

White Paper

More than equivalent: wages and overtime in temporary work

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Introduction

The world of work is becoming more flexible. This development is being driven by demands from both companies and employees. While companies use flexible forms of work to stay agile and competitive, employees make use of them either as a bridge back into the labor market or to achieve a more satisfactory work/life balance. But the increasing number of flexible work arrangements scare many people; for example, interest groups such as trade unions assert that these arrangements do not provide flexworkers with sufficient safeguards. In particular, they fear that agency workers earn lower wages and are forced to work overtime hours more often than direct employees. This white paper analyzes information in the Swiss Labor Force Survey (see explanation 1) and addresses these fears by comparing the working conditions of agency workers and direct employees.

The evidence that this survey provides should be a cornerstone of discussions about the regulation of agency work. Potential restrictions of agency work could come at a high price, for they could lock jobless workers in unemployment, reduce the competitiveness of Swiss companies, and push flexible work into less secure work arrangements such as self-employment, subcontracting companies or even the shadow economy. However, we believe that the targeted relaxation of existing temporary work regulations could pave the way for making flexible work more secure for employees.

The results of our investigations do not support the interest groups' fears about agency work.

Using methods like the ones applied to identify the gender wage gap (see Strittmatter & Wunsch, 2020; Jann, 2008), we demonstrate that agency workers and their directly employed peers earn about the same when differences such as seniority, formal qualification, management responsibilities, and professional experience are taken into account. If the type of employment contract is included in the evaluation, agency workers are even better paid than direct employees with limited (term) contracts. This suggests that flexible work provides employees with greater benefits when it is done under the umbrella of a staffing agency. The situation is similar with regard to working hours. Agency workers work long hours less often than their directly employed counterparts. In addition, they are more likely to be compensated for their additional hours. However, the data also reveals disadvantages: while directly employed workers are

most often granted extra holidays or days when they work reduced hours to compensate them for overtime, agency workers are generally paid in cash for their overtime hours. Our conclusion is that in Switzerland, fears about agency work are not based on fact, but primarily on dangerous prejudices – dangerous because they could lead to unfavorable restrictions of the liberal labor market and because they may prevent job seekers from applying to staffing agencies as quickly as they can (see swissstaffing, 2019).

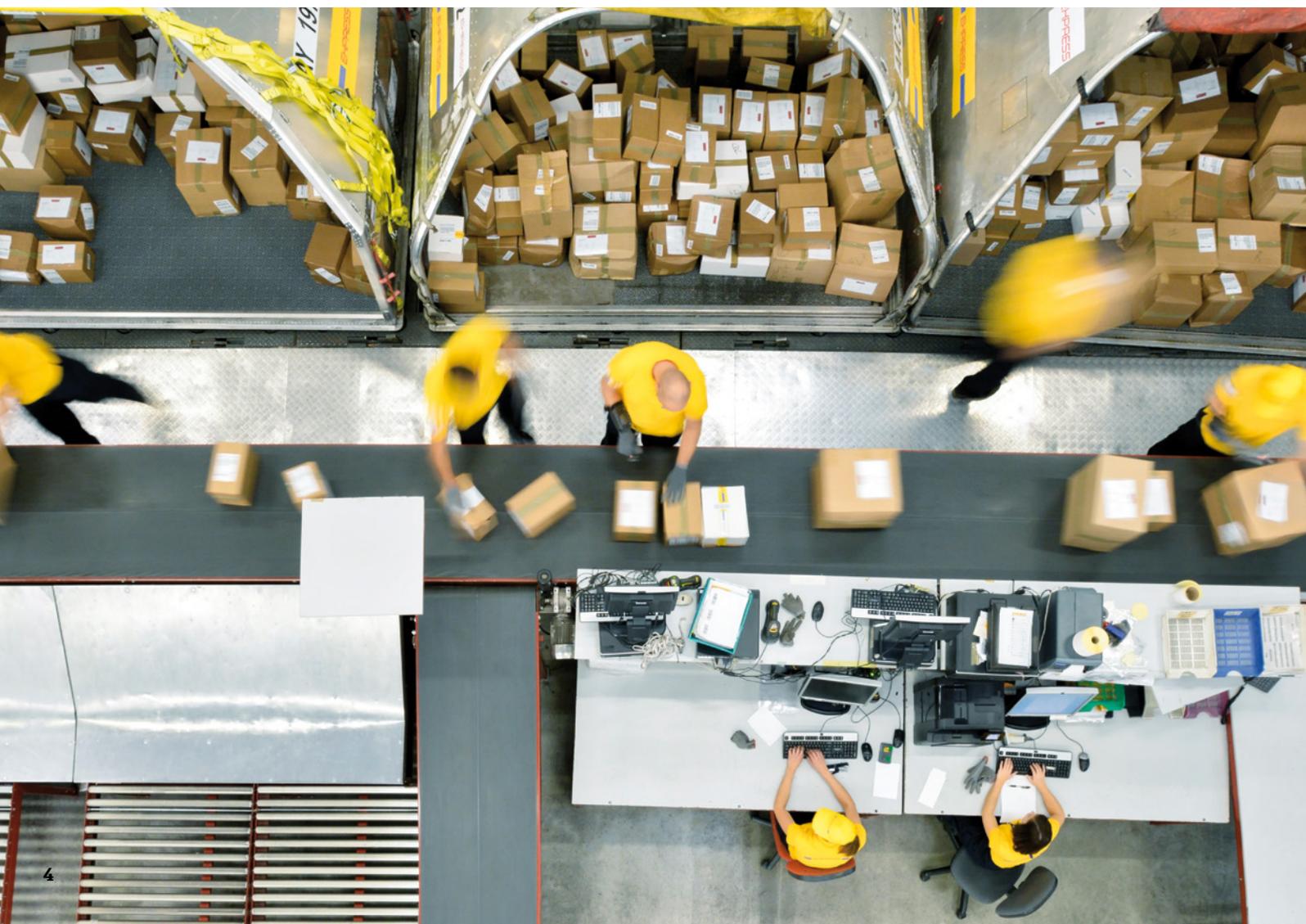
Agency work has been proven to provide a fair and secure framework for flexworkers.

With targeted relaxations of existing agency work laws, the secure framework for agency work in the increasingly flexible world of work could be made even more effective.

Explanation 1: The Swiss Labor Force Survey (SLFS)

The Swiss Labor Force Survey (SLFS) aims to provide information about the structure of the Swiss labor force. The survey provides a wide array of data about employees' sociodemographic background and their professional situation – including working conditions and income. Each year, 120,000 employees are interviewed by phone. To ensure representative data, the survey structure reflects the proportion of the different linguistic regions in Switzerland and includes an additional sample of foreigners added to the main sample. Adherence to international definitions makes the results comparable with data from the OECD or the EU.

Using the Swiss Labor Force Survey (SLFS) for a wage comparison is challenging. The number of agency workers interviewed is small: about 300 employees per year. Thus, the selection of an appropriate estimation strategy is crucial for returning reliable results. Our approach was to group several survey years together to ensure that there were enough agency workers in our dataset. The results in Table 1 indicate that our findings are sound regardless of the time period considered. Additionally, we checked whether the published results are in line with estimates concerning each individual year. The year 2013 is the only year in which we found that agency work had a significant negative impact on earnings after controlling for employees' personal and professional backgrounds. In every other year, agency workers and direct employees earned equal pay, which supports the results that we are presenting here.



Personal staffing providers take a stand

Our analysis of the Swiss Labor Force Survey indicates that the temporary staffing sector provides greater flexibility and social safeguards for agency workers than direct employees typically enjoy:

- Agency workers earn the same wages as their directly employed colleagues. Agency workers even earn more than direct employees with a limited (term) contract
- Agency workers work less overtime and are more often paid in cash for their work
- The large share of agency workers in intermediate employment relationships (Zwischenverdienst)¹ highlights an important function of the staffing industry for the labor market

Widespread fears about agency work such as lower wages and more overtime hours are not borne out by an evaluation of the Swiss Labor Force Survey; in fact, the data suggests just the opposite.

Agency work is a proven and established instrument that offers flexible work within a statutory and social partnership framework. In addition, thanks to the liberal labor market, equal working conditions are already a fact. Restrictions on this type of work would hamper its important function as a labor market enabler and create barriers for new employment, erode flexworkers' working conditions, reduce flexibility, and harm the overall competitiveness of Switzerland.

In our digital and fast-changing world, flexibility is not a hazard, but an opportunity, and temporary work offers a fair and secure framework for this.

The orderly design of tomorrow's world of work requires:

- The preservation of the liberal labor market in Switzerland in order to ensure low unemployment, decent working conditions, and competitive capability
- A system of social safeguards that protects workers – even those with flexible working conditions – against basic risks such as accident, illness, death, age, and unemployment regardless of the form of employment
- The promotion of private staffing service providers as a third party to help address increasing labor market complexity and support both employers and employees in a quickly-changing economy
- A culture in which flexible work and dynamic shifts between different forms of work are accepted, which could help enable a smooth transition of the economy

¹ A "Zwischenverdienst" is a particular measure in Switzerland that helps the unemployed reintegrate into the labor market and prolongs their entitlement to unemployment benefits. If an unemployed person takes up (temporary) employment for which he or she is paid less than the entitlement to unemployment benefits, he or she is paid the difference by the regional unemployment office. With the money thus saved, he or she may receive unemployment benefits for a longer time.

Equal pay – already a reality in the staffing industry

Based on individual examples, trade unions, politicians, and representatives of the media often claim that agency workers earn less than employees who are paid directly by companies. Such anecdotal evidence should be taken seriously as a starting point for discussions; however individual cases cannot be used to justify political action. Using the Swiss Labor Force Survey (SLFS), we have compared the wages of agency workers and direct employees. Taking into account differences in industry structure, regional distribution of employees, their sex, and their nationality, a simple comparison does indicate a lower wage level among agency workers. However, is this truly a fair wage comparison? The answer seems to be no. One of the most obvious differences between agency workers and direct employees is that agency workers are by definition rather new to a company and usually stay for a shorter period of time. The greater seniority of direct employees results in higher wages that reward their greater company-specific experience (see also Blau & Kahn, 2013; Schönberg 2007; Kim et al. 2014). And this is not the only difference.

Agency workers and direct employees also differ in terms of their education, management responsibilities, and general professional experience.

On average, agency workers are younger than their directly employed counterparts and they have more employment gaps in their working life (see also Michaud, 2018). If we remove such influences from the wage comparison, then agency workers earn about the same as companies' direct employees. Differences in earnings are insignificant in all the periods analyzed. These findings may explain why there is a gap between the actual wages of agency workers and public perceptions of them: on the one hand, the liberal labor market ensures equal pay for the same set of qualifications without formal enforcement by law or CBA. On the other hand, public opinion seems to be driven by the wage gap observed when factors such as seniority, formal education, and management responsibilities are not taken into account appropriately.²

In a third step, we also take into account whether agency workers and direct employees are employed under a limited (term) or unlimited contract – for this sends an important signal about expected employment duration.

Controlling additionally for this difference, we found that agency workers earn more than employees on direct payroll.

There are three possible reasons for this: first, directly employed workers with limited (term) contracts may have less negotiation power. They might be less informed about wage expectations but, even if they are well-informed, workers may find it difficult to defend justified claims in negotiations. Limited contract terms reduce their chances further. In contrast to direct employees, agency workers make use of their agency's labor market intelligence and let the staffing company take care of salary negotiations. The strong competition on the fragmented staffing market³ in Switzerland ensures that agency workers receive these wages without deduction of a premium due to the market power of their agency. For agency workers, it would be easy to apply for the same type of job at several agencies in order to get a quick picture of fair compensation (see Card & Kruger, 1994; Schönberg, 2007). Second, the structure of the staffing market is somewhat different than the labor market for limited contracts. Companies that employ agency workers are generally in urgent need of labor – which weakens their negotiation power. Agencies may help their employees take advantage of this and get paid for their flexibility (see Weenden, 2005). Third, due to the CLA Staff Leasing, agencies are strictly controlled by the bipartite control authority tempcontrol. Agency compliance is checked every one to five years on average. Being under the umbrella of a CLA protects agency workers much better than direct employees with a limited (term) contract, as such arrangements are rarely checked by a public or bipartite authority if they are checked at all (see Erne, Imboden, 2015).

² To check the robustness of the results, the estimation approaches are also applied to every single year. The results differ only slightly and confirm the pattern presented in table 1.

³ In Switzerland, there are more than 893 companies that focus primarily on staffing activities (see FSO, 2021). According to estimates by swissstaffing, the five biggest market players hold a market share of 25%. These figures illustrate the great fragmentation of the Swiss staffing market.

Table 1: (Annual) wage comparison: agency workers vs direct employees.

	Oversimplified wage comparison	Wage comparison including background	Wage comparison including background & contract type
2017-2019 (Observations: 88,116; Agency workers: 814)	-6370	(160)	2410
2014-2016 (Observations: 91,125; Agency workers: 751)	-6330	(840)	2800
2012-2013 (Observations: 62,644; Agency workers: 478)	-8560	(-1090)	(320)
2010-2011 (Observations: 60,941; Agency workers: 578)	-7920	(-210)	(1260)
Limited (term) contract			✓
Personal characteristics & Educational background		✓	✓
Professional background		✓	✓
NOGA class	✓	✓	✓
Region	✓	✓	✓
Year	✓	✓	✓
Weekly working hours	✓	✓	✓

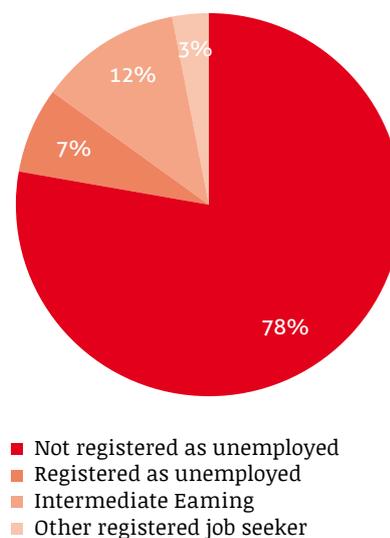
Note: The table indicates the results of a wage comparison between agency workers and direct employees based on weighted data of the Swiss Labor Force Survey (SLFS). Values in brackets are not statistically different from zero. We include in each estimation dummies for different survey years, the region where employees reside, including a city dummy, as well as one for the branch of activity (based on a two-digit NOGA code). Furthermore, we include in each equation the number of hours worked by employees each week. As indicated, we include in the different wage equations variables for the personal background (Swiss citizenship, gender, age), educational background (professional or university degree), and the professional background (unemployed before agency work, managerial responsibility, months in current position, employment in public sector, limited working contract as additional variable in the last estimation).

The results of our wage analysis are still somewhat surprising. Liberal labor markets guarantee equal pay for agency workers and direct employees, although 12% of agency workers are in intermediate earning relationships (“Zwischenverdienst”). Of course, intermediate earning relationships are likely to pay lower wages than do other work arrangements on the labor market (see Wunsch, 2021). However, it is also possible that we can partly capture the specific circumstances of intermediate earnings by taking into account the professional history of each employee.

From a political point of view, intermediate earning opportunities offered by staffing agencies are of high value – for the state potentially saves unemployment benefits and the unemployed person is potentially able to prolong his or her right to state support while already being reintegrated into the labor market.

A recent study by Conny Wunsch (2021), professor at the University of Basel, demonstrated the generally positive effect of intermediate earnings on labor market outcomes. She also indicates that 25% of all intermediate earning opportunities are created by the staffing industry.

Figure 1: Kind of registration at the unemployment office in the month of interview



Note: The figure shows the registration status of agency workers at the public unemployment office (RAV) in the month of their interview. Data is weighted. SLFS, 2017 – 2019. Observations: 900.



Equal time – agency workers come out ahead with regard to monetary benefits

Work-life balance is an ongoing topic in discussions about the retention of employees (see Oswald, et al., 2015; Davis et al., 2014; Davis & Tuttle, 2017). However, for most employees, overtime is a matter of fact. Data from the Swiss Labor Force Survey (SLFS) indicates that 76% of Swiss workers say that they often or sometimes work long hours.

Surprisingly, agency workers are less often asked to work overtime than employees on direct payroll. Only 28% of agency workers report that they regularly work overtime, as compared to 38% of their peers.

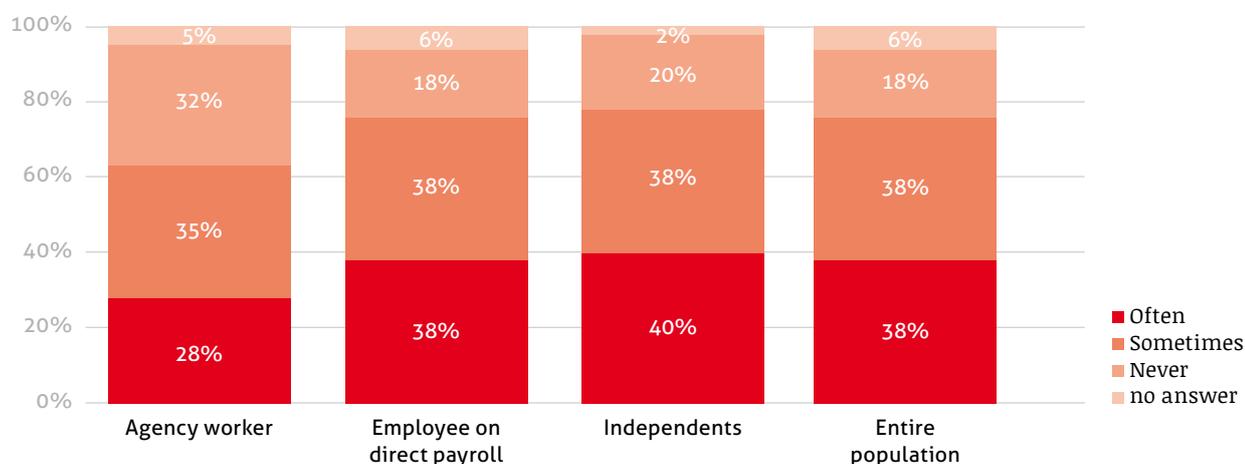
Thus, agency workers are much better off with regard to overtime than employees on direct payroll. The same applies to compensation for the overtime worked. While 15% of direct employees report that they are not compensated in any way for their additional hours, this share amounts only to 6% among agency workers. There are three possible reasons for these differences. First, in a triangular employment relationship such as agency work, the relationship between employee and actual employer is weaker than under typical labor contracts. If they fear they might lose their permanent job or make slower progress in their careers, direct employees are ready to accept regular overtime without compensation (see Gicheva, 2013). In contrast, under the umbrella of agency work,

the agency acts as a neutral third party that is responsible for recording time worked and ensuring that employees are compensated appropriately. Second, the neutral position of the agency is even further enforced by tempcontrol – the bipartite control unit of the CBA Staff Leasing – which checks in particular agencies' adherence to rules about salary and hours worked.

However, with respect to overtime, this does not seem to be the whole story. While 32% of agency workers report that they never work long hours, only about 18% of their directly employed peers report the same. These findings send a clear message: agency workers are much better off in terms of overtime worked than employees who are in a direct relationship with their employer.

The hazards of regular overtime are exhaustion, getting sick, and becoming socially isolated (Dahlgren, et al., 2006, Ke, 2012, Lupu & Empson, 2015). To guard against these hazards, it is best to directly compensate overtime with time off instead of money (Beckers et al., 2008). Unfortunately, agency workers lag behind their directly employed peers on this issue. 70% of agency workers are paid in cash for their overtime. In comparison, this is only the case for 19% of directly employed workers. Instead, they are allowed to work variable hours (36%) or they are granted additional holidays (32%) – opportunities from which only 12% and 11% of agency workers benefit. This finding is less surprising than it seems at first glance. Unfortunately, the CBA staff leasing

Figure 2: Frequency of overtime as reported by employees



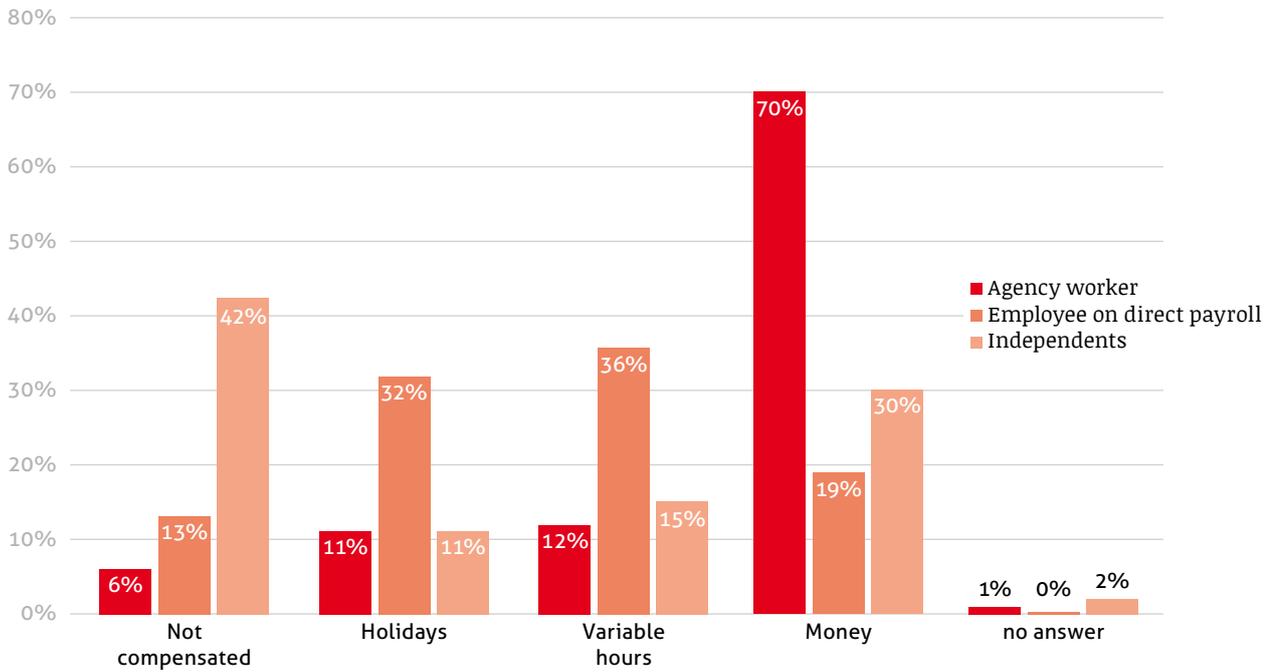
Note: The figures indicate the frequency of overtime worked by agency workers, employees on direct payroll, and people self-employed based on weighted data of the Swiss Labor Force Survey (SLFS). SLFS, 2017 – 2019.

Observations: 836 (agency workers), 95,370 (employees on direct payroll), 14,479 (self-employed), 110,685 (entire population).

is relatively inflexible with regard to working hours and compensation of overtime. Provisions about working hours from other industry CBAs that staffing service providers assume completely (CBA staff leasing, Art. 3, Para. 1, 2018, 2020; CBA staff leasing

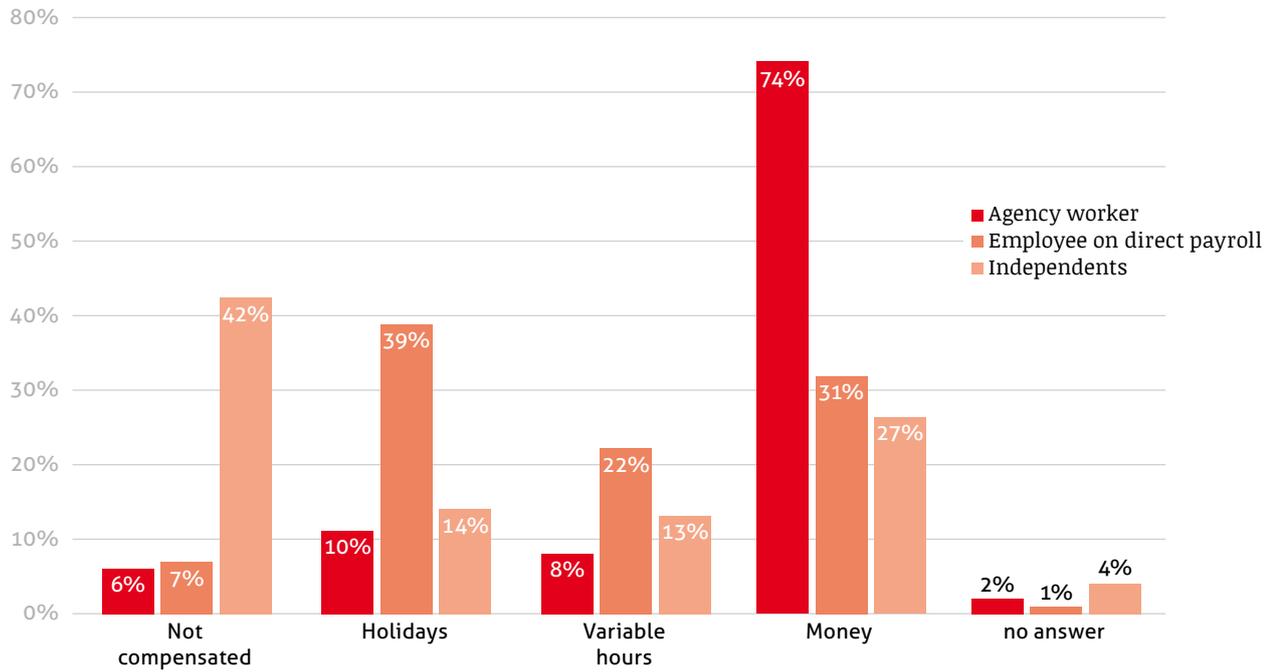
Appendix 1, 2018, 2020) frequently even offer greater flexibility. This is a disadvantage from which temporary employees still suffer and that the social partners should agree to overcome in the future in order to achieve significant progress.

Figure 3: Compensation of overtime as reported by employees



Note: The figure shows how agency workers, employees on direct payroll, and people who are self-employed get compensated for their overtime based on weighted data of the Swiss Labor Force Survey (SLFS). SLFS, 2017 – 2019. Observations: 595 (agency workers), 85,308 (employees on direct payroll), 12,617 (independents).

Figure 4: Compensation of overtime among unskilled workers as reported by employees



Note: The figure shows how unskilled agency workers, employees on direct payroll, and people who are self-employed get compensated for their overtime based on weighted data of the Swiss Labor Force Survey (SLFS). SLFS, 2017 – 2019. Observations: 112 (agency workers), 6,384 (employees on direct payroll), 707 (self-employed).

Flexibility – important today, indispensable tomorrow

The Covid-19 pandemic triggered a global economic crisis unlike any in recent history. The situation on the labor market changed overnight, from a market that favors employees to one that favors employers. People who are unemployed but ready to work flexibly may take advantage of this development to reduce the amount of time they are unemployed and seize employment opportunities as they arise. In this situation, staffing agencies are a natural partner for unemployed job seekers: they make use of their large company network to locate the next job opportunity while the agency worker is working or receiving training thanks to support from the bipartite temp training funds.

However, the impact of the Covid-19 pandemic will last much longer than just until the next upswing. Persistent trends such as digitization, the reorganization of labor markets, and automation were greatly amplified by the crisis: consumers got used to purchasing products that they previously bought from local retailers online. Companies suffering during the crisis have had to rethink their business models or fall behind. Employees became aware of new forms of work life due to reduced working hours and work done from home offices. All these developments are drivers of a quickly-changing economy. Flexibility and the steady improvement of employability are indispensable for workers and job seekers if they are to confront these challenges.

Agency work could be extremely important for ensuring a smoother transition.

As labor market experts, agencies help workers not only switch jobs, but also professions and industries – a challenge that more and more workers will face in the near future. Restrictions on agency work such as the ones proposed by opponents of agency work would hamper staffing agencies' important function as labor market enablers.

This makes the message of this white paper even more important. If the Swiss Labor Force Survey is evaluated properly, there is no evidence to substantiate widespread fears about agency work such as lower wages, exhausting overtime, and periods of repeated unemployment. On the contrary, the data show that equal working conditions are already guaranteed in Switzerland.

Fostering agency work therefore becomes an important tool in the hands of policymakers, one that they can use to rapidly overcome the current crisis by helping job seekers take the next step in their career, reducing the workload of regional employment offices, and enabling companies to find the employees they need.

Flexibility is not a hazard, but rather an opportunity.



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