Relationship Duration and Returns to Brokerage in the Staffing Sector

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TWA Workshop, Rotterdam School of Management
June 23rd, 2008
My Research – A Brief Overview

Careers and Inequality
- Networks, Race and Hiring (with Roberto Fernandez)
- Gender Inequality in Contract Employment

Labor Market Intermediaries
- Relationship Duration and Returns to Brokerage (with Matthew Bidwell)
- Individual Ties and Project Renewal in Staffing Firms

- Who Pays the Price of Brokerage?
- Competition for Projects in the Staffing Sector (with Zella King)

Triadic Employment relationships
Brokered Employment Relationships

The Growth of Temporary Help Services
CES, ‘000 workers

- May involve long term worker-agency relationships
- How do these relationships affect the broker’s ability to create valuable matches? Prices?
- How is this value shared among the parties?
The Structure of Market Brokerage

- Seller (worker)
  - Margin (bill-pay)
  - (pay rate)
- Broker
- Buyer (client)
- Transaction Price (bill rate)
Long-term “embedded” relationships facilitate exchange of private information (Uzzi, 1996; Hansen, 1999)
   - Broker learns more about workers over course of relationship
   - Improved information allows for “value creation” through better matches across the market

Brokers’ rents depend on their ability to capture some of this value → Shaped by access to alternative exchange partners (Brass, 1984; Emerson, 1962)
   - Ability to play off different counter-parties on the same side of market shapes brokers’ rents (Reagans & Zuckerman, 2006; Ryall & Sorenson, 2007)
   - Capture of returns to long-term relationships is shaped by availability of other long-term relationships for broker versus the brokered parties (Cook & Emerson, 1978)
Improved information allows broker to charge higher price to buyer when it has a longer relationship with seller (H1.a)

Broker is able to capture more of this extra value due to its ability to maintain more long-term ties than seller (H2.a)
Moderating role of buyer-seller relationships

- Price stickiness prevents broker from raising price in repeated transactions between same buyer and seller (H2.a)
- Repeated buyer-seller transactions makes the seller (worker) less substitutable with respect to other workers
  - Reduced bargaining power lowers broker’s margin (H2.b)
Summary of the argument

Longer tie duration:
- Higher bill rate
- Higher broker margin

Longer tie duration:
- Bill rate does not grow
- Lower broker margin

Worker - Client

Agency / Broker
Study design: Setting and sample

- Archival records from a specialized staffing agency that places creative IT contractors in temporary positions

- Data sources
  - Client and employee records: 251 individuals; 462 companies; 1,467 projects (1998-2002)
  - 48 interviews: placement agents and workers

- Variables:
  - Worker-agency and client-worker relationship duration (“days worked”)
  - Bill rates, pay rates and margins
  - Individual characteristics coded from resumes
  - Client characteristics: size and industry
  - Project characteristics: skill category and duration

- Individual fixed effects regressions
## Main Results (Person Fixed Effects)

<table>
<thead>
<tr>
<th></th>
<th>Ln (bill rate)</th>
<th>% Margin</th>
<th>Ln (pay rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days with broker</td>
<td>0.000285**</td>
<td>0.000041*</td>
<td>0.000177**</td>
</tr>
<tr>
<td></td>
<td>(0.000070)</td>
<td>(0.0000165)</td>
<td>(0.000060)</td>
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<tr>
<td>Days with client</td>
<td>-0.000275**</td>
<td>-0.000075**</td>
<td>-0.000096+</td>
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<tr>
<td></td>
<td>(0.000060)</td>
<td>(0.000016)</td>
<td>(0.000055)</td>
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<tr>
<td>Days in database</td>
<td>0.000324</td>
<td>0.000173</td>
<td>-0.000029</td>
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<tr>
<td></td>
<td>(0.000504)</td>
<td>(0.000115)</td>
<td>(0.000460)</td>
</tr>
<tr>
<td>Ln client size</td>
<td>0.002635</td>
<td>-0.000742</td>
<td>0.001902</td>
</tr>
<tr>
<td></td>
<td>(0.002060)</td>
<td>(0.000529)</td>
<td>(0.001838)</td>
</tr>
<tr>
<td>Project duration</td>
<td>-0.000036</td>
<td>-0.000028</td>
<td>0.000025</td>
</tr>
<tr>
<td></td>
<td>(0.000070)</td>
<td>(0.000017)</td>
<td>(0.000045)</td>
</tr>
<tr>
<td>Hilnbill</td>
<td>—</td>
<td>0.0279414*</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>(0.010874)</td>
<td>—</td>
</tr>
<tr>
<td>Lolnbill</td>
<td>—</td>
<td>0.314160**</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>(0.017490)</td>
<td>—</td>
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<td>Observations</td>
<td>1467</td>
<td>1467</td>
<td>1467</td>
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<tr>
<td>R² (within)</td>
<td>0.38</td>
<td>0.48</td>
<td>0.37</td>
</tr>
<tr>
<td>Number of individuals</td>
<td>251</td>
<td>251</td>
<td>251</td>
</tr>
</tbody>
</table>

*: p<.05; ** p<.01  Controls for industry, month and skill segment
Implications for Theory

• Long term relationships help brokers to create value by making better matches → Time dimension of brokerage
  – Adds longitudinal perspective to theories of brokerage
  – Importance of nature of ties, as well as structure

• Brokers are well placed to capture most of the rents from these relationships
  – First evidence of how rents from brokers’ activities are distributed
  – Broader evidence of how returns from long term or “embedded” relationships are shared

• Creating value from relationships requires creating new worker client matches
  – Evidence of “partial disintermediation” (sustainability issues)
  – Requires trade-offs against client relationships
Implications for Contract Work

- Staffing agencies can play a role in overcoming information asymmetries in the market
  - High mobility can prevent employer learning from taking place
  - Intermediaries facilitate learning about worker abilities over time
- Long term relationships with agencies can benefit workers
  - But employment agencies are in a strong position to extract benefits from this learning
- Highlights importance of inter-client mobility as a means of career development
  - Clear contrast to assumptions about conventional employment (e.g. Altonji & Williams, 2005)