

Geographies of Temporary Staffing Unit

Working Brief 14

Grounding the Temporary Staffing Industry: the Swedish Case Study

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The Swedish Temporary Staffing Market

The temporary staffing market in Sweden was worth an estimated SEK 9.03 billion (US\$1.13 billion) in 2004. The industry is highly consolidated with the top four players – Manpower, Adecco, Proffice and Poolia – together accounting for over 75% of the market. Of these four, Manpower and Adecco are well-known international agencies, and Proffice and Poolia are Swedish-based: the former has a presence in the four Nordic countries of Sweden, Denmark, Norway and Finland, while the latter operates in the Nordic region, the UK and Germany. Manpower's estimated share of the market is between 35% and 40%. Compared to many other European markets, fewer international firms are present in Sweden, reflecting the particularities of the market resulting from the impact of government regulation. In this respect, the Swedish staffing market presents a greater number of barriers to entry than many other European markets.

The consolidation of the Swedish market has occurred through acquisition (predominately international agencies acquiring Swedish-owned operations), and by the larger firms capturing market share during the rapid growth period of the 1990s. The remainder of the market is composed of smaller temporary staffing agencies offering specialised or localised services. The Swedish Association of Staffing Services (Bemanningsföretagen) is composed of 315 companies, of which 86% employ less than 50 people (including staff on placements), and only 2% employ more than 250 (www.almega.se). The industry in Sweden is relatively immature compared to the more developed staffing markets of Continental Europe and the UK. In 2004, temporary staffing accounted for 79% of staffing agency turnover, with the more specialised services of outplacement, contracting and permanent recruiting accounting for only 3%, 16% and 3% respectively.

Regulatory Frameworks

The impacts of government regulation of staffing services in Sweden are pronounced and pervasive. Embedded within the Swedish Social Democratic model, temporary staffing and associated notions of 'flexible' forms of labour have met with opposition. Swedish governments since the 1940s have been strongly committed to full and *permanent* employment. This has resulted in direct state intervention in how job placements are arranged. Until 1992, temporary staffing was not strictly legal, but despite this a number of staffing agencies had been operating since the late 1970s and a number of international firms had entered the market (such as Olsten and Manpower). However, since the early 1990s, exceptionally high unemployment in Sweden has been a catalyst for change and the labour market has slowly been deregulated. In 1992 a new law was introduced that legalised the placement of temporary employees.

Regulation of the Swedish staffing market is best described as strict. The focus of the regulation is very much upon the individual worker, protecting their rights, working conditions and benefits. It is of crucial importance to note that under Swedish regulation, 'temps', *per se*, do not exist. Rather, the staffing agency employs individuals on a permanent basis, and then uses them for temporary placements in other firms. Therefore, each 'temp' is an employee of the staffing agency, with conditions and pay negotiated through a collective agreement with the appropriate union. This has a radical impact on the business model of the staffing industry in Sweden as agencies have to pay their 'consultants' 75% of their salary even if they are not placed. Therefore, the agencies are under pressure to place all consultants, whilst still being able to offer quick, flexible services to their customers.

The Swedish temporary staffing market has experienced rapid growth over the last 15 years. During the 1990's the leading firms were more than doubling turnover annually, as service industries in Sweden began to utilise temporary staffing. However, the economic down-turn from 2001 to 2004 impacted greatly on the staffing agencies, with many smaller enterprises going out of business. The high growth rates of the 1990s had encouraged agencies to take on increasingly large numbers of 'consultants', and as the IT and telecommunications industries in particular slowed down, the agencies were left with large numbers of employees they could not afford to pay. Employment laws in Sweden make it extremely difficult for employers to sack employees, thereby forming the rationale for using staffing agencies. Hence the agencies take the risk of employing an individual on the customer's behalf. Therefore, the Swedish regulation of the temporary staffing industry seeks to place the risks of 'flexibility' upon the *agency* rather than

the *individual*. As of this year, the market in Sweden is once again enjoying high growth rates with firms claiming to have learnt from the harsh lessons recently experienced.

The Swedish Position in Global Production Networks (GPNs)

The regulatory frameworks in which the Swedish temporary staffing industry is embedded impacts not only upon how agencies operate within the Swedish market, but also how firms are connected to broader staffing Global Production Networks. The impact of international agencies is at the same time more and less pronounced than in other European countries. While there are relatively few foreign agencies operating in Sweden, the market is dominated by Manpower and Adecco, as well as two Swedish agencies. The impact of this has been to drive the industry towards focussing on competing for market share and has often resulted in the squeezing of margins. Other international agencies are present in Sweden, such as Kelly Services and Vedior often entering the market to service a particular client, and some are now aiming to offer more 'value-added' services such as vendor-on-premises, outsourcing human resource functions and 'total business solutions' in order to gain competitive advantage.

As the temporary staffing market in Sweden matures, it is likely that a greater range of services will be offered across a larger number of sectors. In this respect, Swedish divisions of international agencies will be able to capitalise upon services and knowledge developed within their own firm's GPN and this may translate into a competitive advantage over Swedish-owned agencies. However, new innovations within the temporary staffing industry tend to diffuse quickly, and no competitive advantage lasts for long. The complexity of the regulatory framework in which temporary staffing agencies in Sweden operate demands a high level of local expertise. As such, barriers to entry are high and even international firms tend to employ a high percentage of Swedish management staff. In this sense, the regulation of the temporary staffing industry in Sweden has served to create and maintain a degree of difference and separation between staffing activities in Sweden and those across the rest of Europe, including other Scandinavian markets, and the rest of the world.

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