

# **The Functioning of the Staffing Services Industry and its Importance**

## **Technical Annex to the *Economic Note* on the advantages of a flexible labour market**

In the *Economic Note* entitled “The Advantages of a Flexible Labour Market,” the staffing services industry serves as an example to illustrate the rather abstract concept of the flexibility of the labour market. This industry also provides the benefits of a private solution based on entrepreneurial initiative to meet to the needs of both workers and employers. The results of its activities are very positive overall, as is described in the Note.

The purpose of this technical annex is to offer a somewhat more complete picture of what a staffing agency does as well as the place occupied by this industry in the Canadian economy.

### **The functioning of a staffing agency**

There are several kinds of services offered by the staffing services industry. While some agencies offer a wide range of services, others focus on specific niches. Certain agencies offer several services while specializing in one kind of personnel, like nurses, computer programmers, legal secretaries, manufacturing workers or truckers. Among the services offered,<sup>1</sup> we find:

- “headhunter” type recruitment;
- temporary replacements for prolonged absences;
- additional workforce for rush periods or special projects;
- more general consulting services in the management of human resources, labour standards or labour relations;
- providing specialized personnel;
- or much more complete and long-term personnel management services.

Statistics Canada classifies “employment services” according to a precise typology including three categories, presented in Table 1 below.

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<sup>1</sup> Association of Canadian Search, Employment and Staffing Services, *Mémoire présenté au Conseil consultatif du travail et de la main-d’œuvre* (CCTM).

**Table 1: The three kinds of staffing agencies according to Statistics Canada**

<b>Employment Services</b>	This industry group comprises establishments primarily engaged in listing employment vacancies and selecting, referring and placing applicants in employment, either on a permanent or temporary basis; and establishments primarily engaged in supplying workers for limited periods of time to supplement the workforce of the client.	
<b>Including three categories of agencies</b>	<b>Employment Placement Agencies and Executive Search Services</b> (executives, artistic castings, teachers, nurses)	This industry comprises establishments primarily engaged in listing employment vacancies and selecting, referring and placing applicants in employment, either on a permanent or temporary basis. The individuals placed are not employees of the placement agencies.
	<b>Temporary Help Services</b> (office personnel, general labour contractors, lifeguards, industrial personnel)	This industry comprises establishments primarily engaged in supplying workers for limited periods of time to supplement the workforce of the client. The individuals provided are employees of the temporary help service establishment. These establishments do not provide direct supervision of their employees at the clients' work sites.
	<b>Professional Employer Organizations</b> (all industries)	This industry comprises establishments primarily engaged in providing human resources and human resource management services to clients. These establishments operate in a co-employment relationship with client businesses or organizations and are specialized in performing a wide range of human resource and personnel management duties, such as payroll accounting, payroll tax return preparation, benefits administration, recruiting, and managing labour relations. Professional employer establishments typically acquire and lease back some or all of the employees of their clients and serve as the employer of the leased employees for payroll, benefits and related purposes. Professional employer establishments exercise varying degrees of decision making relating to their human resource or personnel management role, but do not have management accountability for the work of their clients' operations with regard to strategic planning, output or profitability.

Source: Statistics Canada, North American Industry Classification (NAICS) 2007, Employment Services 5613.

A poll of American companies cited in the *Economic Note* shows that they make use of staffing services mainly to deal with unexpected business growth (52%), to fill both unexpected and long-term absences (47%), while waiting for an employee's permanent replacement (47%), for special projects (36%), to deal with seasonal rushes (28%) or to preselect candidates for regular positions in order to ensure their competence (21%)<sup>2</sup>.

For their part, job seekers who make use of the staffing services industry do so to find a job, but also to experiment with different positions and tasks, or to learn about various work environments. Counsellors who work in the industry possess above average knowledge of the job market and can help job seekers orient themselves. Agencies also offer training in order to improve the skills of the employees they place.

As a general rule, employees that are placed in companies are also the employees of the staffing agency and remain so even when they work for an organization that is a client of the agency.<sup>3</sup> The payment of the salary and the provision of benefits are managed by the agency, which must respect labour standards with regard to its employees. Of course, this is not the case for a contract to find a permanent employee, for example.

Both employers and employees benefit from the staffing services industry's expertise. However, the business model of Canadian agencies is based on revenue from the employers who pay service honorariums, and not on fees paid by job seekers.<sup>4</sup>

### **A booming industry in Canada**

The Canadian staffing services industry's operating revenue has doubled in ten years, growing from \$5.1 billion in 2001 to \$10.6 billion in 2011. These data from Statistics Canada do not specify the number of job seekers who use staffing agencies, but they nonetheless show that the salaries, wages and benefits paid out by the agencies went from \$4.0 billion to \$6.6 billion during that same period.<sup>5</sup>

Table 2 below presents these data for each of the three provinces where the staffing services industry is largely concentrated. Ontario's agencies, which represent 54.5% of the industry's operating revenue in Canada, did experience operating revenue growth. However, this growth was not as high as the country's overall growth, which was 106.6%

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<sup>2</sup> Susan N. Houseman, "Why Employers Use Flexible Staffing Arrangements: Evidence from an Establishment Survey," *Industrial and Labor Review*, Vol. 55, No. 1, 2001, p. 156.

<sup>3</sup> The question of the status of the temporary employee and of the employment bond continues to be discussed in the corridors of government, notably by the CCTM. See for example: Fédération des chambres de commerces du Québec, *Les agences de placement*, May 2013; CSD, CSN, CSQ and FTQ, *Rapport des membres syndicaux du Comité sur les agences de placement temporaire*, September 15, 2011; ACSESS, *Mémoire au ministre québécois du Travail sur l'industrie du placement temporaire*, April 2007.

<sup>4</sup> The sites of different staffing agencies were consulted in the writing of this section, particularly the sites of the biggest agencies. Given the number of agencies operating, however, it would be unthinkable to carry out a complete count.

<sup>5</sup> Statistics Canada, Service Bulletin, Employment Services, Catalog No. 63-252-X, 2011, p. 3.

between 2001 and 2011. Quebec agencies also grew less quickly than the Canadian average, whereas the industry experienced particularly high growth in Alberta.

**Table 2: Operating revenue and remuneration paid out by the staffing services industry in the top three provinces**

	<b>Ontario</b>	<b>Alberta</b>	<b>Quebec</b>	<b>Canada</b>
Operating revenue in 2011	\$5,770M	\$2,477M	\$1,344M	\$10,588M
Growth since 2001	81.4%	259.7%	67.8%	106.6%
Salaries, wages and benefits in 2011	\$3,355M	\$1,639M	\$945M	\$6,610M
Growth since 2001	38.2%	194.1%	53.0%	67.0%

Source: Statistics Canada, Table 361-0001.

As for the number of employees making use of staffing agencies to find work, no statistics are available. The salaries, wages and benefits do give us a general idea, though. By using average weekly earnings, we can estimate that this represents the full-time equivalent of around 145,000 jobs in Canada. Since these are not all full-time jobs, there are in all likelihood several hundred thousand people benefiting from the services of this industry.