What Do We Know About Contracting Out in the United States?

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The Contracting Out Phenomenon

- **Companies decide what tasks to perform "in-house" – i.e. with company employees – and what to "contract out" or "outsource" – i.e. with workers who are not employees. Over time, companies may change tasks perform in-house v. contract out.**
  - Commonly outsourced functions: legal, accounting, janitorial services, cafeteria services, shipping and handling, IT services
  - Companies may also "in-source" – e.g. as company grows in size, it may choose to bring in-house some legal or accounting functions.
- **Why companies outsource:**
  - Tap expertise of contract companies, thereby improve productivity and lower costs – allows companies to focus on "core competencies"
  - Save on hiring/firing costs (esp. in staffing agencies use)
  - Tap into lower cost structure (wages and benefits) of contract companies. Sometimes associated with union avoidance.
- **Typically (but not always) contract company workers supervised by managers in contract company.**

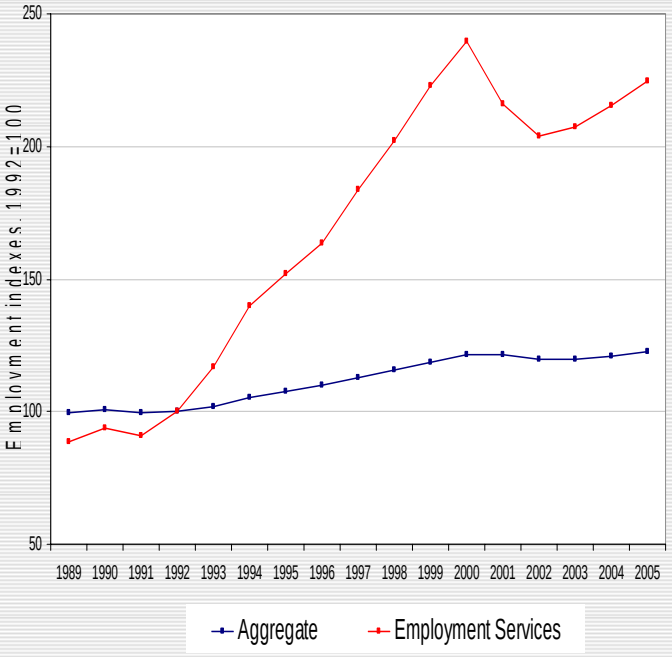
The Special Case of Employment Services

- **Employment Services comprised of 3 industries**
  - Temporary help agencies (71% of ES employment in 2005)
  - Professional Employer Organizations (PEOs) (21%)
  - Employment Agencies (8%)
- **Temp agency and PEO employees assigned to "clients" where they perform work, usually under supervision of client company's management. (Administrative staff only ≈ 3% of employment in temp help, 1% in PEOs)**
- **Temporary help agency**
  - Assignment to client company "temporary" but not necessarily short-term – a day, a month, a year
- **PEOs**
  - "Lease" employees back to firm
  - PEOs handle payroll, benefits, govt. compliance issues – i.e. HR functions
- **Temp help and PEO workers often employed in client company's "core" functions**

Evidence of Growth in Domestic Outsourcing

- **Indicators point to large increase in domestic outsourcing recent years.**
  - Employment services sector ↑ from 1.3% to 3.0% payroll employment 1989-2000; 10.6% of total net emp growth
  - Other business services ↑ from 8.4 to 9.8% of employment 89-00; 16.1% of net emp growth
  - Total business services: 26.7% of net emp growth 1989-2000.

Employment Trends, Aggregate and Employment Services, 1989-2005
(Index 1992=100)



Why is Documenting Domestic Outsourcing Important?

- **Measurement issues:**
  - Domestic outsourcing impacts distribution of employment across industries. Large trends in contracting out may affect our perceptions of industry employment trends.
  - Domestic outsourcing impacts labor productivity measures at sector level and affects how simple labor productivity measures should be interpreted
- **Policy issues:**
  - Domestic outsourcing signals a change in the nature of employment relationship.
  - Domestic outsourcing trends may have policy implications in many areas such as workers' compensation, unemployment insurance, occupational safety and health, benefits regulation.

Trends in Occupational Distribution of ES Employment

- **Focus on ES because of dramatic shift in occupational structure of employment in this sector –**
  - 3 of 18 occupation categories account for 60-65% of all ES workers throughout the period—relative importance changed
  - Dramatic growth production and other manual occupations in ES, accounting for almost all of aggregate employment growth in these occupations in 1990s.
  - First noted Segal and Sullivan (1997)

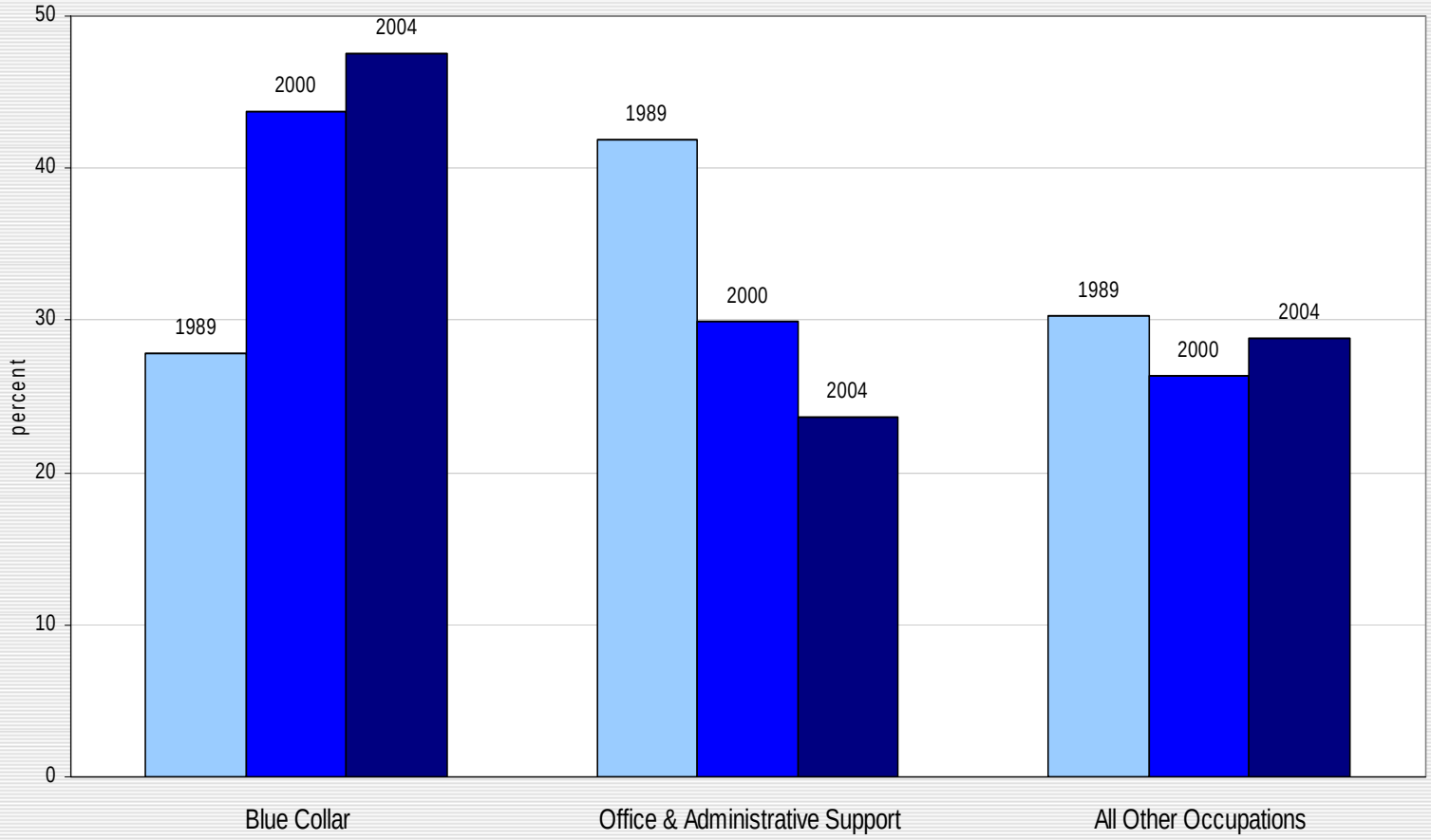
Trends in Occupational Distribution of Employment within ES, Selected Occupations

	Occupation's share of ES employment[a]			Occupation's share of ES growth[b]		
	1989	2000	2004	1989–2000	1989–2004	2000–2004
Office and administrative support	41.8 (n.a.)	29.9 (0.9)	23.7 (0.8)	22.8	11.1	93.7
Production	6.3 (n.a.)	17.2 (1.4)	14.8 (0.9)	23.6	20.7	41.3
Helpers, laborers, material movers (hand)	16.0 (n.a.)	18.0 (0.8)	21.9 (1.3)	19.1	25.9	–22.1
Total growth rate				168.8	133.1	–8.9

[a]Reported figures are percentage of employment services employment in the indicated occupation. Standard errors of this percentage are in parentheses.

[b]Reported figures are the percentage of employment services growth over the period accounted for by growth in the indicated occupation.

Occupational Distribution of Employment in ES, Selected Years



Share of Total Employment in ES and Manufacturing, Selected Occupations and Years

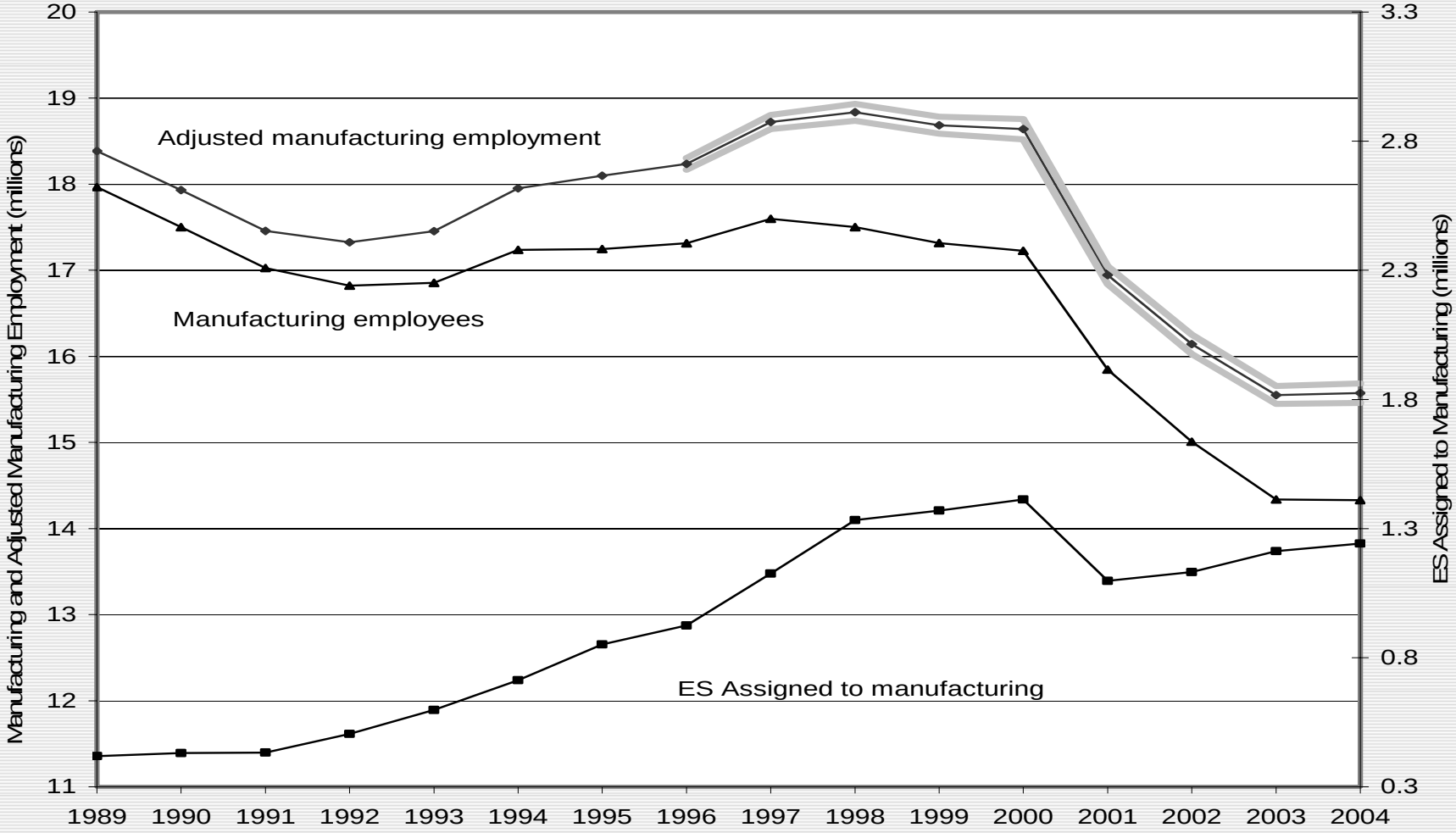
Occupation	Employment services				Manufacturing			
	share of occupation[a]				share of occupation[a]			
	1989	2000	2001	2004	1989	2000	2001	2004
Office and administrative support	2.8 (n.a.)	5.0 (0.2)	3.5 (0.2)	3.7 (0.1)	8.6 (n.a.)	6.9 (0.1)	6.2 (0.1)	6.1 (0.1)
Production	0.9 (n.a.)	5.9 (0.5)	4.1 (0.3)	5.9 (0.3)	76.6 (n.a.)	71.0 (0.8)	71.9 (1.0)	72.7 (0.7)
Helpers, laborers, material movers (hand)	6.3 (n.a.)	15.8 (0.7)	17.2 (1.1)	17.6 (1.0)	35.0 (n.a.)	26.2 (0.7)	25.0 (0.7)	24.5 (0.5)
Total	1.3	3.0	2.5	2.7	16.3	12.9	12.0	10.8

[a]Shares are written as a percentage. Standard errors are in parentheses.

Contribution of ES and Manufacturing to Total Employment Growth, Selected Occupations and Time Periods

	1989–2000			1989–2004		
		Share of change			Share of change	
Occupation	% change	ES	Mfg.	% change	ES	Mfg.
Office and administrative support	8.3	31.5	–14.6	6.6	16.7	–32.2
Production	6.9	79.4	–9.2	–15.4	–26.8	97.7
Helpers, laborers, material movers (hand)	20.5	62.1	–16.6	19.9	74.4	–28.4
Total	21.3	10.6	–3.2	21.2	9.1	–15.6

Figure 2: Trends in Manufacturing Employment and Employment Service Workers Assigned to Manufacturing



Notes: Shaded area represents 95% confidence interval for employment adjusted for ES workers assigned to manufacturing.

ES Workers Assigned to Manufacturing, by Occupation, Selected Years

	As a percentage of all ES workers assigned to manufacturing				
	1989	1996	2000	2001	2004
Office and administrative support	28.3	22.1	16.1	14.7	13.2
Production	19.0	37.6	41.0	31.2	36.7
Helpers, laborers, material movers (hand)	28.0	19.3	25.1	35.0	31.6

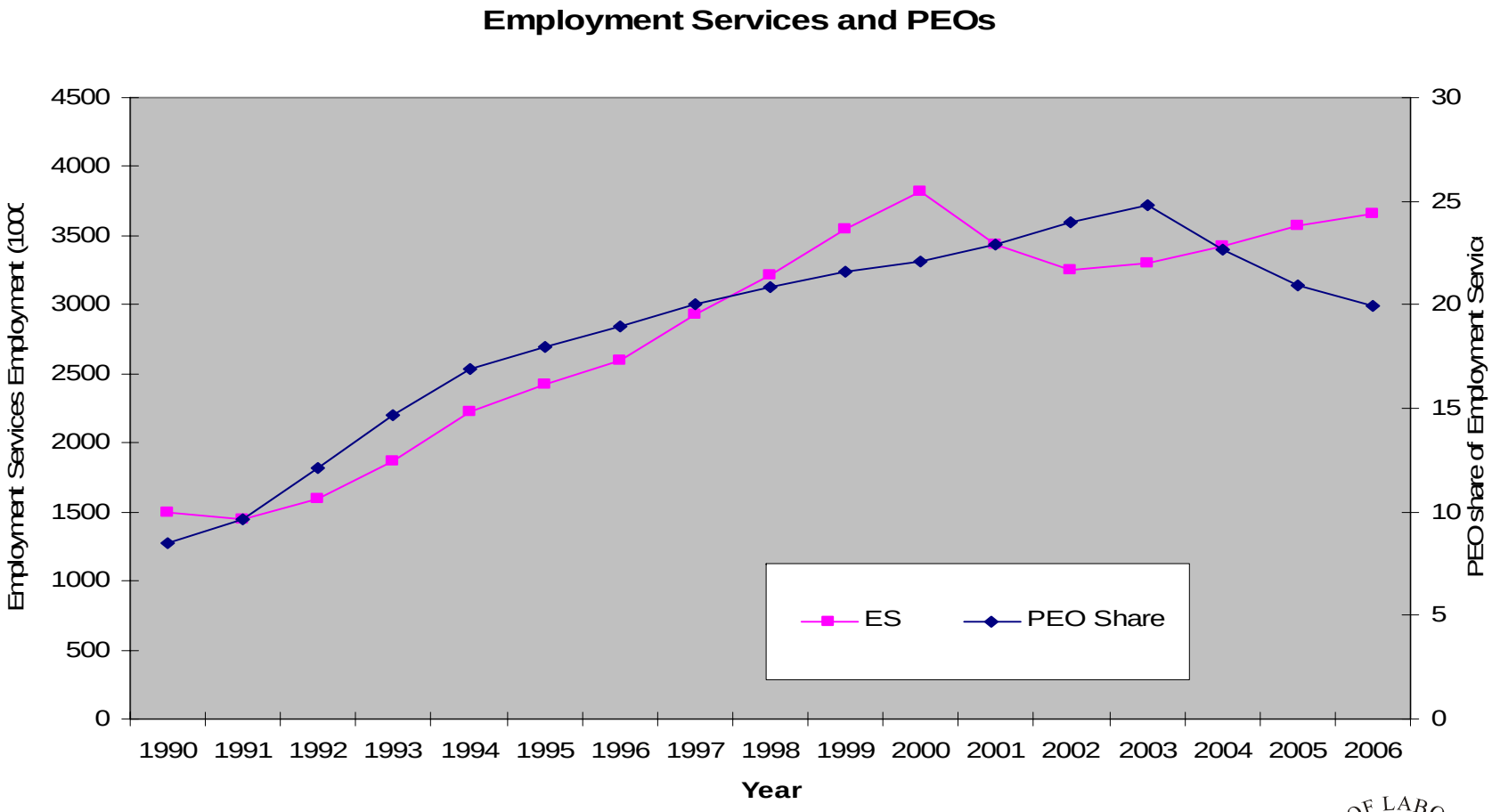
ES Workers Assigned to Manufacturing, by Occupation, Selected Years

	As a percentage of manufacturing employees within the occupation				
	1989	1996	2000	2001	2004
Office and administrative support	6.3	13.7	14.2	10.9	11.6
Production	1.0	4.2	7.2	4.9	7.0
Helpers, laborers, material movers (hand)	9.0	16.4	30.0	34.4	35.9
All	2.3	5.3	8.2	6.9	8.7

PEO Employment

- Our next focus is on the role of PEOs
- From Current Employment Statistics (CES) estimates we see:

CES Data


Employment Services and PEOs
Employment Services Employment (100
PEO share of Employment Servic
4500
4000
3500
3000
2500
2000
1500
1000
500
0
30
25
20
15
10
5
0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006
Year
ES
PEO Share

PEO Employment

1. As noted above, employment services has seen rapid growth from 1990 to 2005
2. The share of employment services employment in PEOs has also grown substantially over this time period

Our Current Research Plan

- Investigate apparent discrepancy between BLS and Economic Census estimates of PEO employment
- Identify what industries have been contributing to PEO growth over the past decade using wage records data
- Examine how workers are affected by the increased use of PEOs

BLS – Census Discrepancy

1992	**ES**	**PA**	**THS**	**PEO**
BLS	1,464	183	1,124	157
Economic Census	1,975	133	1,500	342
% Difference	35%	-27%	33%	118%
1997				
BLS	2,738	268	1,932	537
Economic Census	3,622	114	2,613	895
% Difference	32%	-57%	35%	67%
2002				
BLS	3,125	268	2,096	761
Economic Census	4,166	109	2,389	1,668
% Difference	33%	-59%	12%	119%

BLS – Census Discrepancy

- There are big differences in all the industries that comprise the employment services sector
- The largest differences are seen recently in PEO employment
- Our goal is to find out why this discrepancy occurs in PEOs
- Conjecture: The BLS attempts to assign PEO workers back to their client industries (through the MWR) and therefore the two estimates are measuring fundamentally different concepts

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The Use of Wage Records

- Description of wage records data
- Key measures
  - Number of workers from a company in period 1 who are working at a PEO in period 2
  - Proportion of workers from a company in period 1 who are working at a PEO in period 2
- An Example
  - In 2001:1, a manufacturer employs 100 workers
  - In 2001:2, 75 of these workers are employed at the same PEO

The Use of Wage Records

- First Use
  - Describe how PEOs have been growing
    - More workers at existing clients?
    - More clients?
    - Summarize the industry distribution of new PEO clients
- Second Use
  - Follow workers involved in PEO-client contracts
    - Who are they?
    - Do their wages grow at the similar rates to their peers?
    - Are their employment patterns similar to their peers?