the property right to issue instructions to the worker to the client company seems to be advantageous for the client company, it neglects the implications that are associated with the transfer. Although the temporary agency worker has agreed on the transfer of this property right, from an HRM point of view behavioural and attitudinal issues arise when agency employees work at the client's site and are confronted with for instance different compensation systems, less acceptance by regular employees or less opportunities to participate in personnel development programs. Thus the assumption that the sharing of this property right creates advantages for all parties involved disregards the social aspects of the triangular relationship.

The analysis clearly indicates the problems of existing new institutional economic approaches to fully explore employment relationships in triangular constellations. Contracting out of employment does not resolve Human Resource Management problems as inter-organisational relations and multi-party arrangements are also reliant on the actions and behaviour of employees who are engaged in these new employment relationships (Rubery et al 2003). However, new institutional economic approaches assume that organisations are only influenced by internal considerations when dealing with the question how employees should be treated. Additionally it is presupposed that there is a neat matching between the form of contracting and the nature of employment relations. However, as the discussion shows many questions remain unexplored by new institutional economic approaches when there is more than one employer involved. Triangular relationships impact the HRM of client firms as problems arise that are affecting issues such as control, supervision, performance measurement, selection processes, attitudinal issues concerning organisational commitment and identity, training and pay systems as employees find themselves subject to the decisions of more than one employer (Rubery et al 2003). Additionally the approaches suggest that agency workers can be used rather opportunistically (Koene/Riemsdijk 2005, 76) and treated as kind of a commodity because the employment relationship is characterized as transactional and therefore as non-traditional (Lepak/Snell 1999). Consequently, given the transactional nature of temporary agency work as supposed by new institutional economic approaches, Human Resource Management activities would only need to focus on the compliance

with the terms and conditions of the contract with the agency (Lepak/Snell 1999, 40). However the use of temporary agency workers cannot simply be reduced from a Human Resource Management perspective to supervise the compliance with the terms and conditions of the contract. Therefore it is necessary and beneficial to pay more attention to the Human Resource Management of temporary agency workers. This adds more insight and makes it possible to extend the analysis further behind the boundaries of new institutional economic approaches.

Not surprisingly perhaps, given the dominance of new institutional economic approaches when analysing temporary agency work, it has not been explored in detail, what HR challenges are caused by permeable boundaries of organizations through the use of temporary work agencies. Especially the task for Human Resource Management associated with this development and the possibilities to respond to these new challenges has been paid too little attention to in the current debate.

4. TEMPORARY AGENCY WORK AND HUMAN RESOURCE MANAGEMENT CHALLENGES

The relationship between temporary work agency and client is based on and regulated in a personnel leasing contract that requires the client company to pay a personnel leasing fee in order to acquire the right of directive authority over the temporary worker (Schönfeld 2003). However, the relationship cannot simply be reduced to a contractual arrangement. From the moment a temporary worker is used, organisational boundaries get blurred and interlocking business relationships emerge (Felstead 1993). In this constellation, it becomes even harder to determine who works for whom, and even the legal situation in the US makes no clear distinction who is regarded as the legal employer (Davidov 2004). Additionally, the increasing incidence of triangular relationships can lead to the situation, that employees working within one company are influenced by the HR instruments and practices of another organisation (Rubery et al 2002). Thus, these triangular relationships affect the Human Resource Management of both partners involved. In particular the Human Resource Management of client companies and the role of the HR department is

influenced in several ways. This aspect has so far been neglected in the discussion, as almost all of the existing literature on Human Resource Management is predicated upon the assumption, that the role of the HR department is an internal one, focusing inward on the organisation and its own employees (e.g. Wright et al 1999; Ulrich 1997). However, the extension of organisational boundaries through networks, alliances, strategic partnerships and the use of temporary agency employees implies, that the scope of HR departments and Human Resource Management has to include an outward perspective embracing the broader external network of the firm (Camuffo & Costa 1993). Which areas of HR practices are influenced by a broader network of the firm? A helpful approach to analyse different HR instruments are models of strategic Human Resource Management. These are usually concerned with the HR flow through a company, comprising selection, personnel placement, performance management and pay systems as well as personnel development (Tichy et al 1984; Beer et al 1984). This systematic approach will be used to structure the following discussion.

First, the deployment of temporary agency workers influences the selection process in client companies. One of the central aspects is that, when parts of the recruiting and selection of personnel are done by the agencies, the importance of this Human Resource Function in client companies is weakening (Nienhüser & Baumhus 2002). Inside the client company the focus of selection shifts from searching a suitable worker to acquiring an appropriate temporary work agency, implying a change in the role of Human Resource managers. They need skills not only in project management, but also in managing third party relations and they should be confident with legal questions regarding temporary agency work. Further, Human Resource managers must act as consultants, assisting temporary work agencies in developing client specific recruiting and selection instruments. In many cases the quality of the temporary work agency has a ceiling effect on the triangular relationship (Feldman et al 2001). If the agency does a poor job of selecting and recruiting, the relationship between the client company and the temporary agency worker is unlikely to be positive (Feldman et al 2001). Comparative studies show, that American companies use temporary agency work more often as a recruiting device than German companies making it even more important for US HR managers to be selective in choosing temporary work agencies (Mitlacher 2004). One explanation for a higher

use as a recruiting device by US firms is that temporary agency work in Germany is mainly used in the low qualified segment of the labour market where a “temp to perm” strategy is less common than in high qualified segments of the labour market with a shortage of skilled workers. The transfer of parts of the selection process to the agency influences not only the relationship between temporary work agency and client company, but also the association between client company and temporary worker. If temporary agency workers are regarded as potential future core employees, client companies have to assign specified tasks to temporary agency workers in order to test if they are suitable for these tasks in the long run.

The process of personnel placement is also affected when using temporary agency work. Using temporary agency workers to adjust to volatile personnel requirements makes the coordination of personnel assignments more complex through third party involvement. As the assignments of agency workers especially in Germany are rather short (Alewell et al 2005) labour turnover is high making the coordination and communication between core and agency workers more complex. However as communication between core and contingent employees is necessary it is the task of the HR department to install routines that make the communication process more efficient and to secure a smooth coordination. The degree of required coordination depends on the tasks assigned to agency workers. More coordination is needed if the agency workers take over regular tasks from core employees while less coordination is necessary if agency workers are assigned to clearly defined and specific tasks (e.g. projects) that are solely executed by agency workers. However the client company should provide an accurate picture of the job assignment and be honest about whether temporary assignments are likely to become full-time positions (Feldman et al 2001).

Triangular employment relations have also an effect on performance measurement systems. As the agency workers perform their work at the client’s site, the agency is usually not able to undertake some of the central tasks associated with being an employer (Rubery et al 2002). For example, the agency is not in a position of supervising the work process or even establishing and verifying performance measures that serve as a basis for decisions on positive or negative appraisals and career promotion (Rubery et al 2002). This is even more likely when the responsibility

for setting performance standards for temporary agency workers does not lie with the direct employer but with the client. As the client is in many cases involved in actually monitoring the performance of temporary workers and passing on information to the agency, information systems have to be installed including both perspectives. For example, the agency might completely rely on information provided by the client as the basis for disciplinary sanctions and even dismissals. This means that the construction of performance measurement systems must include instruments for different types of the workforce. This can, however, affect the relationship between agency workers and core employees, as two different systems of performance measurement might be in place for workers performing the same job, causing thereby problems of justice and equality. Thus it is important that agency workers are informed by the client company about the expectations and the possibilities of converting the temporary into a full-time position.

In triangular employment arrangements another central question concerns personnel development programmes. As many firms offer their core employees' skills training, temporary agency workers are often not entitled to participate in these programmes. This is problematic from an HR perspective as the investment in training in the temporary work industry is generally low in the European Union (Storrie 2002). In the United States skill training expenditures in the temporary work industry are modest, estimated to be between 4% and 9% of wages paid to trainees (Autor 2003). Moreover, temporary agency workers generally receive less training than regular employees (Rogowski & Wilthagen 2004). According to a survey of 15.500 workers in the EU, 35% of all surveyed employees but only 12% of temporary workers received some kind of personnel training within a 12 months period (Letourneux 1998). For the United States, Autor et al (1999) estimate, that only 18% of temporary agency workers receive specific skills training. However, as triangular employment relationships are becoming more widespread, it will be favourable for both – temporary work agencies and client companies – to offer more training for temporary agency workers. Regarding temporary work agencies, offering free general skills training -like computer skills- and bearing the costs up-front is favourable for several reasons. As turnover is high, temporary work agencies are in a process of on-going recruitment. Training is therefore a distinctive feature to attract desirable workers (Autor, 2001). Research shows that, workers with unobserverably greater earnings

potential are more likely to receive training (Acemoglu & Pischke 1998; Altonji & Spletzer 1991). As Bartel and Sicherman (1998) illustrate, workers with higher skills, measured by standardized test scores, are more likely to receive training. Therefore, offering free training to temporary workers can also be seen as a recruiting device, that becomes important when the agency takes over most of the recruiting process. The key premise here is, that workers of high perceived ability choose firms offering training in expectation of wage gains and permanent employment, even though entrance wages might be lower. This induces self-selection, as low ability workers are deterred by training measures and limited expected gains (Autor 2001).

However, these arguments are not in line with common assumptions of Human Capital Theory. Human Capital Theory assumes that investment in training and development is a consequence of optimizing decisions made by workers and employers (Becker 1964). Both parties are only willing to carry the costs of training, if they can recoup their investment. As Acemoglu and Pischke (1999) demonstrate, a firm's pay-off from training is negatively related to the probability that workers exit. In Germany, 90% of all temporary workers leave the sector within six months (Jahn & Rudolph 2002) and 66% of all temporary assignments last less than three months (Storrie 2002). In the United States for example 58% of workers exit the sector within a quarter of a year and 83% within two quarters (Segal & Sullivan 1997). Since temporary agency workers have a higher turnover rate than other workers, it can be expected that temporary work agencies might be less inclined to fund training (Forrier & Sels 2003). This strategy might work in the short run, but in particular when it comes to long-term hiring out, it may also from a cost perspective prove not to be efficient. Even using temporary agency workers for low paid and well structured routinized work might lead to problems, when the temporary work agency fails to provide competent service or when the work done by the agency workers requires the establishment of close customer relations (Rubery et al 2002). Take for example a service company that uses temporary agency workers in call centres. As this requires a good knowledge and understanding of the brand and organizational image of the client company, it is the task of the Human Resource Management of the client company to take a leading role in organizing the necessary training. In this case, it is obvious that only the client company can impart specific information on the company brand and image (Rubery et al 2002). As the previous discussion highlights, the key

question if temporary agency workers will be an efficient human resource is how much training they receive and at which speed they acquire the knowledge to perform their jobs well. In order to improve the quality of training and orientation towards temporary workers client companies have at least two major options (Feldman et al 2001). First they can work more closely with the agency and develop specific training programmes for agency workers. Second, when the temporary workers arrive at the client's site a specific orientation regarding the specific assignment should be given (Feldman et al 2001).

With regard to pay systems, triangular employment arrangements lead to further HR challenges. Concerning the relationship between temporary work agency and client company, it can be a strategic consideration of the client company to deploy temporary agency workers to introduce a two-tier wage structure (Nienhüser & Baumhus 2002). However, even if this is part of the Human Resource strategy, the disruption should not be sustained in the long run (Grimshaw et al 2001) as this might cause problems of equality and lower the commitment or loyalty of agency workers. Nonetheless, wage differentials still exist in Germany – despite the principle of Equal-Pay – as well as in the US. As Nienhüser and Matiaske (2006) show in their study for Germany, the wage differential between temporary workers and permanent staff is still between 22% and 40%. The wage gap tends to be more significant for low qualified workers from all sectors: on average, wages earned by temps were only 60% of the salaries of core employees for blue-collar workers in West Germany and 71% for white collar workers (Jahn & Rudolph 2002). The wage penalty in the US seems to be smaller, as studies show a differential between 10% and 24 % (Segal & Sullivan 1998; Bureau of Labor Statistics 2003). As transparency and fairness are central aspects of pay systems, the pay system for temporary agency workers should be extended with some additional elements to increase motivation. Given the legal situation in Germany, where agency workers are covered by the Equal-Pay principle (Mittlacher 2005a), it is not very likely that client companies will pay temporary workers additional monetary rewards. In the United States the avoidance of fringe benefits is often claimed to be one reason for not hiring agency workers on a permanent basis (Feldman et al 2001). Thus, non-monetary elements can be included that influence the relationship between client company and temporary agency worker in a positive way. For example, temporary agency workers that show

good performance might be offered direct contracts, as wide pay differential based solely on employment status and not on skill levels might become indefensible over a longer period of time (Rubery et al 2002). The data supplied by the BZA, the association of licensed temporary work agencies in Germany, states that 30% of temporary agency workers are transferred into regular employment at client companies, thus indicating that client companies make extensive use of this option (Mitlacher 2005b). However, empirical studies indicate a much lower rate (Mitlacher & Ruh 2003; Rudolph & Schröder 1997). According to results from the Business Panel of the IAB, approximately 15% of temporary agency workers are employed by former clients of the temporary work agency after resigning from their temporary assignment (IAB 2004). Studies for the US show higher “temp to perm” rates that range from 40% to 55% (Houseman 1997).

As the discussion highlights, deploying temporary agency workers takes considerable pressure of the HR manager at first sight. For example, the agency does the recruitment and selection process and most of the training and orientation efforts is done outside the firm. However, managing temporary agency workers is still a HRM challenge in many other ways. These unique challenges result from the complexity of the triangular employment relationship and include issues that go beyond the traditional inside view of the HR department for instance when dealing with problems like social control, commitment, promotion and loyalty. Therefore client companies need to consider providing temporary agency workers with better training and education programs, clear expectations of the temporary assignment and more opportunities of permanent employment. Thus client companies and HR manager must be more judicious in selecting temporary work agencies to recruit and train their temporary workers, leading to new tasks and challenges for the HR department of the client companies. Different operative HR challenges to improve the managing of temporary agency workers are summarized in the following table.

HR Instrument	Operative HR challenges
Selection	<ul style="list-style-type: none"> - HR managers need skills in managing third party relations and project management skills - HR managers must act as consultants supporting temporary work agency by developing company specific recruiting and selection tools
Personnel placement	<ul style="list-style-type: none"> - assignment of specific tasks to temporary agency workers - conveying clear picture of assignment and expectations to agency workers
Performance measurement	<ul style="list-style-type: none"> - including temporary agency workers in performance measurement systems of client company - communicating expectations and set clear goals
Personnel development	<ul style="list-style-type: none"> - HR managers must work closely with agency to create specific development and education programs for temps - Ensuring detailed and specific orientation on first day of assignment
Pay systems	<ul style="list-style-type: none"> - introducing fringe benefits for temporary agency workers - offering non-monetary rewards to temps such as permanent positions

Table 3: Operative HR challenges when using temporary agency workers

How can temporary agency work be included in the study of employment relations and HRM?

Managing employees in a standard employment relationship is a complex issue. Adding a third party to this relationship increases the complexity and uncertainty of the employment contract. Thus, greater attention has to be paid to the impact of the use of temporary agency work on the employment relationship. What is the role of

Human Resource Management within this web of interdependencies? The results of the analysis shed light on the importance to consider the blurring of organisational boundaries for conceptions of Human Resource Management, as traditional models of the employment relationship are based on an outdated understanding of Human Resource Management, organisations and the employment relationship. Although some authors have highlighted the importance of considering permeable organisational boundaries when managing employment relations (Rubery et al 2002), the Human Resource Management literature has paid surprisingly little attention to the implications of this development. The way forward for Human Resource Management lies in demonstrating the value and worth of managing the triangular employment relations at the boundaries of organisations more effectively. As the quality of the exchange relationship shapes the commitment of a worker, HRM instruments must influence this quality for different groups of workers. The focus of Human Resource Management has to be much broader, including the temporary work force and not only focusing on the regular employees. This is at the same time a chance but also a challenge. Human Resource departments have to play a central role in creating and sustaining triangular relationships, as this is already a fundamental means of contributing to success in modern organisations. Of course, these changes might be vulnerable to increasing economic pressure and the need to realize short-term cost savings or flexibility through the use of temporary agency workers which remains common in Germany. However, as triangular employment relationships are increasingly including more high skilled workers, a diverse Human Resource Management leads to a significant scope for improvement, when dealing with temporary agency workers. As organisational boundaries become more permeable, third parties are keen to influence the internal Human Resource policies and politics of their partners. Further research on employment relations and in Human Resource Management should therefore shift its focus from the single organisation towards inter-company networks and the management of triangular relationships. Especially international comparative studies are needed, that explore the implications of triangular employment relationships for Human Resource Management in diverse cultural and legal settings, making it possible to analyse if there are converging or diverging patterns. Taking into account the growing importance of temporary agency work worldwide, such a shift in the research agenda would be essential.

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