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Employment via Employment Agencies in Israel

Supporting paper submitted by the Central Bureau of Statistics of Israel¹

I. Background

1. In recent years, the labour market in Israel, as in many other Western countries, has become increasingly flexible. In this process, new forms of employment have developed alongside traditional employment.

2. Traditional employment is characterized by formal relations between the employer and employee. Accordingly, work is done for one employer on the premises of the employer organization; workers are hired full-time (usually), according to a contract that is not time limited, they are entitled to social benefits linked with the workplace, and they are protected against unfair dismissal.

3. Traditional employment generates rigidity in the labour market, which limits the organization's ability to adjust its production volume and management system to fluctuations in the demand for goods and services. Moreover, such rigidity impedes the organization's ability to adjust to fluctuations in the long-term supply of work, and limits the employer's ability to adjust to growing national and international competition.

¹ Paper written by Merav Pasternack.

4. The increased flexibility of the labour market has been manifested in several ways, including: a growing proportion of temporary workers hired through employment agencies or on the basis of personal contracts and increased use of subcontractors.

5. Even those who highlight the advantages of this development in the labour market acknowledge the dangers inherent in increased flexibility, particularly in terms of the worker's occupational stability, benefits granted by the workplace, and social security.

6. For these reasons, it can be concluded that quality of employment for workers hired through employment agencies is usually lower than for workers employed under traditional arrangements.

II. Why did it Become Necessary to Investigate the Topic?

7. As mentioned, one of the new forms of employment is via employment agencies, which is the main topic dealt with here. Employment agencies supply manpower to third parties. Employment relations exist between the agency and the worker, and are formalized in an employment contract.

8. Employment agencies were first established in the United States and Britain after World War II, and by the end of the 1950s, the trend of employment through agencies spread to Western European countries. Concurrent with the proliferation of employment agencies to other countries, their activities expanded considerably in each of the respective countries. It should be noted, however, that despite the growth in the number of agencies and in the number of people they employ, the number of people hired by agencies is still relatively low compared with the total number of employed persons in the labour force.

9. The increase in the scope of employment through agencies has been accompanied by an expansion of the variety of services they provide and the range of employees they hire in different professionals. Besides "regular" employment agencies, there are agencies that specialize in specific domains of activity, such as: security, cleaning, nursing care, construction and manufacturing. In addition, there are agencies that deal not only with provision of workers but also train workers in fields that are in demand in the target society, e.g., teaching skills for implementation of specific projects.

10. In Israel, too, the trend toward employment of workers through agencies has been steadily increasing since the early 1990s. Evidence of this trend is found in the indices of wages and employment published by the Central Bureau of Statistics. According to this source, the average number of employee posts for "Labour recruitment and provision of personnel" (Group 740) increased from about 25,000 to about 110,000 (excluding specialized employment agencies) between 1990 and 2000.

11. One of the factors that contribute toward the dramatic increasing in "Labour recruitment and provision of personnel" was the entry of new immigrants into the Israeli labour force. When the major influx of immigrants arrived in Israel at the beginning of the 1990s, mainly from the (former) USSR, they entered the labour market through employment agencies, at least during the initial stages of their adjustment to the country. They begin as job seekers (unemployed) and later as employees. This is reflected in the rapid increase in the average number of employee posts in the industry from 1993 to 1995.

12. The expansion of the field of personnel recruitment through employment agencies in Israel and the rest of the world calls for attention to this special form of employment, based on an examination of the size and characteristics of the labour force hired by employment agencies.

III. Methods of Investigation

13. The scope and characteristics of the labour force hired by employment agencies are through the Labour Force Survey, which is the principal survey of households conducted by the Central Bureau of Statistics since 1954 and constitutes a source of information on individuals (or households).

14. In the framework of this survey, about 9,000 households or about 22,000 persons aged 15 and over are surveyed every quarter. The survey examines their demographic characteristics, and their activities in the labour force. (Classification of individuals by industry is based on the main activity of their place of employment).

15. Since April-June 2000, a question was added to the Labour Force Survey, which aims to identify employees hired through employment agencies. One of the main limitations of locating all of the people hired through employment agencies is that the Labour Force Survey relates only to the person's main place of employment. In cases where the interviewee works at more than one place, and is employed by an employment agency at the secondary workplace, that information will not be provided. Therefore, the estimate of persons hired through employment agencies is evidently biased downwards.

IV. Definition of Persons Hired through Employment Agencies

16. Employees hired through employment agencies are those who have been placed in a job but receive their salary through the agency.

17. Persons employed in "Security and cleaning activities", and "home-help services" were not included, because agencies dealing with these industries are primarily subcontractors and few of them are "regular" agencies.

18. Companies that contract to employment agencies (subcontractors) can be distinguished from regular employment agencies as follows:

- First, subcontractors are responsible for supervising and directing workers, as well as for ensuring the quality of the work they perform and for supplying the equipment necessary to do the work. Regular employment agencies, by contrast, supply workers and pay their salaries, but are not responsible for the workers' performance of their jobs. For that reason, compared with the subcontractors, the regular employment agencies are harder to identify as "employers".
- Second, workers hired through subcontractors are not perceived as "competing" against permanent employees of the user, and do not form a group whose wages and job conditions may differ from those of permanent workers who perform more or less the same kind of work.

V. Data for 2000

V.I Prevalence of Workers hired through Employment Agencies

19. Out of all employed persons aged 15 and over who worked over the 12 months preceding the survey, 72.5 thousand (2.8% of the annual civilian labour force) received wages through employment agencies. Of those workers, 58.5 thousand were employed, 7.7 thousand were unemployed persons who worked over the past year, and the remaining 6.3 thousand did not belong to the weekly civilian labour force but worked over the past year (see table 1).

**TABLE 1- POPULATION AGED 15 AND OVER IN ANNUAL LABOUR FORCE, BY WEEKLY LABOUR FORCE CHARACTERISTICS -
TOTAL AND HIRED BY EMPLOYMENT AGENCIES**

	In annual labour force - Grand total	In weekly labour force				Not in weekly civilian labor force, who worked during the year preceding the survey
		Total	Employed	Unemployed who worked during the year preceding the survey	Unemployed who did not work during the year preceding the survey	
	<i>Thousands</i>					
Total	2,594.9	2,455.6	2,235.1	110.1	110.4	139.3
Thereof:	72.5	66.2	58.5	7.7	-	6.3
Hired by employment agencies	<i>percentages</i>					
Total	100.0	100.0	100.0	100.0	100.0	100.0
Thereof:	2.8	2.7	2.6	7.0	-	4.5
Hired by employment agencies						

20. The temporary character of the manpower provided by employment agencies is reflected in the high rate of job seekers who were hired over the past year (out of the weekly labour force), compared with the proportion of job-seekers in the total population.

21. The 58.5 thousand employees hired through employment agencies comprise 3.1% of all employees, where this rate is higher among female employees than among male employees (3.4% and 2.8%, respectively) (see table 2).

**TABLE 2.- EMPLOYEES, BY EXTENT OF WORK AND SEX -
TOTAL AND HIRED BY EMPLOYMENT
AGENCIES**

	Employed persons - total	Worked full-time	Worked part- time	Tempo- rarily absent from work	Employed persons - total	Employed persons - total	Worked full-time	Worked part- time	Tempo- rarily absent from work
	<i>Thousands</i>				<i>Percentage</i>				
GRAND TOTAL	1,893.9	1,246.7	501.6	145.6	100.0	100.0	65.8	26.5	7.7
Thereof:									
From employment agencies	58.5	37.4	18.9	2.3	3.1	100.0	63.9	32.3	3.8
MEN - TOTAL	980.1	766.5	158.1	55.4	100.0	100.0	78.2	16.1	5.7
Thereof:									
From employment agencies	27.2	20.4	5.9	(0.9)	2.8	100.0	75.1	21.6	3.3
WOMEN - TOTAL	913.8	480.2	343.5	90.1	100.0	100.0	52.5	37.6	9.9
Thereof:									
From employment agencies	31.4	17.0	13.0	(1.4)	3.4	100.0	54.2	41.5	4.3

V.II Demographic Characteristics of Persons Hired Through Employment Agencies

22. **Sex:** Over half of the employees hired through employment agencies are women (54%), whereas the proportion of female employees out of all employees is lower (48%).

23. **Age:** 52% of the employees hired through employment agencies are in the young age groups (32% aged 18-24, and 20% aged 25-29). The proportion of both age groups relative to the total number of employees is 14% and 16%, respectively (see table 3).

**TABLE 3.- EMPLOYEES, BY AGE -
TOTAL AND HIRED BY EMPLOYMENT AGENCIES**

	Age									
	Total	15-17	18-24	25-29	30-34	35-44	45-54	55-64	65+	
	<i>Thousands</i>									
GRAND TOTAL	1,893.9	17.8	260.2	299.0	261.8	453.3	421.4	153.3	27.1	
Thereof:										
From employment agencies	57.9	..	18.2	11.6	6.7	9.3	8.4	2.3	(1.3)	
	<i>percentages</i>									
GRAND TOTAL	100.0	0.9	13.7	15.8	13.8	23.9	22.2	8.1	1.4	
From employment agencies	100.0	..	31.5	20.1	11.6	16.1	14.5	3.9	2.2	

24. **Length of residence in Israel:** Immigrants who arrived in Israel as of 1990 comprise 36% of all employees hired through employment agencies. This rate is much higher than that of the immigrants who arrived since 1990, who comprise 20% of all employees.

25. Among the immigrants themselves, length of residence in Israel was found to affect the way they integrate into the labour market: the longer the period of residence in Israel, the lower the percentage of immigrants hired through employment agencies, i.e., as length of residence in Israel increases, the proportion of immigrants hired by employment agencies comes closer to the rate of immigrants out of the total population of employees. Thus, immigrants who arrived in Israel between 1990 and 1994 constitute 15% of all employed persons hired through employment agencies (12% of all employees); whereas the immigrants who arrived between 1995 and 2000 constitute 20% of all employed persons hired through employment agencies (only 8% of all employees).

26. **Education:** As education level increases, the percentage of workers hired through employment agencies declines. About half of the workers hired through employment agencies are high school graduates – 32% have a matriculation certificate, and 19% graduated high school without a matriculation certificate.

27. The proportion of high school graduates among all employees is lower (41%, of whom 25% have a matriculation certificate), apparently due to the high percentage of young persons hired through employment agencies.

28. Employment agencies also hire workers with academic degrees – although their proportion is lower than that of workers with academic degrees among the total population of employees: 8% of those hired by employment agencies have a Bachelors' degree, compared with 17% of the total population of employees; and 7% have a Master's degree, compared 10% of the total population of employees.

29. It can be assumed that the academic workers hired by employment agencies are young people who still studying in universities or new immigrants with academic education, who have just entered the labour force through employment agencies.

30. In sum: The profile of the average worker hired by an employment agency is: a young immigrant woman without higher education. These characteristics fit the profile of temporary workers, who have recently entered the labour market.

V.III Occupational Characteristics of Persons Hired by Employment Agencies

31. **Extent of Work:** The category of employees hired through employment agencies is characterized by a high rate of part-time employment (up to 34 hours) during the determinant week, compared with the overall population of employees – 32% and 27%, respectively – as well as by a low rate of temporary absence from the workplace – 4% and 8%, respectively. These trends were found for men and for women.

32. **Economic Industries:** Workers hired by employment agencies are usually employed in the following industries – Manufacturing, and Transport, storage and communication. In each of these industries, the proportion of workers hired by employment agencies out all employees hired by agencies is greater than the proportion of regular workers out of all employees – 26% versus 19% in manufacturing, and 15% versus 6% in “Transport, storage and communication”. By contrast, the share of workers hired by employment agencies is substantially lower in the areas of business services and education.

33. The distribution of employed persons in the various industries is differentiated along gender lines: 14% of the women hired through employment agencies work in each of the following economic industries: Manufacturing; Transport, storage and communication; Trade; and health services. By contrast, men are employed mainly in manufacturing (39%), and in Transport, storage and communication (16%). The proportion of women employed in Public administration out of all employees hired by employment agencies was found to be higher than that of the women employed directly by the industry, out of all female employees – 11% versus 6%, respectively. However, these percentages were lower for men – 3% and 7%, respectively (see table 4).

TABLE 4 - EMPLOYEES, BY INDUSTRY AND SEX - TOTAL AND HIRED BY EMPLOYMENT AGENCIES

Code:	Industry								
	Total	Total	Thereof:					Education	Health, welfare and social work services
			Manufacturing (mining and industry)	Wholesale and retail trade, and repairs	Transport, storage and communication	Public administration			
			B	E	G	J	K	L	
GRAND TOTAL	1,893.9	100.0	18.9	12.2	6.4	6.5	13.6	10.0	
Thereof:									
From employment agencies	58.5	100.0	25.8	11.4	14.8	7.5	5.0	9.9	
MEN - TOTAL	980.1	100.0	25.8	13.0	8.0	6.8	6.1	4.4	
Thereof:									
From employment agencies	27.2	100.0	39.0	9.1	16.1	..	3.6	5.7	
WOMEN - TOTAL	913.8	100.0	11.4	11.4	4.6	6.1	21.6	16.0	
Thereof:									
From employment agencies	31.4	100.0	14.4	13.5	13.7	11.3	6.3	13.6	

34. **Occupation:** About 53% of all workers hired through employment agencies are concentrated in two categories: clerical workers, and unskilled workers. In each of these categories, the proportion of workers hired through employment agencies is higher than that of all employees – 31% clerical workers (compared with 19% of all employees) and 22% are unskilled (compared with 8% of all employees). However, the proportion of persons hired through employment agencies in academic professions and management out of all employees hired by employment agencies is substantially lower than the proportion of persons in academic professions and management out of all employees.

35. The distribution of persons hired by employment agencies by sex and occupation indicates that close to half of the women are clerical workers (about 47%), and about 19% are unskilled workers. By contrast, about one-third of the men (34%) are professional workers in agriculture or professional workers in “Manufacturing, construction and other skilled workers” – most are employed in manufacturing and about 26% are unskilled workers (see table 5).

TABLE 5.- EMPLOYEES, BY OCCUPATION AND SEX - TOTAL AND HIRED BY EMPLOYMENT AGENCIES

	Occupation							
	Total (1)	Total	Academic professionals and managers	Associate professionals and technicians	Clerical workers	Agents, sales workers and service workers	Skilled agricultural workers, manufacturing, construction and other skilled workers	Unskilled workers
Code:			0, 2	1	3	4	5-8	9
	<i>Thousands</i>	<i>percentages</i>						
GRAND TOTAL	1,893.9	100.0	19.8	15.9	19.1	16.8	19.7	8.7
Thereof:								
From employment agencies	58.5	100.0	5.6	9.9	31.2	11.7	19.2	22.3
MEN - TOTAL	980.1	100.0	22.1	12.1	9.2	13.1	33.7	9.6
Thereof:								
From employment agencies	27.2	100.0	5.9	10.5	13.4	9.5	34.6	26.1
WOMEN - TOTAL	913.8	100.0	17.3	19.9	29.6	20.6	4.8	7.8
Thereof:								
From employment agencies	31.4	100.0	5.3	9.5	46.6	13.6	6.0	19.1

(1) Includes employees whose occupation is unknown.

36. **Months of work during the year:** The proportion of workers employed for short periods is high – a finding that reflects the temporary nature of employment: about 27% of the employees hired by employment agencies during the determinant week worked for up to six months (compared with about 9% of all employees). Of the employees hired by employment agencies, 5% worked for one month only, 6% worked for two months, and 6% worked for six months. About 65% worked for 10 or more months – a relatively high rate considering the temporary nature of the manpower. Nonetheless, this rate was still considerably lower than that found for the overall population of employees (87%) (see table 6).

TABLE 6- EMPLOYEES, WHO WORKED DURING THE WEEK, BY MONTHS OF WORK OVER THE LAST YEAR - TOTAL AND HIRED BY EMPLOYMENT AGENCIES

Months of work over the last year	Employees who worked over the last week	
	Total	Thereof: Hired by employment agencies
	<i>Thousands</i>	
TOTAL	1,893.9	58.5
	<i>percentages</i>	
TOTAL	100.0	100.0
1-3	4.9	15.3
4-6	4.4	11.9
7-9	3.6	7.7
10-12	87.1	65.1

(1) Including "months of work unknown".

37. **Reasons for working up to 9 months:** Out of 20.4 thousand persons who were hired through employment agencies for up to nine months during the past year – 41% sought employment and did not find jobs, and another 27% studied. The findings reflect a similar situation among the total population of employees that worked up to nine months – 37% and 26%, respectively.

V.IV Indicators of Quality of Work through Employment Agencies

38. The following are main indicators of quality of work:

- Wages and fringe benefits
- Workers' rights and social conditions
- Job security

39. The Labour Force Survey does not provide direct information on these indicators. For that reason, an attempt is made to infer quality of work on the basis of the demographic and occupational variables mentioned above.

40. **Wages and fringe benefits:** It can be assumed that the salary level of workers hired through employment agencies is lower than that of regular employees. This is reflected in several indicators:

- First, workers hired by employment agencies are usually young people who have just entered the labour force and are acquiring preliminary experience.
- Second, they have an average level of education and some are still studying.
- Third, the proportion of part-time workers among the people hired by agencies is higher than their proportion in the overall population of employed persons. By nature, part-time jobs yield lower benefits and rewards than do full-time posts.
- Fourth, the average wage for the main occupations in which people are hired by employment agencies is relatively low.

41. This assumption is supported by the studies conducted by Leah Ahdut, Victor Solah, and Zvi Eisenbach: "Hiring Workers through Employment Agencies: Prevalence and Characteristics", May 1998. According to their findings, the average wage of workers hired through employment agencies in 1995 was about 45% of the average wage for employee posts (excluding workers from Judea, Samaria and the Gaza area).

42. **Benefits and Social Conditions for Workers:** As shown, workers hired through employment agencies are characterized by lower absentee rates than those found among the overall population of employees. This suggests that workers hired through employment agencies are deprived in terms of job conditions:

43. Paid vacation and convalescence pay, which every worker is legally entitled to, are given to only a small share of employees hired by employment agencies. Even fewer of these employees receive provident funds or managers' insurance (usually owing to the short period of employment). By contrast, generous reimbursements are usually given for travel expenses.

44. **Job Security:** One dimension of job stability is the extent of employment. The population of employees hired through employment agencies is generally characterized by larger proportions of part-time workers than in the overall economy. Therefore, workers hired through agencies are usually more susceptible to fluctuations in demand for employment.

45. Another dimension of job stability is the length of time that workers remain employed. The proportion of persons employed for short periods is higher in employment agencies and attests to the temporary nature of their employment. Temporary workers do not see their future at the workplace, because the duration of their employment depends on fluctuations and makes it difficult for these workers to develop a career. For the same reason, these workers lose long-term rights of seniority and pension.

46. It should be noted that real temporary employment, e.g., for a month, sometimes has advantages. However, there is a substantial group of persons hired through employment agencies who continue working for a long period – and these conditions can certainly infringe on their rights. Undoubtedly, these are groups of weak workers.

47. In order to prevent such situations of prolonged temporary employment, a “nine-months” clause will be introduced into the Employment Agencies Law. However, since the employers are afraid that the law will lead to mass layoffs, workers may also be on the losing end in these arrangements. The law, which is intended to benefit workers hired by employment agencies, obligates the employer to hire them as regular employees after nine months of employment, and stipulates that at that time, their job conditions will be comparable to those of permanent employees of the organization. In order to avoid implementing the law, employers have already begun laying workers. As a result, these workers face a less secure future in employment.