

Geographies of Temporary Staffing Unit

Working Brief 10

Emerging Temporary Staffing Markets: towards a typology of foreign firm market entry

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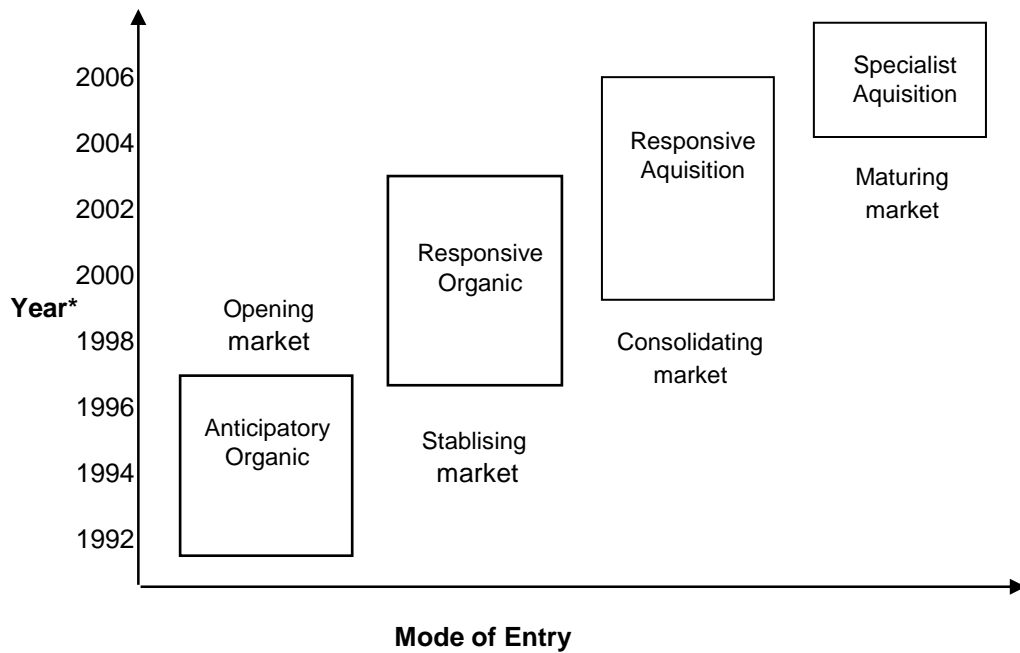
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Introduction

Since the inception of the temporary staffing industry, the opening of new markets has occurred on an increasingly frequent basis, driven by economic and political factors. The post-socialist economies of Central and Eastern Europe represent some of the most recent markets to open. This Working Brief builds on the observations noted in Working Brief 9 which were based upon empirical research conducted in the Czech Republic, Poland and Bulgaria. Therefore, the typology of foreign firm market entry presented in this paper is grounded in the particular Central and Eastern European context. However, it is hoped that the framework will trigger analysis of multinational agencies entry into other past, or future, new markets.

Developing a Typology of Foreign Firm Market Entry

As observed in Working Brief 9, and in the global temporary staffing market in general, the entry of firms into new markets tends to be organic, or through acquisition. However, this simple dualism is not as simplistic as may initially appear as individual firm strategies drive them to enter markets at different times and can use a variety of different methods, such as combining organic expansion and domestic firm acquisition. Understanding how and why firms enter new markets can be particularly revealing about the nature of particular firms. When individual firm strategies are enacted in particular territories, the resulting pattern of entry method and entry timing impacts directly upon the local labour markets. Figure 1 shows our typology of market entry and aims to reveal four main types of market entry which will be discussed below. These are dependent upon, and indeed, are inherently related to market age and development.



*the year of entry here relates to the time scales observed in Poland and the Czech Republic

Figure 1: A typology of foreign firm entry into emerging markets

- ‘Anticipatory Organic’ entry represents early, aggressive entry to an emerging market. For example, Adia’s entry of the Czech Republic in 1992, just a few years after the fall of Communism and the beginning of foreign investment in the country. This can be seen as an attempt to enter the market earliest in order to shape its development and capture early market share before competitors enter. This strategy tends to be used by larger international firms such as Adecco or Manpower. At their time of entry to new markets, they are under-developed, and in the case of the Czech Republic or Poland, temporary staffing is not strictly legal (nor is it strictly illegal, however). Organic market entry at this stage is based upon the expectation of imminent growth in the market, and in many respects can be seen as highly risky, particularly where political institutions are unstable, or where cultures and working practices are unfamiliar.
- ‘Responsive organic’ describes market entry which occurs shortly after, and latterly alongside, ‘anticipatory organic’ entry. The competitors of foreign firms already present in the market see the potential rewards of entry the market and follow. Already, the market has stabilised and there are more temporary staffing agencies in operation, in part due to an increase in domestic firm set-up and their adoption of observed foreign methods. In the context of the post-socialist countries, there has been sufficient political, economic and social change to reduce the risk of investment by agencies. As a result there are increased levels of foreign investment (both in levels of finance and industrial scope), and there are more potential

customers in the form of multinational firms. Indeed, many of these 'responsive organic' firms will have followed existing clients into the market. Examples include Allbecon, a German staffing agency which entered Poland in 2000 and Hays which entered the Czech Republic in 1992.

- 'Responsive Acquisition' entry sees foreign firms researching the new market and making enquires to acquire domestic firms. As the market has grown in size over time, many domestic firms may be well established with good reputations and national office networks. The firm seeks to find suitable organisational and cultural fit with the potential acquisition target. This method of entry tends to take place alongside the 'responsive organic' form. However, there are distinct differences in the types of firms that choose these methods. The 'responsive organic' method is preferred by firms which are organisationally centralised and have standardised packages and procedures that can be 'rolled out' in new territories. In contrast, international firms that are decentralised tend to prefer to enter through 'responsive acquisition'. They seek to purchase existing resources, methods and talent in a particular market. In addition, there are differences in how acquisitions are made, for example, centralised firms tend to buy 100% of firms and re-brand them (i.e. Randstad acquired Polish firm Intersource), while decentralised firms tend to leave a management share and not re-brand (i.e. Vedior acquired Czech firm AYS).
- 'Specialist acquisition' occurs as the market is maturing. A period of market consolidation has occurred in which firms, both international and domestic, fight for market share. As the market develops, demand for more specialist services increases and firms see the potential for increased turnover and margins. New international firms or existing foreign staffing agencies now tend to acquire niche specialisms. The market leaders have emerged and are looking towards higher value added functions (with higher margins), as part of global strategies.

Our research in the Czech Republic and Poland revealed that Poland is roughly two years behind Czech Republic in terms of market development and foreign firm market entry. This is probably due to the Czech Republic being perceived as easier to enter and its larger foreign investment flows in the late 1990s. The different sizes of markets can have a direct impact upon the method of entry, for example, more acquisitions have been made in Poland due to the market being so much larger. It is much more difficult to set up a country-wide network of offices in Poland than Czech Republic, therefore it is perceived to be easier for a foreign firm to purchase a large domestic firm with an existing network.

It is hoped that this typology will encourage analysis of other new markets. Inevitably, each market provides a different context in which the temporary staffing industry operates, necessitating the adaptation of existing frameworks. For example, the entry of the Top 20 global staffing agencies into China has been greatly affected by legislation surrounding the foreign ownership of business in the territory and provides an unusual and interesting case. Each new market that opens to temporary staffing will see a different combination of entry methods employed by the international agencies and is dependent upon their organisational structure, culture and long- and short-term strategies. More research is needed that interrogates the impact of international temporary staffing agencies upon local labour markets, particularly in new markets, and that seeks to understand how individual markets are connected through global production networks.

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