

White Paper

# Staffing service in the context of the corona crisis



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## Staffing service providers take a stand

Private recruitment has been hit hard by the corona crisis while simultaneously making a significant contribution to overcoming the crisis and to the Swiss labor market's ability to function. Given the necessary political will, private staff leasing companies' recruitment resources could be put to even better use in the service of society and state.

### swisstaffing thanks the Federal Council:

- for extending short-time work to cover temporary employees
- for the unbureaucratic provision of liquidity support
- for the digital signature for assignment and hiring contracts

### Securing as many jobs as possible requires:

- the maintenance of low entry thresholds to the labor market via temporary work
- the long-term extension of short-time work to temporary employees, especially for working conditions that can be maintained in the long term
- the coverage of all employer contributions by the ALV unemployment insurance for social security contributions

### Avoiding waves of bankruptcies requires:

- access to liquidity support for companies
- an extension of liquidity support as the crisis continues
- a partial writing off of support measures utilized

### Better use of private recruiting resources can be achieved by the public employment services through:

- the distribution of target-group-specific information materials to job seekers about private staffing service providers
- automatic, anonymized exchange of information between Job-Room and the software used by staffing service providers
- the systematic conclusion of public private partnerships between private and public recruitment services

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## Staffing service drives integration

The corona crisis is expected to lead to an increase in unemployment to more than 4 percent in 2021. With 95,000 permanent position placements and 400,000 temporary employees a year, the staffing industry can make a significant contribution to overcoming this crisis. With its approximately 5,000 staff leasing advisors, the industry has twice as many recruitment resources as the regional unemployment offices. Three factors are key to the integration driver that is temporary work:

- Recruitment and employment via staffing service providers, together with short notice periods initially, make temporary work a form of work with low entry barriers. Experience shows that, in times of crisis, temporary work is an important job driver and helps both active and passive job seekers get back into work.
- Staffing service providers create a transparent and agile labor market. Staff leasing advisors are well connected in the economy. They use their knowledge to advise and place job seekers. They are valuable as they open doors to changing careers and sectors.
- Temporary work preserves and develops the employability of employees. Firstly, employees do not lose any of their work experience thanks to their fast integration into the labor market. Secondly, the temptraining training fund provides professional training for developing employability.

The Swiss labor market's long-term integration potential is backed up by statistics:

*One in two temporary employees seeking a permanent position find their desired permanent role within 2 years*

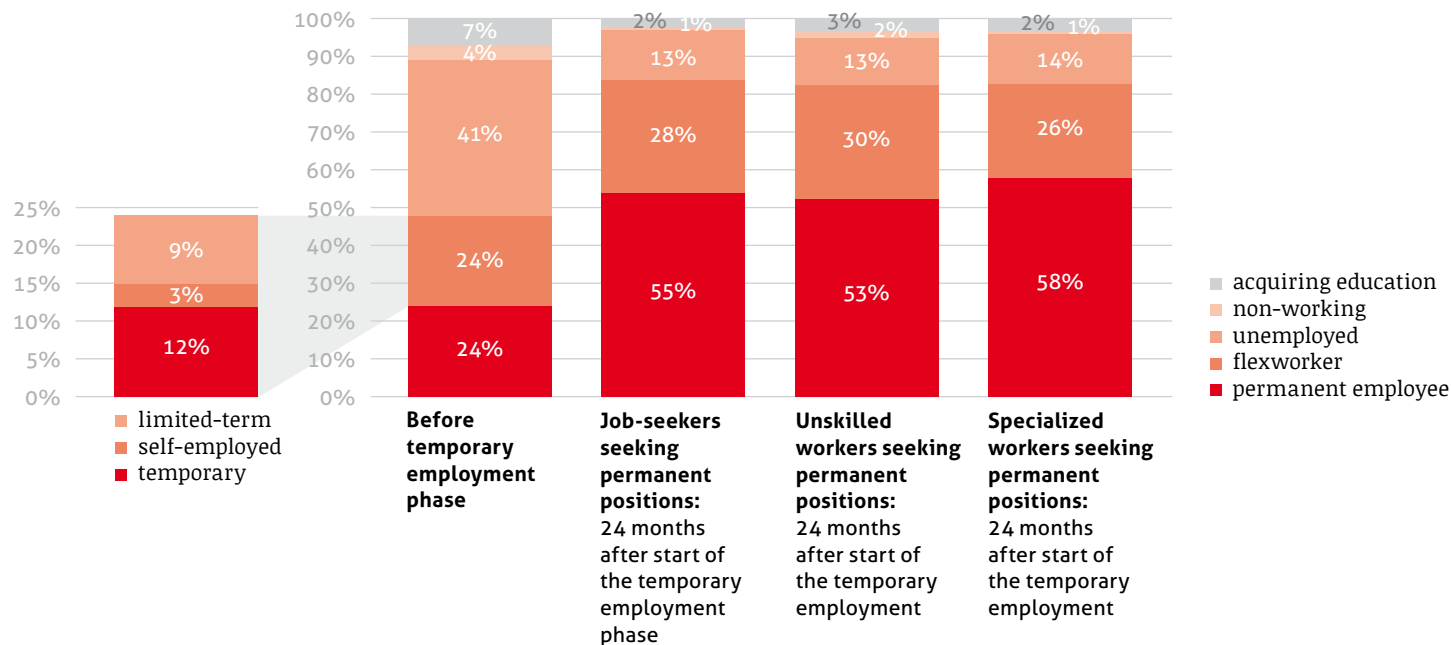
(see figure 1) – half of which at a former hiring company. The precarious situation of many self-employed people with low incomes in recent weeks has demonstrated the staffing industry's advantages in linking flexibility with social security. Freelancers who completed and/or gained their contracts via staffing service providers had access to daily sickness allowances, unemployment insurance and short-time work if required.

The Federal Council has introduced three measures during the corona crisis designed to reinforce the integration driver that is temporary work: the digital

signature, liquidity support, and short-time work for temporary employees registered via staffing service providers. This white paper provides an overview of how the crisis has affected the industry's business

activities, how the staffing industry received the various Federal Council measures, and what follow-up measures can be used to shore up the staffing industry's ability to drive integration.

**Figure 1: Employment situation of the temporary employee**



**Note:** The figure displays the employment situation of temporary employees before their last temporary employment phase in 2017 and 24 months after the start. The values 24 months after the start of the temporary phase are average partial effects based on a multinomial logit model. The flexworker category includes self-employed, temporary employees, and limited-term positions. The education category includes trainees, students, and people receiving further training. "Non-working" includes housewives and husbands and retirees.

Observations: 1953.

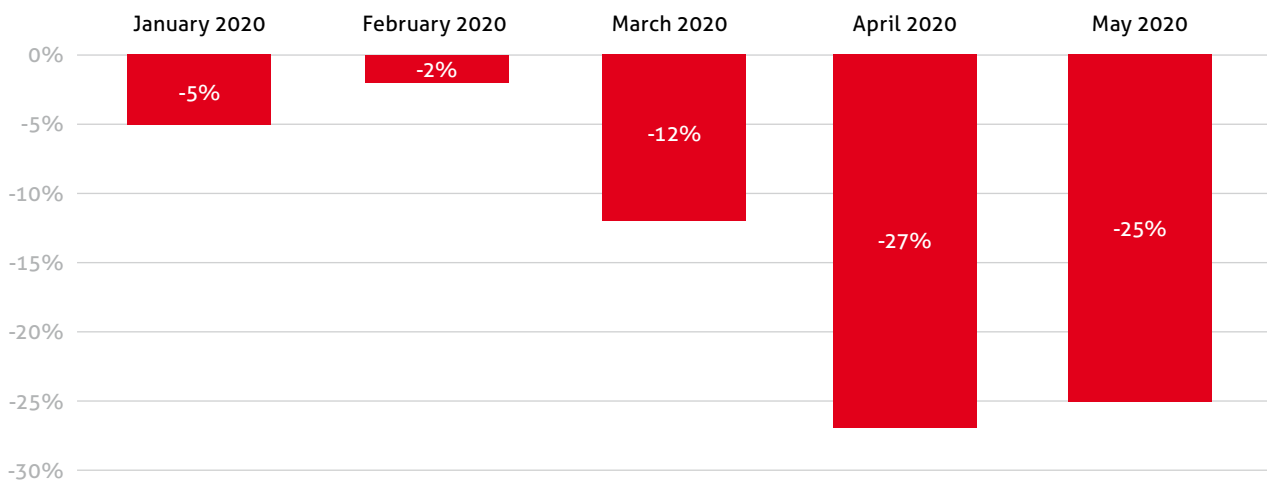
Source: swissstaffing, gfs-zürich, 2019.

## The effects of the corona crisis on business

The corona crisis has hit the staffing industry hard. According to the Swiss Staffingindex, rendered working hours in April dropped by 27 percent in comparison with the previous year. In May, the decrease was still 25 percent in comparison with the previous year despite the initial relaxations. A survey of swisstaffing members by opinion and social research institute gfs-zürich shows that the decline

is particularly pronounced in Western Switzerland and Ticino. Since the initial corona measures were introduced there, the number of temporary employees (measured by head count) has declined by 80 or 97 percent – by 44 percent in German-speaking Switzerland. Without state help, many staffing service providers would be facing economic ruin.

**Figure 2: Industry development according to Swiss Staffingindex compared to the previous year**



**Basis:** Working day-adjusted development of rendered working hours.

Source: swisstaffing, 2020.

**Table 1: Development of temporary employees in comparison to the last week before corona measures were introduced**

Region	Before lockdown	Week 1	Week 2	Week 3 – 4
Switzerland	-24%	-48%	-61%	-53%
German-speaking Switzerland	-13%	-36%	-51%	-44%
Western Switzerland	-55%	-74%	-84%	-80%
Ticino	-49%	-84%	-93%	-97%

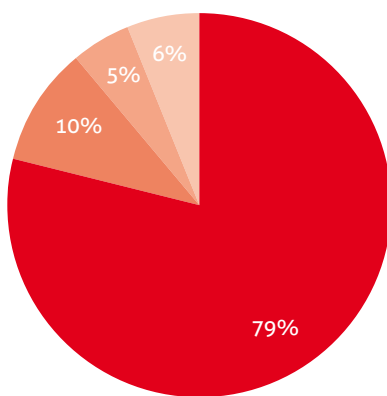
Source: March, May and April survey by gfs-zürich commissioned by swisstaffing, 2020.

## The vulnerability of the staffing industry

The staffing industry is especially vulnerable in times of crisis due to its business model. This particular vulnerability arises from the following points:

- Staff leasing companies are service provision intermediaries that directly pass on an above-average portion of their revenue in the form of wage payments to temporary employees and internal staff. 94 percent of their revenue is therefore direct running costs.

**Figure 3: Average proportion of costs in the turnover of a staffing service provider**



- Proportion of turnover spent on temporary employees
- Proportion of turnover spent on internal staff
- Proportion of turnover spent on running costs
- Profit contributions, fixed costs, margin etc.

Source: April survey by gfs-zürich of swissstaffing members, 2020.

- As legal employers, staffing service providers pre-finance the hiring companies' wage payments for temporary employees – with payment periods of 90 to 100 days. Major payment defaults or delays on the part of the hiring companies lead to insolvency and long-term excess debt for staffing service providers.
- Staff servicing providers' business model is based on leasing staff. Staff shortages due to illness, quarantine measures, childcare and shielding particularly vulnerable people hit the industry disproportionately hard.
- 82 percent of companies use temporary employees to cover their short-term staffing needs. In addition to the challenges described above, staffing service providers are faced with a major decline in business in times of crisis due to their set-up.

## Short-time work for temporary employees

### The success of measures taken

The Federal Council extended the short-time work entitlement to temporary employees on 20 March 2020. 60 percent of swissstaffing members made use of this option in May. The median member had 15 percent of temporary employees in short-time work (see table 2). This meant widespread use was made of the measure by the industry and it can therefore be considered a success. Individual circumstances should be considered when deciding whether short-time work is the correct tool to use.

### The decision-making process in practice

As the legal employers, staffing service providers are rightly applying for short-time work. In practice, this application should take place with the hiring company's agreement. The following questions in particular should be discussed with the hiring company:

- Is the loss of work due to the corona crisis?
- Is the loss of work temporary and can the job role foreseeably be maintained?
- Will the hiring company take over the employer's share of the social security contributions and the costs if a termination becomes necessary at a later date?

The first two questions relate to the expected business development of the hiring company and are legal prerequisites for an application for short-time work. The staffing service provider obtains the hiring company's assessment and does the information provision and persuasion work. The third question clarifies whether the hiring company will bear the social security contributions and potential termination costs. From an economic standpoint, this is crucial:

- The unfunded social security contributions and potential termination costs are not low. The social security contributions alone quickly add up to as much as 1,000 francs per month and employee (BVG [pension], KTG [daily sickness allowance], family allowance, FAR [flexible retirement] etc.)
- A staffing service provider's business model is based on the transfer of staff. Without passing on the unfunded costs of short-time work, the staffing service provider would become overburdened with debt. The working conditions and wage payments of the remaining employees would be at risk.

After clarifying the above questions, the staffing service provider applies for short-time work compensation.

**Table 2: Utilization of short-time work by staffing service providers**

**Utilization of short-time work by staffing service providers by employee group**

		Yes	No, planned	No	N/A
Switzerland (May)	Temporary employee	60%	7%	32%	2%
	Internal staff	79%	1%	18%	2%
Austria (May)	Temporary employee	91%	2%	7%	0%
	Internal staff	79%	2%	19%	0%

**Proportion of short-time workers (head count) in each employee group**

		Average	1 Quartile	Median	3 Quartile
Switzerland (May)	Temporary employee	27%	3%	15%	48%
	Internal staff	65%	50%	60%	95%
Austria (May)	Temporary employee	37%	NA	NA	NA
	Internal staff	60%	NA	NA	NA

**Note:** The proportion of short-time workers takes into account businesses that have not applied for short-time work by assigning them a value of 0 percent when calculating the arithmetic mean (average).

Source: May survey of swisstaffing members and OEPDL members, 2020.

**Reasons for and against short-time work**

A survey by gfs-zürich of swisstaffing members shows that, in the opinion of the CEOs, there are three reasons for using short-time work:

- The hiring companies expect a foreseeable increase in business.
- The hiring companies want to retain the employees' expertise for the company.
- The hiring companies want to save themselves the costs of termination and new recruitment.

In the experience of the CEOs of staffing companies, short-time work is an unsuitable tool in the following cases:

- The hiring companies expect a long-term loss of business.
- The hiring companies do not wish to bear the unfunded social security contribution costs.

**Measures to increase the short-time work rate**

Many companies have made use of short-time work for temporary employees, amounting to 60 percent of all staffing service providers. Yet the staffing industry has been criticized by employee organizations for allegedly not making enough use of it. The following reasons speak against a higher rate:

- Temporary employees often cover peak workloads in hiring companies. It was evident early on that many sectors would have to expect a long-term

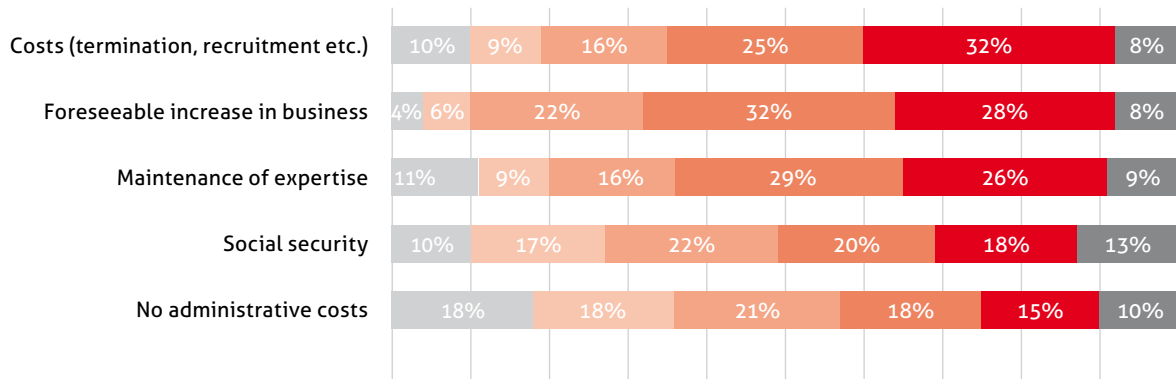
decline in business. Removing the legal stipulation that the job role should foreseeably be able to be maintained in the long term would increase the short-time work rate, but would defeat the purpose of short-time work.

- Unfunded social security contributions lead to unsustainable costs for both hiring companies and staffing companies. In Austria, the utilization rate is 30 percentage points higher thanks to proportional assumption of social security contributions. Unemployment insurance assuming social security contributions would increase the short-time work rate.

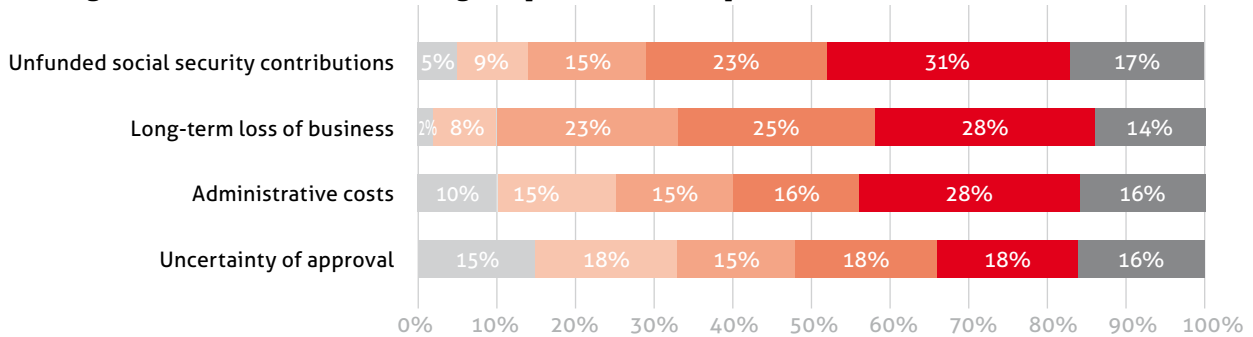
Short-time work for temporary employees could also make sense in the future if it secures working conditions in the long term. The prerequisites for this would be the unemployment insurance provider funding all social security contributions and for this measure to become a more permanent fixture so that it is supported by implementation in practice.

**Figure 4: Reasons for and against short-time work at hiring companies**

**Reasons for short-time work at hiring companies in CEOs' opinions**



**Reasons against short-time work at hiring companies in CEOs' opinions**



■ 1 = completely incorrect ■ 2 ■ 3 ■ 4 ■ 5 = completely correct ■ N/A

Source: May survey of swisstafing members by gfs-zürich, 2020.





## Liquidity support for staffing service providers

46 percent of staffing service providers made use of the government’s liquidity support in May. This measure is helping SMEs to withstand the crisis, boosting competition in the long term. Staffing service providers are using the liquidity support for two reasons:

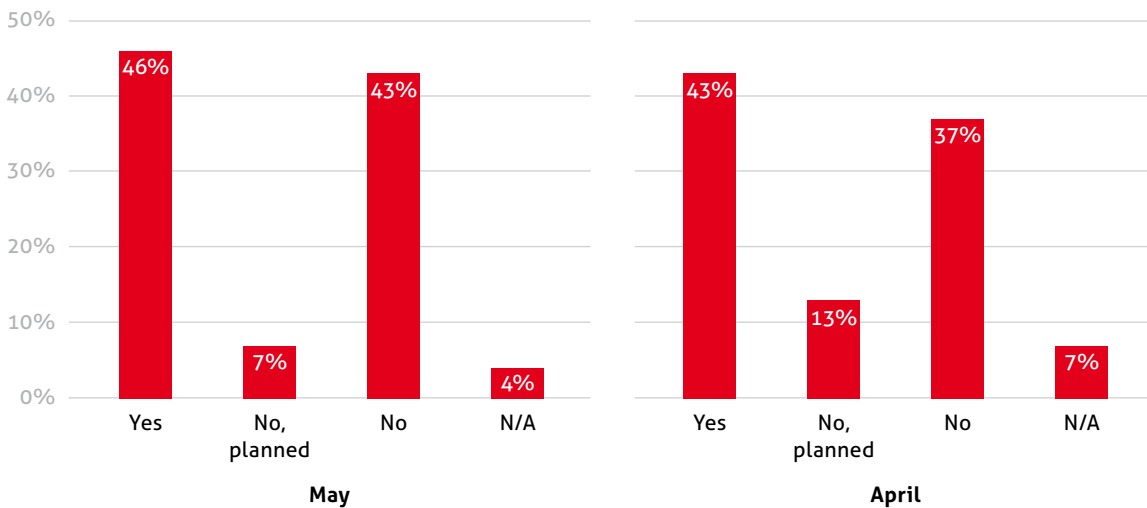
- The staffing industry was heavily impacted by the crisis. The working hours rendered by temporary employees declined by 27 percent. Depending on sector focus, the decline is as high as 100 percent in some cases, e.g. in tourism. Staffing service providers can cover their running costs thanks to the liquidity support.
- 46 percent of staffing service providers reported

a decline in payment practices on the part of their corporate clients in May, due to the crisis. Liquidity support means that wage payments for temporary employees can be financed in the interim.

Hiring company bankruptcies are to be expected as the crisis continues, which can be absorbed thanks to the liquidity support, preventing the staffing service providers going bankrupt.

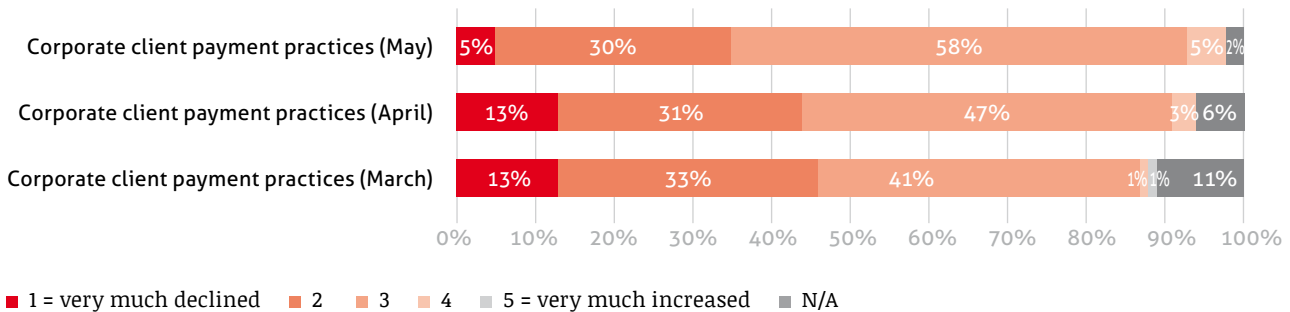
Depending on the duration and depth of the crisis, an extension to the liquidity support may become necessary and/or discussions will have to be had about a partial writing off of liabilities incurred.

Figure 5: Utilization of the liquidity support by staffing service providers



Source: April and May survey by gfs-zürich of swissstaffing members, 2020.

Figure 6: Changes in payment practices among corporate clients



Source: March, April and May survey by gfs-zürich of swissstaffing members, 2020.

## Private and public recruiters working together

*A closer relationship between public and private recruiters provides resources for overcoming the current and future crises more quickly.*

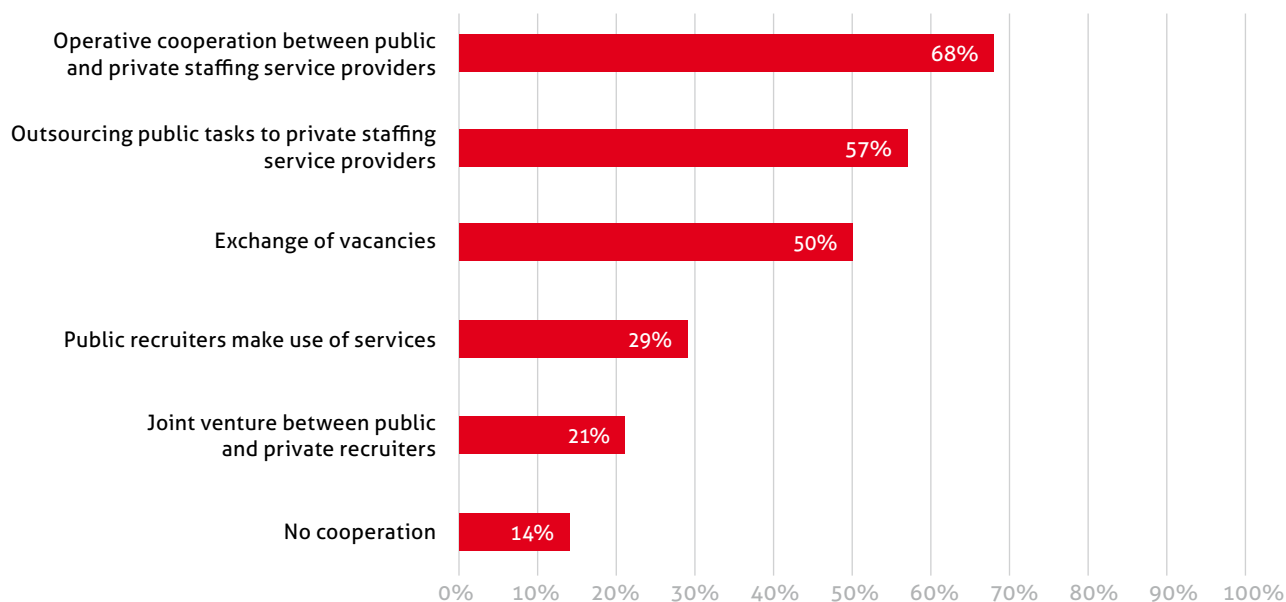
This requires the political will to consider private staffing service providers as a resource and to then make use of them. In the short term, the following activation measures can be taken:

- Regional unemployment office (RAV) personnel advisors could provide information on the successful use of private recruiters to job seekers. Suitable target groups can be defined so that they are given tailored information.
- At the temporary training fund, education benefits are only provided after attending a course. By pre-financing these training courses, the regional unemployment offices (RAVs) could make an important contribution to stimulating the labor market.

In the medium term, the following action could be taken:

- Job-Room could be digitally linked with private staffing service providers' recruiting software. Thanks to new encryption technologies, job seekers' profiles in Switzerland would be anonymized and automatically visible, and they could be contacted directly or via the regional unemployment office (RAV) as and when required. This kind of exchange mechanism would also ensure the full domestic potential was used.
- The regional unemployment offices (RAVs) could use coaching, support and recruitment services from private staffing service providers via public private partnerships, adapting the required resources to the current job situation in an agile fashion.

Figure 7: International comparison of forms of cooperation between public and private recruiters



Note: survey by the World Employment Confederation (WEC) of 28 local associations, source: WEC, 2020.

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