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BULLETIN

The Changing Market for Employment Services in the UK

Introduction

The market for job vacancies is the set of processes and institutions by which jobs in enterprises are matched with people seeking jobs. Like most other markets there is no single place or organisation through which the market operates but, instead, a highly complex set of information networks and organisational arrangements by which employers seek out suitable people to fill jobs and by which people seeking employment locate acceptable jobs. Again like many other markets, perhaps more so, the market for vacancies is partly operated by intermediaries whose function is to disseminate information, to carry out selection or to act as a 'broker' by arranging job matches. Within the UK, a number of employment agencies operate in this way to create a market for vacancies. Historically, the public employment service, now called the Employment Service, has played the predominant role in this market-making process. However, the market for job-placement services is currently in the process of rapid transformation. Private agencies and others are increasingly providing the market with job-broking services and, in some instances, competing with the ES in this function. Many organisations are in the process of redefining the position of their 'products' within the market for placement services while some are engaged in the processes of merger and acquisition.

This *Bulletin* examines some of these developments and considers their consequences. The discussion draws substantially from a report prepared for the European Commission as the UK contribution to a broader study of de-regulation in employment services in Europe (Hasluck and Purcell, 1998).

The public employment service

There has been a public employment service in the UK since 1910 when the National Employment Service was founded. A year later the Labour Exchanges Act was passed, and on 1st February 1912 the first 62 Labour Exchanges were opened across the country under the auspices of the Board of Trade. As their name implies, the new Labour Exchanges were envisaged as providing an institution through which employers and workers could be matched. Since 1910, the public employment service has continued to perform a job-broking function as part of various government departments. The Employment Service (ES), as it is now known, undertakes a number of intermediary functions through its Jobcentre network, including the advertising of employers' vacancies, the selection of prospective recruits and job search advice. It also operates a number of schemes for the longer-term unemployed and other priority groups, which have a recruitment and job brokerage aspect to them. In April 1990, the ES acquired Government Agency status under the Next Steps Initiative. This change in status means that while ES remains the responsibility of the Secretary of State for Education and Employment, it now has greater autonomy and flexibility in the way in which it delivers its services to job-seekers and employers. This change in status in part reflects a response to the growth of private employment agencies (discussed below).

The aim of ES is "to promote a competitive, efficient and flexible labour market by helping unemployed people into work, especially those who are disadvantaged, and by paying benefits and allowances to those who are entitled to them" (A Guide to the Department for Education and Employment, 1996, p.20). Its function is to manage the delivery of services and programmes to help people into work as agreed by the Secretary of State for Education and Employment. The ES offers job-placement services to all job-seekers but it is particularly associated with the placement of unemployed job-seekers. ES offers a range of services to assist job-seeking, especially for the disabled and long-term unemployed.

The ES operates through a network of head, regional and local offices, employing some 40,265 people in 1,050 Jobcentres. It is estimated that around two million people visit Jobcentres every week. In an 'average' year the ES will place around 2 million people into jobs and handle nearly 2.2 million vacancies and carry out around 8.3 million advisory interviews with unemployed claimants.

As an Executive Agency, the ES is set performance targets by its Minister in its Annual Performance Agreements. These performance targets combine efficiency targets (total number of notified vacancies to be filled by ES) and targets relating to special needs and disadvantaged groups (the long-term unemployed and the disabled). As an Executive Agency it is required to undertake a Prior Options Review every three years. The purpose of the review is to examine the rationale for the continued existence of the Agency. The 1996 Prior Options Review concluded that ES should retain its Agency status and said that abolition or privatisation of any or all of the core functions of ES was not currently a feasible option.

Private employment agencies

The private sector in job placement is extremely difficult to define and measure (even excluding newly privatised central and local government agency job placement activities). Recent growth of private employment agencies in the UK is a reflection of the fact that since 1995 such businesses are now largely unregulated. Prior to 1973, there was no regulation of private employment agencies despite concerns about bad practice in the industry and a number of unsuccessful attempts to introduce legislation. However, the Employment Agencies Act 1973 (as amended in 1975 by the Employment Protection Act) introduced a regulatory framework for employment agencies throughout Great Britain and granted the power to license private agencies to the Secretary of State for Employment. Thus, from 1976 to 1994, private employment agencies were licensed and regulated by the Employment Agency Licensing Office. One feature of the licensing arrangements was that a license was required by each *establishment* operating as an employment agency. As a consequence, large organisations having offices in different locations had to make multiple license applications. This requirement increased the cost of regulation to private employment agencies, estimated to have been more than £2 million in administration costs and annual license fees each year. Licenses could be revoked because of misconduct or other evidence of unsuitability, although in practice this very rarely happened.

The requirement to register was removed by the Deregulation and Contracting Out Act 1994. Thus, as in UK employment generally, the activities of agencies are market-led and virtually unregulated, although the residual requirements of the 1973 Act stipulate that businesses meet statutory standards of conduct and, in addition, meet standard business regulations (such as Health and Safety). The industry is also self-regulated according to industry codes of conduct (such as those of the Federation of Recruitment and Employment Services and the Institute of Employment Consultants). The Management Consultancies Association also has a code for members involved in executive recruitment.

It is difficult to obtain an accurate estimate of the dimensions of the industry because, having few legal barriers to entry and low start-up costs, it is characterised by a large number of small firms (which have high turnover) and a small number of large multinational operators (increasingly subject to mergers and take-overs) – providing a very volatile picture. The size and prosperity of the recruitment industry has tended to reflect economic conditions, being most successful during periods of growth and experiencing difficulties during recession. This is seen clearly in the numbers of agency branches licensed between 1989 and the end of 1994, with 16,123 in 1989, rising to 17,193 in 1991 and falling to a low of 14,422 in 1993, before recovering somewhat to over 15 thousand at the end of 1994 (Mintel 1996). Since 1995, licences have not been required, but industry turnover rose by almost 30 per cent in 1995, indicating substantial growth (Mintel *ibid*). According to the Office for National Statistics there were 7,280 commercial enterprises whose main business in 1997 was recorded as *Labour Recruitment and Personnel Services* (SIC 7450), compared to 6,392 in 1991 (the previous highest point) and 3,720 in 1987 (Business Monitor PA1003).

Six main areas of business activity within the industry can be distinguished. These are:

- General Staff Agencies, which provide placements for office and semi-skilled industrial jobs,
- Executive Search Agencies (sometimes known as 'head-hunters),
- Management Selection Agencies,
- Interim Management Agencies which provide executives and managers on a temporary basis,
- Specialist agencies which place particular occupational specialists or serve a particular industry,
- Outplacement Agencies which specialise in placing staff made redundant by client organisations.

Very recently, private recruitment companies have begun to use the Internet to develop new forms of employment broking services. PeopleBank provides an example of this type of new organisation; registration is free to job applicants and costs £100.00 per month to employers, who have full access to CVs on the database and must pay an additional £50.00 each time they wish to interview an applicant.

Most agencies cover both temporary and permanent positions. The relative value of the markets is, however, skewed towards the temporary placement market, with invoiced sales for temporary and contract staff representing 85 per cent of total employment agency sales, with six times the value of fees for permanent placements. While some evidence indicates that the temporary placement market has grown faster than that for permanent placements (Mintel 1996) there may be indications that it is the market for permanent placements that has grown most quickly since 1995.

The changing pattern of job placements

There has been a series of major surveys of employers in the UK designed to reveal the market share of different recruitment methods (Hedges, 1983: IFF, 1988: Hales, 1993). These surveys shed light on the market shares of both the Employment Service (ES) and private employment agencies. The evidence regarding the extent to which employers use the ES Jobcentre network is broadly in agreement. In 1992 the *Employers' Recruitment Practices Survey* (ERPS) recorded that 60 per cent of employers had used the Jobcentre in the 12 months prior to the survey (Hales, 1993), while the corresponding figure from the 1995 *Employers' Attitudes to the Employment Service* (EAES) survey was much the same, at 56 per cent (RSL, 1996). The proportion of employers using private employment agencies is much smaller: just 13 per cent in both surveys

Measuring market share as the proportion of employers using any particular recruitment method suffers from the disadvantage that all employers are treated with equal weight irrespective of the number of times they use the method or the number of people recruited. A better measure of market share is, therefore, the share of total engagements accounted for by any recruitment method. Unfortunately, few surveys adopt this approach but the 1992 ERPS is a notable exception (Hales, 1993). ERPS identifies 17 different recruitment methods but the eight methods listed in Table 1 account for 80 per cent of all engagements.

The first column in Table 1 shows the shares of engagements by all methods used. On average, employers used just under two methods to achieve a successful engagement. Sometimes methods are used simultaneously, while in others they are used in sequence. In 1992, the average number of methods used for manual jobs was 1.6 channels and 1.9 for non-manual occupations. The number of recruitment channels used appears to be increasing for all types of job as the corresponding figures were 1.5 and 1.7 methods in 1988, and 1.3 and 1.6 methods in 1982 respectively. However, whichever methods are used there is only one method by which a successful match of job and worker is achieved. The second column of Table 1 shows "... *the proportion of engagements where the particular channel was the means of first contact between recruit and the establishment*" (Hales 1993). Finally, a third column shows the ratio of successful usage to total usage. This is a measure of effectiveness.

Table 1

Share of engagements by main recruitment methods

	Share of engagements		
	All methods used(%)	Successful method(%)*	Effectiveness index
Direct applications	19.9	16.8	0.84
Recommendations	9.7	7.5	0.77
Re-employed employee	5.8	5.1	0.88
Local paid-for press	22.8	16.1	0.71
Trade press	11.3	8.6	0.76
Internal notices	29.6	6.8	0.23
Private employment agency	6.0	4.9	0.82
Jobcentre	31.0	12.3	0.40

Source: 1992 Employers' Recruitment Practices Survey.

Table 1 suggests that the Jobcentre was used as a recruitment method in 31 per cent of all engagements. This is a reflection of the fact that Jobcentre usage tends to be lower amongst larger establishments (which account for a disproportionately large share of recruitment activity). Equally significantly, the share of Jobcentres in successful job-matches declines to 12.3 per cent of all engagements. This is a lower proportion than is accounted for by either direct applications or local paid-for press advertising. Nonetheless, the Jobcentre share of successful engagements is approximately $2^1/_2$ times that of private employment agencies, which accounted for less than 5 per cent of engagements.

Column three of Table 1 shows the ratio of success to usage. It is evident that some recruitment methods, including internal notices and the Jobcentre, are widely used but not very effective. In the case of Jobcentres, only 40 per cent of usage leads to a successful job placement. In this respect, private employment agencies are much more effective. Although only used in respect of 6 per cent of engagements, over 80 per cent of such usage leads to a successful recruitment. These results are, perhaps, not surprising. The Jobcentre offers a free service to employers and it is to be expected that it will be used extensively. Private employment agencies charge fees and employers can be expect to be more selective in their use and expect a positive outcome in return for their fee.

Further evidence of employer perceptions of recruitment methods can be found in the 1995 *Employers' Attitudes to the Employment Service* survey. Table 2 summarises the reasons cited by private sector employers for using three key recruitment methods. The main reasons for using Jobcentres and local-paid advertising are similar; the number of applicants

Table 2

Reasons for use of recruitment method

	Method of Recruitment		
	Job centres	Employment agencies	Local paid-for press
	%	%	%
Lots of candidates	32	7	25
Local candidates	29	6	63
Good candidates	27	70	28
Free / cheap	17	1	3
Good professional service	8	17	*
Easy to use	8	10	6
Quick	4	13	4

Source: RSL (1996).

Note: Column percentages add to more than 100 because employers may cite more than one reason.

and the fact they are local. Private agencies score highly on the quality of candidates and this would appear to be their principal advantage over other methods.

Many small employers are put off using private employment agencies by the cost (51 per cent of establishments with 10-49 employees). However, amongst those employers who did use private employment agencies, the quality of the applicant and the screening of applicants were especially important. Non-users of Jobcentres indicated that they believed that Jobcentres were not able to provide the right applicants. The EAES survey provides evidence of polarisation (found in other studies), with employers either notifying most vacancies to the Jobcentre or else notifying none.

Detailed analysis of ERPS, EAES and other suggests that the greatest usage of UK Jobcentres as a method for recruitment tends to be associated with smaller establishments, the market / private sector, manual rather than non-manual jobs, semi-skilled and unskilled jobs, part-time and temporary jobs and areas of high unemployment. The likelihood of using private employment agencies is conversely related to these characteristics.

Jobseekers and job brokers

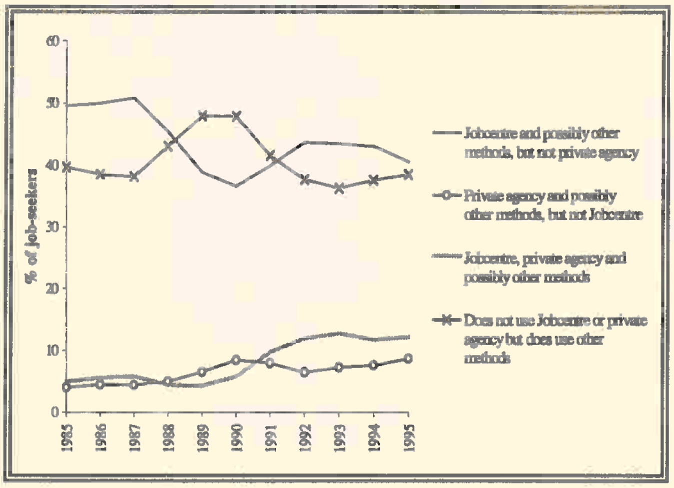
According to the 1995 LFS, there were an estimated 4.6 million jobseekers looking for a job at any time. Of these, 2.5 million were unemployed (registered and unregistered) and 1.7 million employed (employees or self-employed). Around 864,000 jobseekers (20 per cent) relied on the ES as their main means of looking for work. A further 32 per cent also used the Jobcentre although not as their main method of seeking work.

Thus around half of all jobseekers used the Jobcentre even if they did not all regard this as their main method of seeking work. Amongst the unemployed, a larger proportion (28 per cent) regards the ES as their main method of job-search while a further 46 per cent used the Jobcentre. Overall, almost three-quarters (74 per cent) of unemployed jobseekers used the Jobcentre.

The proportion of jobseekers that rely on the ES as their main method of job-search has declined sharply over the last decade. Whereas 30 per cent of all jobseekers and 40 per cent of unemployed jobseekers relied mainly on the ES in 1985, the proportions had fallen to 20 per cent and 28 per cent, respectively, by 1995. A similar picture of declining reliance upon the public employment service is revealed by Figure 1 which describes four possible combinations of job search. Reliance on the public employment service (ES) in combination with other methods (excluding private agencies) has declined sharply from around 50 per cent in 1985 to around 40 per cent in 1995.

Figure 1

The changing pattern of job-search: All jobseekers



In sharp contrast, the proportion of jobseekers using private employment agencies (with or without using the ES) has increased sharply. The proportion of jobseekers relying on private agencies and not using the public employment service, while small, has more than doubled (from 4 per cent to almost 9 per cent). Moreover, the proportion of jobseekers using private employment agencies in combination with the ES has increased sharply. Amongst unemployed jobseekers, the proportion combining usage of public and private job-broking services has almost trebled from 6.2 per cent to 16.5 per cent.

Usage of different job-search methods appears sensitive to changes in the level of economic activity and demand in the jobs market. The proportion of jobseekers relying on Jobcentres falls to its lowest point in 1990, the nadir of the last economic recession. In periods of recession and high unemployment some jobseekers appear to abandon the Jobcentre in favour of other methods and return when labour demand is more buoyant. This switch is largely to 'other' (mainly informal) methods. It is also evident in the small increase in usage of private employment agencies in combination with other methods during 1990-91. This cyclical pattern presumably reflects changes in the relative effectiveness of the Jobcentre as a means of finding work, perhaps because employers reduce their notification of vacancies to ES because there are fewer vacancies *per se* or for fear of being swamped by applicants. The sharp upward trend in the use of private employment agencies in conjunction with the ES appears largely unaffected by variations in economic activity. This suggests that this trend is a fundamental shift in the pattern of job search in the UK.

Conclusions

The market for job-placements in the UK is not a truly competitive one, in the sense that, despite its unregulated nature, the industry is dominated by a 'free', state-financed public employment service. Historically, this situation has meant that private employment agencies have operated in 'niche markets' where customers were prepared to pay a fee for a specialist service rather than use the free public employment service. The public and the private employment agencies have each marked out quite distinct sectors of the market. The public employment service dominates in the provision of job placements of unemployed people and job-matching services to employers seeking to fill vacancies for semi-skilled and unskilled labour. In the past, much of the market for public sector job-matching services was to small- to medium-sized organisations with the largest employers tending to meet their need for job-matching services internally. Private sector agencies have provided services to organisations seeking highly skilled and professional workers where the enterprise elected to externalise the job-matching function. The evidence reviewed in this *Bulletin* suggests that this situation may be in a process of transition.

The shift in the structure of the job placement industry in the UK has come about as the result of a conjunction of long-term trends and short-term circumstances. The long-term trends relate to the nature and content of work. The shift from manufacturing activity to the service industries has changed the structure of jobs, reducing the relative importance of full-time jobs in favour of part-time working and other flexible arrangements and it has led to a shift from manual to non-manual employment. There has also been a shift to high skill, high status managerial and professional occupations and away from semi-skilled and unskilled work across all industries. These long-term trends would, in themselves, be expected to impact upon the job-placement industry as they adversely affect the traditional market of the public employment service and expand the scope for job-broking activity in those parts of the market served by private agencies. However, on top of these trends, or perhaps in response to them, are a number of shorter-term developments.

First, many organisations have adopted employment strategies that require job matching and recruitment to be externalised. This development shifts job-broking from the internal labour market to the external market for placement services. While this has expanded the overall size of the market for placement services, the main beneficiaries of this extra demand have been the private sector agencies.

A second short-term factor is government policy. This has impacted on the job-placement market in two ways. It has an indirect impact through the changes in policy designed to de-regulate the labour market. The direct effect of government policy is that by amending the provisions of the 1973 Act, the government effectively created an unregulated and competitive market place for job matching. In addition, government policy on privatisation has led to a 'blurring' of the distinction between the public employment service and the private sector. So far, only support functions and the provision of some ES programmes have been 'contracted out' to private organisations. However, as recent reviews of the ES make clear, there was active pressure from government for shifts of 'front-line' job-matching services from the public to the private sector to be considered.

It remains to be seen whether these developments will become established. Clearly, much will depend upon government policy – towards the public employment service in particular and towards employment legislation and work in general. The legislation on employment agencies is currently under review by the new Labour government and a Consultation Paper has been promised. However, the evidence cited in this *Bulletin* suggests that recent developments in the market for job-placements have emerged as the result of fairly fundamental changes in the labour market and in organisational recruitment and staffing policies. This suggests that the developments are likely to be permanent, although the full extent of the changes may yet to be seen.

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For details contact Rosalie Larsen:
Tel: 01203 524127 or Fax: 01203 524241
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For further details contact **Rob Wilson** at IER: Tel: 01203 523530 or Fax: 01203 524241

Email: R.A.Wilson@csv.warwick.ac.uk

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Barbara Wilson
Institute for Employment Research
University of Warwick
Coventry, CV4 7AL
Tel: 01203 528481
Fax: 01203 524241

Email: B.Wilson@warwick.ac.uk

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