

Precarious Employment: Pay-rolling Agencies - Outsourcing of Employers' responsibilities to the Employment Agencies

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Abstract The proliferation of agency employment in Pakistan is a serious labour problem and a public policy concern because of the potentially negative implications for agency workers' basic statutory rights and ensuing social inequities. It is suggested that agency employment takes two distinct forms in Pakistan. The first may be termed pay-rolling agencies – this is potentially an attempt by employers to bypass statutory obligations concerning workers' statutory benefit entitlements and trade union rights, simply by paying workers through an agency. The second form constitutes agencies which are genuine in nature and perform a traditional agency role. This paper discusses issues surrounding blurring organisational boundaries in relation to the use of agency employment. Moreover, it pulls together pertinent theoretic arguments in explaining the difference between motives behind the adoption of pay-rolling and traditional agency systems.

Key words agency employment, pay-rolling agencies, statutory employment rights

1 Introduction

Attention has recently been directed to the pattern of employment relationship with the provision of labour to a client organisation by employment agencies. Firms are increasingly looking beyond 'standard employment contracts' for flexibility and economic gains and agencies offer substantial offsetting economies in order to gain contracts (Matiaske & Nienhuser 2006; Purcell et al. 2004; Storrie 2002). Whilst firms guarantee themselves greater flexibility and often rewarding financial gains, agency work, on the other hand, effects on people with this employment status (Dale and Bamford 1988; Pfeffer and Baron 1988).

Agency employment is a 'three-way' or 'triangular' relationship involving a worker, a company acting as a temporary work agency and a user company, whereby the agency employs the worker and places him or her at the disposition of the user company. The hiring of workers through agencies has become a central focus of employment policy in the last few years (ILO 1997; Storrie 2002). Agency employment has changed the contours of employment relations in many parts of the world and raised concerns about employment protection, statutory benefits and collective bargaining rights of agency workers (Arrowsmith 2006; Cowell & Singh 2002; Matiaske & Nienhuser 2006; Sayeed et al 1997). The role played by employment agencies is both complex and dynamic, and involves complexities of the triangular relationship (Davidov 2004; Marchington et al. 2005; Purcell et al. 2004). This three-party employment relationship often generates ambiguity regarding the employment relationship and raises questions as to who is the 'employee', and ambiguity as to the employment rights associated with this status. An equally important question is who bears the responsibility of an 'employer' in terms of providing employment rights and responsibilities (Collins 2001; Davidov 2004). These questions arise in part due to the blurring of organisational boundaries and the lack of clarity surrounding the position of these workers in labour laws (Earnshaw et al. 2002; Marchington et al. 2005). The blurring of organisational boundaries between agencies and client organisations potentially undermines employment conditions and raises concerns about the employment rights of agency workers (Burgess et al. 2004; Davidov 2004; Earnshaw et al. 2002; Marchington et al. 2005).

Traditionally, and predominantly in the West, agencies supply workers who perform short-term temporary work for a client, then move on to do the same for another client. The only longer-term relationship these workers have is with the agency (Davidov 2004). However, in some instances, opportunistic employers tend to relinquish employers' responsibilities to agencies to avoid the costs relating to statutory employment rights, (Storrie 2002). This amounts to nothing less than the complete 'outsourcing' of employers' responsibilities by client organisations to employment agencies (Arrowsmith; 2006; Francois 1999; Storrie 2002). For instance, there are situations in which the only service provided by the agency is the payroll function (Magnum et al. 1985). In this case, the workers are engaged with the client organisation for a long-term, often indefinite, period of time and perform

their work just like any other employee of the organisation. The only difference from other permanent employees is that these workers receive their payment from the agency. The agency is not involved in hiring decisions, wage-setting or dismissals, and certainly not in the allocation of tasks and work supervision. The agency receives a payment from the client organisation every month, retains their commission, and then pays the workers. Hence by using an agency for 'pay-roll' purposes, the client organisation avoids statutory minimum benefits without facing legal implications. In addition to relinquishing employers' responsibilities in terms of statutory employment benefits to the agency, employers effectively exclude these workers from bargaining units within their workforce, often generating a non-unionised workforce within a unionised workplace (Gray 2002; Heery 2004).

It is also important to note that the use of workers on temporary agency contracts by employers is widespread, and evidence suggests that such employment is growing in many regions of the world (Erickson et al. 2003; Forde 2001; Gunnigle & Turner 1998; Koene et al. 2004; Sayeed et al. 1997; Storrie 2002). However the explanations and nature of agency employment are not universal. The explanations of agency employment are mainly discussed in the Western academic literature (see for example Earnshaw et al. 2002; Marchington et al. 2005; Purcell et al. 2004), where agencies mostly operate in their traditional role by supplying workers who perform short-term temporary work for a client, and then move on to do the same for another client. However, in the present dynamic business environment, and in the absence of comprehensive research on agency employment, the universal applicability of these arguments/models, explaining employment relationship, may be questionable (Budhwar & Deborah 2001). It is therefore not clear as to what extent theories/models explaining reasons of agency employment in the West can guide us to understand the motives and nature of agency employment in contexts outside Western world. As existing studies have focussed on the traditional form of agency employment, and have sought to explore the reasons of this form of agency employment (Forde 2001; Druker & Stanworth 2004; Storrie 2002; Uzzi & Barnes 1998; Ward et al. 2001), it is difficult to identify robust findings that generalize across contexts where agency employment may take different forms, potentially for different reasons resulting in different implications for the agency workers. Given the fact that different economic, competitive and regulatory contexts have considerable influence on the way firms make use of agency employment (Erickson et al. 2003; Matiaske & Nienhuser 2006), it is important to examine the reasons why firms adopt different practices in regard to agency employment in different national legal contexts. One such context is Pakistan. The next section highlights issues surrounding agency employment in Pakistan.

2 Agency Employment In Pakistan

Pakistan is a developing country with the world's sixth-largest population and an economic growth rate that has been consistently positive since a 1951 recession. Driven by an agenda sponsored by the International Monetary Fund (IMF), World Bank and neo-liberal economic policies, the Pakistani economy has rapidly integrated into the global economy (Samad & Ali 2000). This has resulted in the privatization of key state industries and the opening up of export processing zones to attract foreign capital (Dror 1984). The formation of the Special Industrial Zones and Export Processing Zones waived the application of labour laws in enterprises operating in these zones to attract investors. This has changed labour relations, and has potentially contributed towards a culture of subcontracting labour through third-party supplier establishments (agency employment) (Sayeed et al. 1997).

The last two decades have witnessed a rapid increase in agency employment in Pakistan (Sayeed et al. 1997; Sayeed & Ali 1997; Zaman 2004; Zar 1992). It is however difficult to provide factual data regarding extent or growth of agency employment in Pakistan, largely due to the sketchy state of labour-related data in the country. However, some evidence indicates that agency employment in Pakistan increases the chances of worker exploitation (Khan & Kazmi 2003; Samad & Ali 2000; Zaman 2004). This affects workers employed through contracting establishments (agencies) which are commonly known as 'contractors' in Pakistan (Klennert 1992; Sayeed & Ali 2000) (the term 'agency' will henceforth be used to denote a contractor, contracting establishment or supplier organisation). In some cases, employers are potentially motivated to use agency employment to capitalise on loopholes in legislation concerning the statutory rights of agency workers, and to erode union bargaining power (Qadir 2006). These workers are normally given a vastly different, often negligible, package of rights and benefits from their permanent counterparts. They are especially vulnerable to instant dismissal and are generally excluded from collective bargaining arrangements (Shafi 2005). Trade unions in particular, view the growth in agency employment as a cause for concern and a serious deterrent to unionization

(Dawn 2002; IUF 2004). This has raised concerns about the implementation of labour rights in Pakistan (Khan & Kazmi 2003; Klennert 1992). In regard to the nature of agency employment, preliminary evidence suggests that agency employment in Pakistan is not a unitary concept and exists in two main forms - pay-rolling and traditional agencies (Sayeed et al. 1997). The next section describes these two forms in more detail.

Pay-rolling and Traditional Agencies

Cursory evidence suggests that agency employment in Pakistan takes two distinct forms in Pakistan (Case 2000 PLC 89 –Sindh Labour Appellate Tribunal; Sayeed et al. 1997; Sayeed & Ali 2000). The first may be termed pay-rolling agencies. These agencies are often ghost entities, having been created or arranged in order to lessen the number of employees on an establishment's payroll, so that employers' obligations in regard to statutory benefits are confined to fewer workers; as such, many such agencies exist on paper only (Sayeed et al. 1997). Those that exist are employer-arranged small enterprises, often run by one person with the aim of performing only a payroll function (the term 'pay-rolling agency' will henceforth be used to denote these forms of agencies). These are mostly formed on a temporary makeshift basis and are very difficult for the labour ministry to trace and regulate. Workers hired through these agencies receive wages from the agencies, and thus these agencies are often used as an intermediary only for payroll purposes. This then exempts client organisations from any legal obligation to offer statutorily required benefits to these workers, since Pakistani law considers the employing establishment and the agency as two independent entities (IRO 2002). Whether these agencies are ghost (just existing on paper), or are deceitfully created as 'employer-arranged' small enterprises, the objective is to show that employer-employee relationship between client organisation and the 'agency workers' is not established. This can be achieved with the help of a 'confident employee' of the client organisation whose job is to act as an 'agency' by facilitating wage distribution among workers from a different payroll book. In addition, this objective of illustrating indirectness of employment can also be achieved by outsourcing the pay-roll function through independent, but 'fraudulent' companies. These companies earn their living by facilitating pay-roll function for their clients against a set premium. The underlined goal in all these forms is to show indirectness of employment, by subtly illustrating that a group of workers called agency workers get their wages from these agencies, instead of directly getting paid from the employers. The pay-rolling agency system is therefore an attempt by employers to avoid their responsibilities by formally naming a shadow (exist on paper only) or fake entity (agency) the 'employer'. The second form constitutes agencies which are genuine in nature and perform a traditional agency role, where agencies supply workers who perform short-term temporary work for a client and receive their statutory benefits from the agencies (the term 'traditional agency' will henceforth be used to denote this form of agencies). In this case, the nature of work provided by the agency is mainly genuinely temporary, and the relationship of the worker with the agency is more than just a legal fiction. However, even in this traditional form, agency employment can be used as an effective union deterrent. This is because by using agency workers employers can carve out a union-free section of workforce from among the entire workforce – avoiding payment of all the gains normally achieved by the union.

Hence, on the basis of the cursory evidence discussed earlier, it appears that pay-rolling agency workers in Pakistan are likely to be a marginalised segment of the workforce and may be characterised by low benefits, poor terms and conditions, and less job security. They might be deprived of the statutorily enforceable minimum fringe benefits given to them by law, in addition to experiencing obstacles to voicing collective concerns within the workplace. Given the low wage levels, uncontrolled inflation and lack of any sort of state-provided unemployment cover, legal backings such as minimum essential benefits become all the more crucial for the welfare of impoverished and already vulnerable agency workers in Pakistan. As discussed earlier, employment agencies have become significant actors in industrial relations, and often play a complex intermediary function within the labour markets (Heery 2004; Purcell et al. 2004; Rubery et al. 2003). As such, they intermediate between the purchasers and providers of the labour and may also be used to blur regulatory responsibility and to de-unionise workplaces (Burgess et al. 2004). The next sections discuss issues surrounding blurring organisational boundaries associated with this multi-employer arrangement of agency employment and its varied implications on agency workers.

3 Agency Employment: Blurring Organisational Boundaries

Agency employment is to a large extent triggered by the flexibility of supportive provisions in labour legislation. Concerning the interaction of legal regulation and the nature of the employment

relationship, Dickens (2004) argues that improving the conditions of agency workers on temporary contracts through legal intervention improves employment rights, and makes it more likely that workers will accept such contracts constructed to meet business needs. In the Netherlands, recent changes in law have resulted in agency workers receiving comparable employment rights, such as social security and dismissal protection (Kok 2004). Kok (2004) has associated this change in law with a decline in the level of involuntary agency employment. However, in situations where statutory and case law provide better protection for non-agency atypical jobs, such as part-time and temporary work, agency work evolves as an evasion (Heery 2004). Consistent with this law evasion view is the notion that employers in some countries hire workers on temporary agency contracts to avoid the legal protection associated with terminating permanent open-ended employment contracts (Allan 2002). The next section discusses issues surrounding legal protection against unfair dismissal and its relationship to employers' use of agency contract employment

4 Unfair Dismissal Protection

The right not to be unfairly dismissed is normally associated with permanent full-time employment. Termination of permanent open-ended employment is generally associated with costly (Gunderson 2001) and lengthy (Allan 2002) procedures, which often involve legal implications (ILO 1982). Law suits increase the cost to companies of firing workers. A worker hired through an agency may be terminated with minimal risk of legal action. Thus opportunistic employers may be encouraged to adopt more carefully planned employment relationships, such as the use of non-permanent employment contracts, in order to avoid the period of notice and legal costs incurred when legal dismissal protection is offered to workers they wish to dismiss. As mentioned, issue surrounding termination related costs points to the difference between permanent open-ended contracts and the agency employment. The difference primarily lies in the costs of terminating the contract. The costs of terminating an open-ended contract are threefold: the period of notice and the legal costs incurred by the work organisation in cases of dismissal when legal dismissal protection is in force, and costs in terms of negative reputation effects (Koene et al 2004). Hence, where regulation provides strict protection for standard workers, employers' desire for certain forms of flexibility may encourage the growth of employment outside the regulated area.

Consistent with these lines of arguments are the suggestions that employers in Pakistan find it attractive to avoid provisions regarding unfair dismissal by hiring workers through employment agencies (Sayeed et al. 1997). Protection against unjustified termination of permanent employment is an important issue in Pakistan (Standing Order Ordinance 1968, Section; 12). A worker aggrieved by termination, discharge or dismissal has the right to a committee hearing for the redress of his/her grievance. Although exact numbers are not known, Khilji (2004) reported that many organisations were taken to court by dismissed employees. Not only did this tarnish the employers' image in the market, but also the majority of court decisions favoured employees. Workers on temporary contracts, especially those sub-contracted through agencies, are vulnerable to immediate dismissal without any notice or reason. This is exacerbated by the fact that often these workers are not covered by collective agreements.

Whether the impact of employment regulation results in a growth or decline of agency employment, it is in few instances bad news for workers. There are situations when agencies have been reported to offer exploitative conditions to jobseekers who have few alternatives (Gray 2002). The exploitative nature of agency work can take different forms. One significant example of this within the UK context are the labour practices of 'gang-masters' – labour 'sub-contractors' who employ gangs of workers (especially immigrant workers) in the agricultural sector (Gray 2002). In spite of extensive legislation to protect workers' employment rights, this gang-master system ensures such legislation lacks effective enforcement (Harker 2004). Fevre (1986) in a study of laid off steel workers in Wales, UK, also demonstrates the way in which the collapse of the steel industry undermined the bargaining position of the workers to an extent whereby employers could return to a form of casualisation which often enabled them to employ workers on their terms and conditions and thereby make considerable savings on employment costs.

The discussion in the preceding section has suggested that the outsourcing of employers' responsibilities to agencies may have grave implications for the temporary workers involved (Davidov 2004; Forde 2001; Nollen 1996). Further to avoiding employment protection provisions, the cost of employee benefits may have a considerable impact on deciding whether to employ agency or permanent

employees (Dennard & Northrup 1993). The next section discusses issues surrounding avoidance of benefit costs.

5 Benefit Costs

Researchers have associated the use of workers on temporary contracts with the employers' practice of offering certain groups of workers lower benefits, thus enabling organisations to reduce variable costs relative to competitors (Davis-Blake & Uzzi 1993; Nollen 1996; Mangum et al. 1985). This can be achieved by avoiding obligations to offer statutory benefits to workers on temporary contracts (Houseman 2001; Lucas & Head 2004; Matiaske & Nienhuser 2006). In most European countries, agency workers face marginalization in terms of employee benefits, even where the law demands parity with the client organisations' permanent workers (Matiaske & Nienhuser 2006; Storrie 2002). Even in situations where the principle of non-discrimination is in effect, agency workers often receive fewer fringe benefits than those available to their 'permanent' counterparts on open-ended contracts (Matiaske & Nienhuser 2006; Purcell et al. 2004; TUC 2001).

Employment legislation can influence employers' practices of choosing to offer certain levels of benefits to workers on different employment contracts. As stated earlier, agency work, in its traditional form, involves a triangular arrangement in which a temporary work agency hires a worker for the purpose of placing him or her at the disposal of a third party, the client organisation, for a temporary assignment. However, in some cases, agencies are assuming 'burdens' of being an employer by accepting the title of a legal 'employer', even with regard to those employees who work for the same firm for long or indefinite periods of time as opposed to working on truly temporary assignments (Davidov 2004; Sayeed et al. 1997). Arguably this may be significant in countries without legal restrictions on the length of work assignments through employment agencies, such as Pakistan. Heightened cost pressures often force firms to look continuously for new ways to cut costs. In addition to relinquishing employers' responsibilities in terms of statutory employment benefits to the agencies, employers can effectively exclude these workers from the bargaining unit of their workforce. In this way employers are able to maintain a non-unionised workforce within an often unionised workplace. The next section discusses issues surrounding agency workers' rights of collective bargaining and representation.

6 Collective Bargaining

Employers are generally hostile to the prospect of unionisation (Dundon 2002; Gall & McKay 2001; Haynes & Fryer 1999). Researchers have often associated the use of workers on temporary contracts with the employer motive to weaken union power and influence (Benson & Ieronimo 1996; Cowell & Singh 2002; Dale & Bamford 1988; Olsen 2005; Pfeffer & Baron 1988; Uzzi & Barness 1998). Collective bargaining for agency employment remains a rather undeveloped and problematic matter (Storrie 2002). The growth of agency employment arguably reduces trade union recognition because unions often find it difficult to organise temporary workers not covered by collective bargaining. The likely continual change of workplace and the dual employment relationship may make the provision of collective representation and bargaining rights ineffective and difficult in practice. Generally, agency workers show fewer propensities to join trade unions than their standard (permanent) counterparts (Croucher & Brewster 1998). Central reasons for this include the overall decline of union bargaining power, the competing interests of the permanent workers and the preference by most agencies for less union representation (Heery 2004). Thus predominantly the activities of agencies and the conditions of agency workers remain beyond the influence of unions (Heery 2004; Matiaske & Nienhuser 2006). When firms hire a sizeable workforce through agencies, it often reduces workplace cohesion, which is usually an important precondition for union membership. Thus management attitudes inhibit the influence and growth of trade unionism. Conventional wisdom therefore suggests that unions are likely to oppose the use of agency employment. Interestingly however, unions are not always against the increased use of agency employment by their establishments (Heery 2004; Hunter et al. 1993; Olson 2005). An alternative explanation for why highly-unionised establishments use agency employment may be offered: if workers on temporary contracts serve to heighten job security for permanent workers then this might lead to a positive relationship between unionisation and temporary agency employment (Davis-Blake and Uzzi 1993; Gjelsvik's 1998; Heery 2004; Heery et al. 2002; Olson 2005).

Although, the preceding discussion has highlighted important and context sensitive institutional issues in regard to agency employment, however, explanations for the nature of agency work, and

differences between countries, cannot be reduced to differences in employment protection and union-related issues. Legal regulation is just one of a number of influences; as suggested earlier, firms hire workers on temporary contracts for a wide variety of reasons. The next section discusses an array of conventional managerial reasons behind the use of agency employment, mirrored by pertinent theoretical arguments/models.

7 Agency Employment–Theoretical Arguments

Researchers have generally proposed dichotomous employment structure with distinctions between internal or core and external or peripheral groups of workers (Atkinson 1984; Cappelli & Neumark 2004; Davis Blake & Uzzi 1993; Kalleberg 2001; Lepak & Snell 1999). Notably, the flexible firm model (Atkinson 1984), suggested a core-peripheral staffing strategy and triggered debate in the scholarly and business literature (Atkinson 1984; Hakim 1990; Hunter et al 1993; Pollert 1988, 1991). The next section discusses segmentations associated with core-periphery dimensions discussed in the flexible firm model.

Flexible Firm Model

The flexible firm model suggested that organisations retain and develop an inner layer of core employees who possess high-level firm specific skills (Casey et al. 1997; Hakim 1990; Hunter et al. 1993). Further to this goal of adjusting employment to demand, a reliance on temporary agency employment can also provide employment stability to regular core employees in the form of layoff avoidance - mirroring the core-periphery segmentation associated with the flexible firm model (Atkinson 1984; Bishop et al 2002). Further to the core-periphery conceptions, explained in the flexible firm model (Atkinson 1984), suggesting strategic use of agency employment on core-periphery lines, another important conception is the Transaction Cost Economics (TCE), which discusses economic perspective on organisations. Though TCE discusses a vast range of issues covered in a huge body of literature, the next section briefly discusses TCE in explaining the use of agency employment.

Transaction costs economics

A vital perspective, which potentially explains the use of agency employment, particularly from budgetary guidelines, is transaction cost economics (Williamson 1980). In the case of labour-related transactions, the transaction costs economic perspective posits that the transaction costs increases with the complexity and the division of labour. Transaction cost economics theory implicitly advocates reliance on permanent workers where the transaction costs of using agency labour is higher. Especially, firms, which are based in stable industries where competitive pressures are mild, may find it wise to avoid agency employment, particularly in their core functions (Matusik & Hill 1998). In other words, competition pushes organisations to act more in line with transaction cost requirements. Although firms make employment decisions based on traditional transactional or financial criteria as suggested by the transaction cost economics perspective, researchers have also argued that firms should base employment sourcing decisions on the extent to which skills contribute to the core competencies of the firm (Lepak & Snell 1999). The next section discusses resource based view of the firm as a potential explanation of agency employment.

Resource Based View

The resource based view encourages a shift in emphasis toward the inherent characteristics of employee skills and their contribution to value addition. An emerging view within the HRM literature is that the ability to manage multiple employment modes simultaneously (soft HRM practices for permanent 'core' staff and hard HRM practices for non-standard 'peripheral' workers) can become a 'competitive edge' for organisations (Gallie and White 1994; Leepak & Snell 1999). Lepak & Snell (1999) also argued that firms are more likely to employ people internally when their skills are firm specific. Nonetheless, this approach of pursuing simultaneously soft and hard HRM practices with different employee groups, described in the resource based view of the firm, is not without potential inequities between different status groups within the workforce (Walsh & Knox 2005).

Another potential explanation, especially in regard to the pay-rolling agency system, may also be derived from the political economy literature suggesting firms as island of conscious powers acting rationally to maximise their own advantage by exploiting the inherently unequal bargaining powers between labour market actors – such as workers and employers (Fox 1974; Streeck 1997; Weber 1978). The employers' interest lay in maximising the profit derived from labour and minimising the cost of its hire – employers' superior position serve him in both endeavours (Fox 1974). Given the normally more pressing economic needs of the workers, the uneven balance of power between employers and

workers can result in social injustice (Fox 1974). Especially, in regard to agency employment, this can be exacerbated by the fact that agency employment largely remains outside of the regulatory framework governing employment in many parts of the world (Burgess et al. 2004; Davidov 2004; Sayeed et al. 1997; Storrie 2002). In Pakistan, given labour market poverty, existence of regulatory gaps and the asymmetric distribution of power and wealth between employers (in most cases industrialists representing minority elite) and workers (mostly representing impoverished and unprivileged majority), agency work perhaps evolve as an evasion.

8 Discussion And Conclusion

The above discussion suggests that employers have the choice to use employment agencies as a strategic alternative to direct employment to escape statutory obligations (Arrowsmith 2006; Francois 1999; Gray 2002; Purcell et al. 2004). Moreover, it is established that the statutory rights offered to agency workers are usually less than those available to regular employees on open-ended contracts (Matiaske & Nienhuser 2006).

To summarise, this paper suggests that the changing contours of employment require adaptation in the modes of regulation, which currently no longer fit with reality. The challenge for those who shape the law is to bring public policy in line with workplace reality. For example, the law must be unambiguous as to who is considered the 'employer' of workers hired through agencies with regard to statutory benefits. If agencies are legally considered the 'employer', then they may be asked to provide the workers with statutory employment rights, such as statutory benefit entitlements and statutory right to collective representation. Hence the use of agencies may be regulated to minimize the incentive for abuse of agency workers. This can be achieved by putting measures in place to ensure that agencies are used only in their traditional role and not to evade employers' responsibilities. Consequently, the pay-rolling agency system – an attempt by employers to bypass statutory obligations, simply by paying workers through an agency, may potentially be curtailed. Moreover, a viable legal right for agency workers to collective representation and to belong to a trade union is needed, regardless of the legal status of the employment.

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