

# Relationship Duration and Returns to Brokerage in the Staffing Sector

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*June 23<sup>rd</sup>, 2008*

# My Research - A Brief Overview

## Careers and Inequality

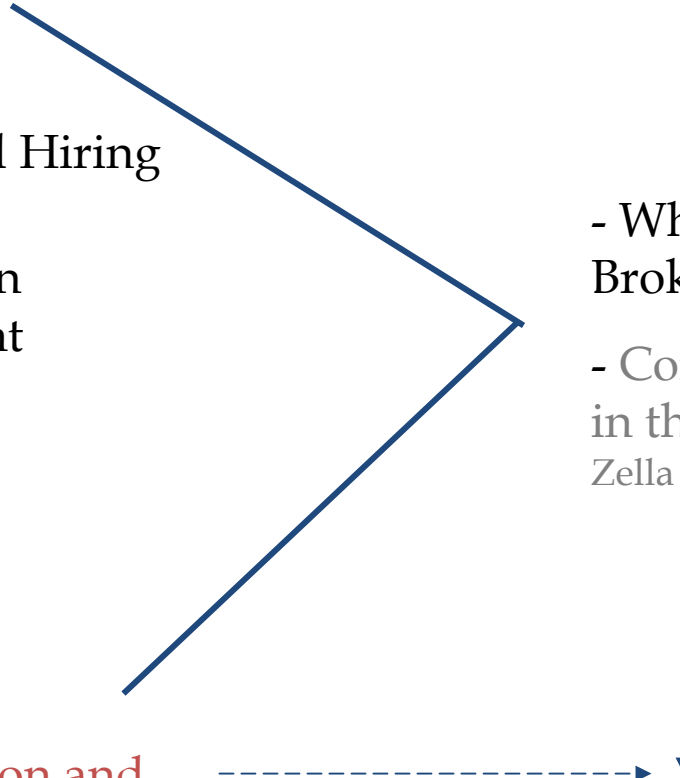
- Networks, Race and Hiring (with Roberto Fernandez)
- Gender Inequality in Contract Employment

## 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)

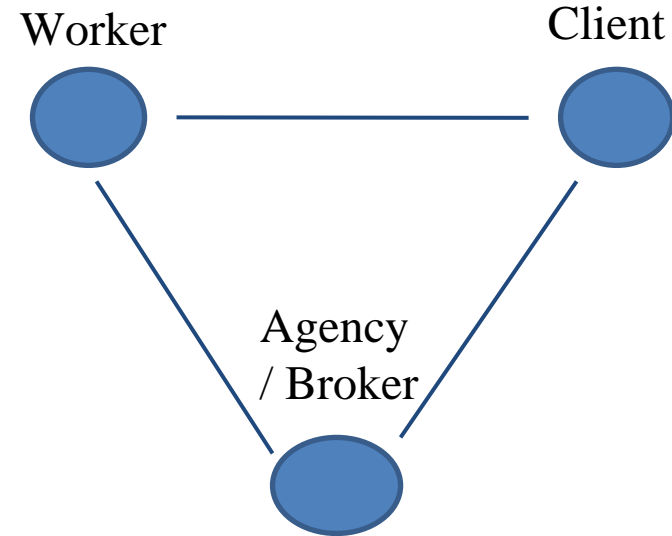
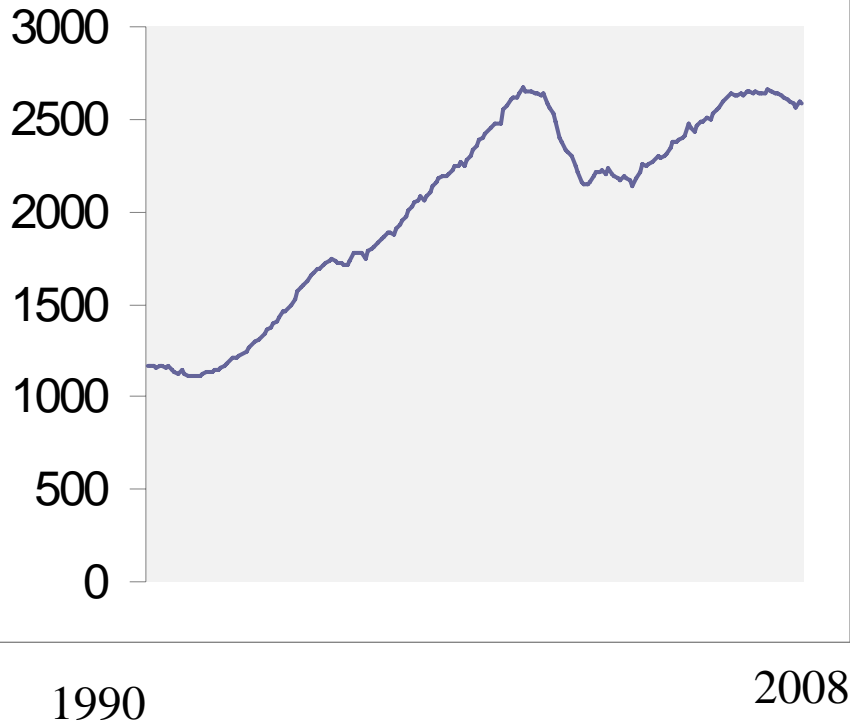
Triadic Employment relationships



# Brokered Employment Relationships

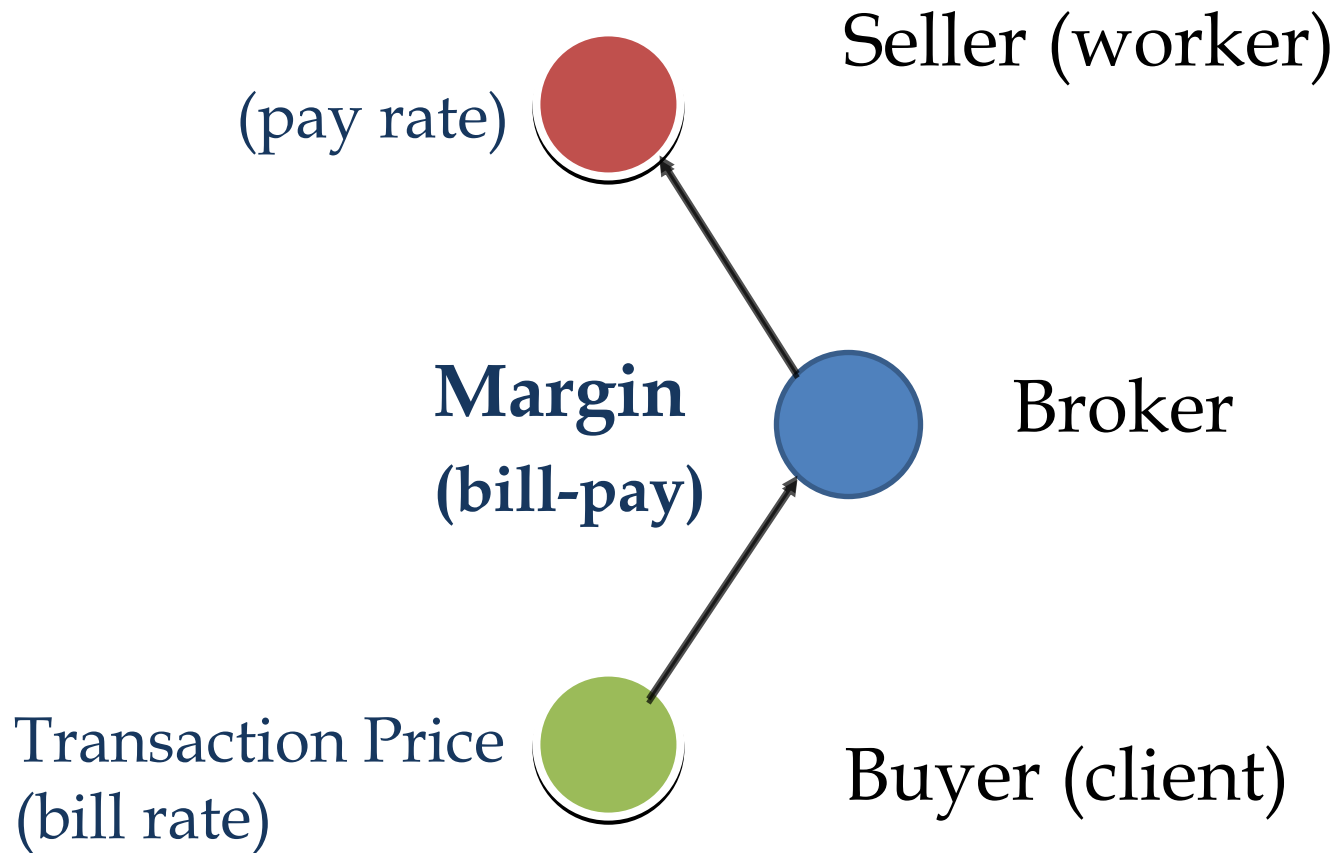
**The Growth of Temporary Help Services**

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?

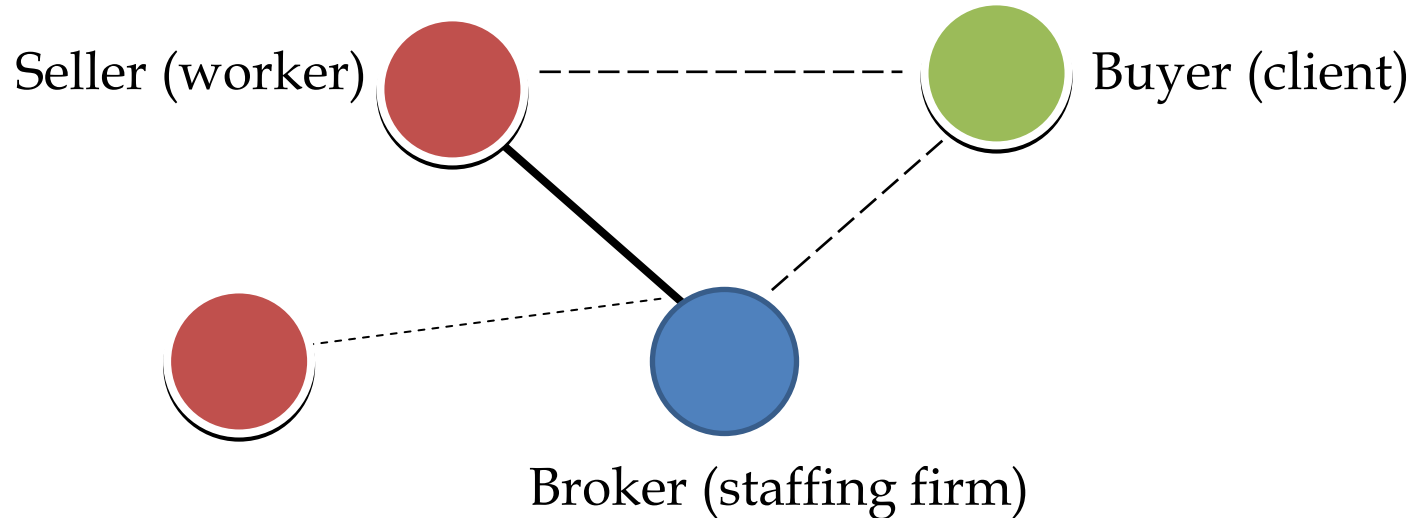
# The Structure of Market Brokerage



# Long- Term relationships and rent creation

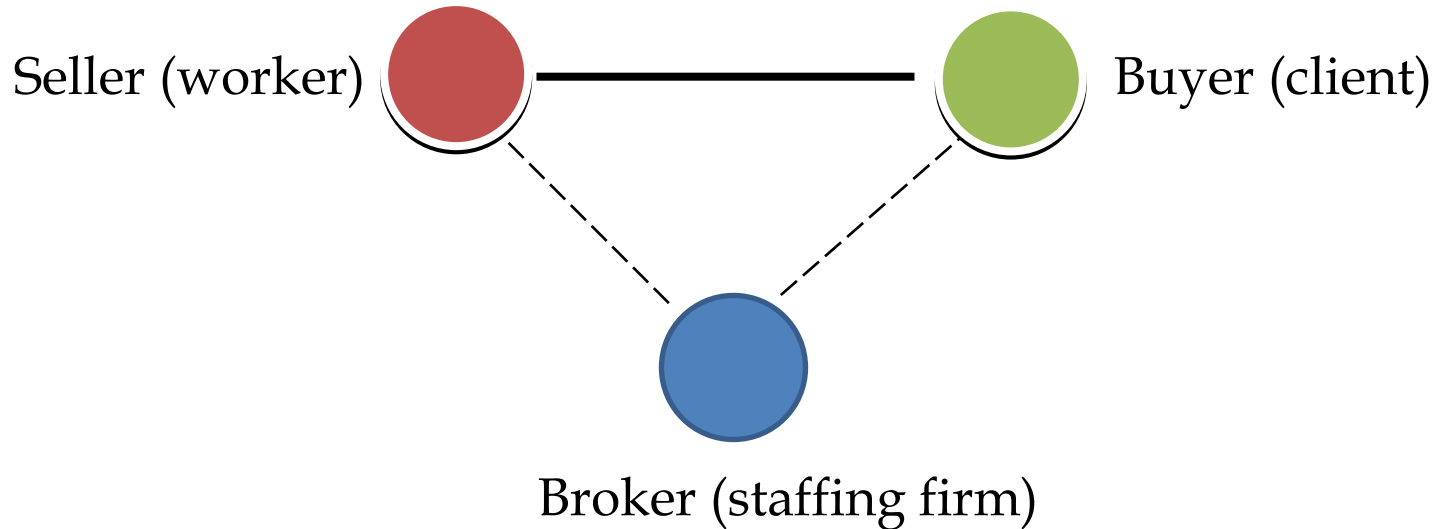
- Long-term “embedded” relationships facilitate exchange of private information (Uzzi, 1996; Hansen, 1999)
  - Broker learns more about workers over course of relationship
  - Improved information allows for “value creation” through better matches across the market
- Brokers’ rents depend on their ability 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)

# Relationships between broker and sellers



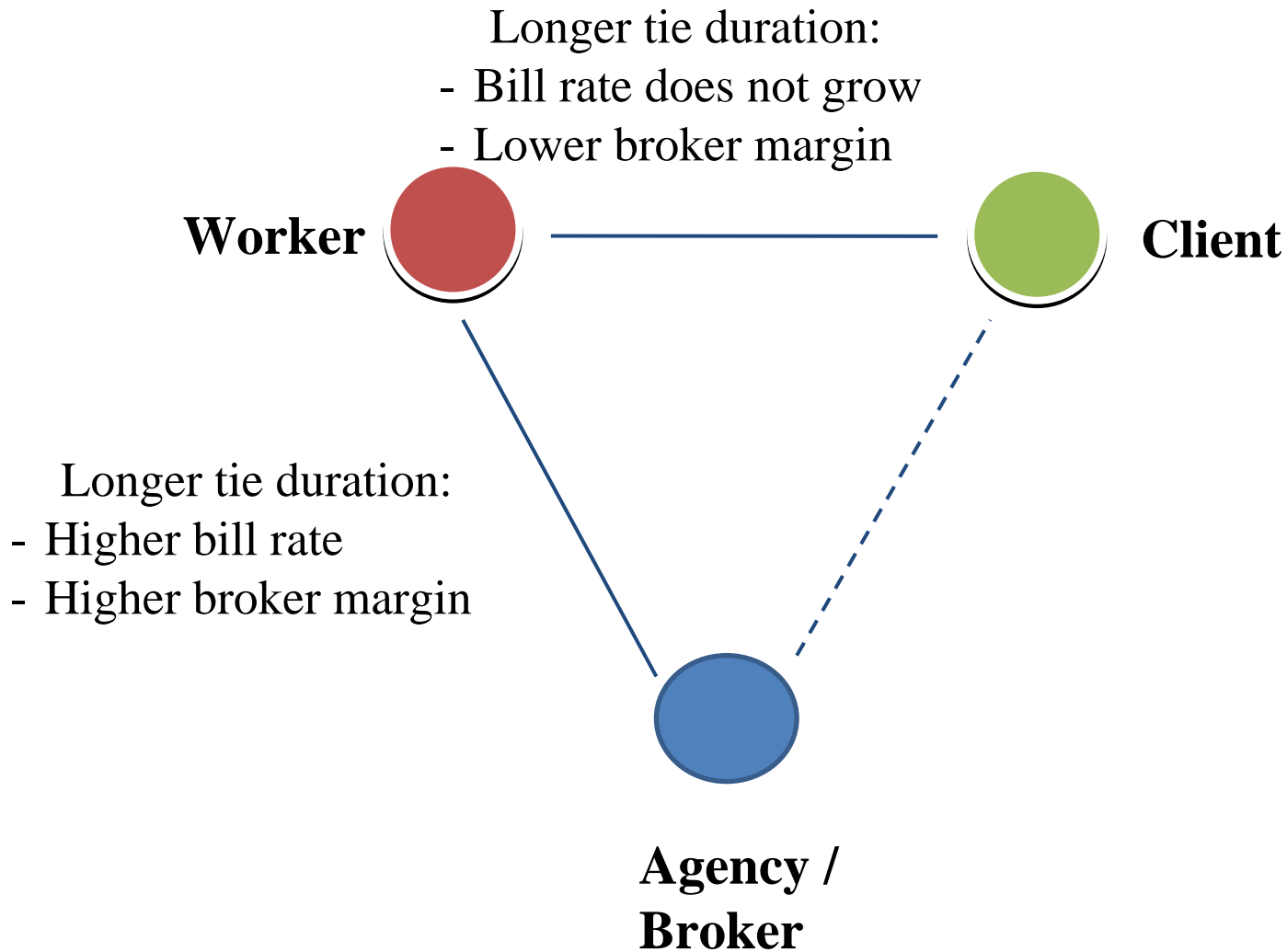
- Improved information allows broker to charge higher price to buyer when it has a longer relationship with seller (H1.a)
- Broker is able to capture more of this extra value due to its ability to maintain more long-term ties than seller (H2.a)

# 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





# 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)

	Ln (bill rate)	% Margin	Ln (pay rate)
Days with broker	0.000285** (0.000070)	0.000041* (0.0000165)	0.000177** (0.000060)
Days with client	H2a -0.000275** (0.000060)	-0.000075** H2b (0.000016)	-0.000096+ (0.000055)
Days in database	0.000324 (0.000504)	0.000173 (0.000115)	-0.000029 (0.000460)
Ln client size	0.002635 (0.002060)	-0.000742 (0.000529)	0.001902 (0.001838)
Project duration	-0.000036 (0.000070)	-0.000028 (0.000017)	0.000025 (0.000045)
Hilnbill	—	0.0279414* (0.010874)	—
Lolnbill	—	0.314160** (0.017490)	—
Observations	1467	1467	1467
R <sup>2</sup> (within)	0.38	0.48	0.37
Number of individuals	251	251	251

\*: 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)