

Oldenburger Studien zur Europäisierung und zur transnationalen Regulierung
(ISSN: 1866-8798)

Ausgewählte Abschlussarbeiten

ST 2014/02

Social Relations and Temporary Agency Work

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Abrufbar im Internet unter:

<http://www.uni-oldenburg.de/sozialwissenschaften/cetro/publikationen/ausgewaehlte-abschlussarbeiten/>

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1. Introduction

Over the past two decades temporary agency work has undergone a period of great growth in many European countries, mostly due to an easing of regulations governing temporary agencies since the end of the 1980s (Antoni and Jahn: 2009, pp. 226-227). Although stable growth rates were visible in Germany since the early 1990s, the great ascent of temporary agency work started after the first Hartz reform and the great degree of deregulation it introduced in 2003 (Lehmer and Ziegler 2010). Since then, the number of temporary agency-workers has more than tripled reaching 878.000 in 2012, which is about 2,7% of the entire work force (Bundesagentur für Arbeit 2013). While temporary agency work still takes up a rather small share of the overall employment, and did so in 2003, expectations about a positive effect were high. Especially unemployed people should be enabled to participate in the labor market through the lowered entry threshold of temporary agency work (Hartz et al. 2002, p. 148). This type of employment was seen as a possible stepping stone for unemployed people opening an option to further employment opportunities, favorably full-time positions outside the temp agency; maybe even in the company they were lend to (Hartz et all 2002, p. 149). Although these positive effects of temporary agency work remain controversial and many studies have been conducted concerning the stepping stone hypothesis and other positive as well as negative outcomes of temporary agency work, most studies focus on the effects in general, thus compromising the position of the single individual, in particular the question how and why such effects may occur. This point of view however may promise interesting new information about the process of the stepping stone effect connected to temporary agency work. Additionally, when explaining this effect, the current literature relies on assumptions based on the human capital theory and the theory of job market signaling. Yet, when it comes to the transition into permanent employment inside a company, the effect of social capital and network ties established during the time as a temporary agency worker may play an important role in positively affecting this process, and can even be seen as a prerequisite for the human capital acquisition and the circumvention of previously bad job market signaling. Nonetheless, this perspective on the stepping stone effect of temporary agency work has mostly been ignored by current literature.

Therefore, this thesis will investigate the reasons for a permanent job placement of a temporary agency worker on the individual level. Since the discussion of positive and

negative effects of temporary agency work is mostly concentrated on the intra-company transition in Germany, this study will focus specifically on this effect and analyze the positive influence, social capital offers for this transition process. To do this and because the data is collected in a German company, it is at first necessary to present the general framework of temporary agency work in Germany, its use as well as the positive and negative aspects connected to it. Since this thesis deals with the intra-company transition of temporary agency workers on the individual level, the discussion will then focus on the enhanced chance of finding permanent employment temporary agency work allegedly offers for individuals compared to an unemployed job search. To come to a general conclusion about these effects, it is necessary to review the findings different studies have verified on this so far. Since there is no structured, consistent or at least constant research about the impact of temporary agency work in any country, the general review about the positive effects of temporary agency work will be based on a wide range of studies. A detailed assessment of temporary agency work in the given context seems necessary, because the current institutional and legal framework as well as the discussion regarding its potential for the employment agency is based on the assumptions of the stepping stone effect. Additionally, since this thesis will examine the intra-company transition of temporary agency workers, which can be defined as a subcategory of the stepping stone effect as a whole, a comprehensive literature review seems necessary.

Although most of these studies are indeed able to identify positive effects on the labor market situation, their methodological framework is limited by only using quantitative designs to compare the labor market outcomes of temporary agency workers and unemployed individuals, but not examining the reasons which actually lead to the improved chances of finding permanent employment, or the mechanisms which helped temporary agency workers to transition into permanent employment in a company they were lend to. They mostly rely on theoretical assumptions of the human capital theory and the job market signaling theory to explain their results. The theoretical explanation however remains sketchy, is not validated by individual cases studies and, as the following analysis will show, may indeed be missing important concepts. Therefore, in a next step, the theoretical framework explaining positive labor market outcomes for temporary agency workers will be examined, and the relevance of social capital and network ties will be theoretically illustrated. This illustration will show that it can be argued that social networks can even be seen as a prerequisite for the human capital

acquisition and the circumvention of previously bad job market signaling, and hence the theoretical concepts used to explain the stepping stone effect. Thus, this study will try to confirm or oppose the hypothesis, that in order to acquire human capital and to improve their market signaling, it is necessary for temporary agency workers to establish networks ties to individuals controlling these resources.

Due to the lack of micro level data and deficient research regarding the influence of social networks, this study will focus on the transition of temporary agency workers into permanent employees. The data will be collected through semi-standardized interviews, which will then be evaluated through a qualitative content analysis. The goal of this study will be to answer the question, if social networks can indeed play an important role in the intra-company transition process from temporary agency work to permanent employment, and thereby shed light on the neglected micro-level of the stepping stone effect.

2. Legal framework and labor market relevance of temporary agency work in Germany

Temporary agency work can be described as a so called atypical form of employment. Opposed to the standard form of employment, which is characterized by full-time employment with an appropriate income, integration into the social security systems and a permanent employment relationship, atypical employment deviates from one or more of these aspects. This eliminates the protective effects of the standard employment relationship and sometimes no longer guarantees a life-sustaining income (Andreß und Seeck 2007, p. 462). In recent years however, atypical forms of employment have gained more and more importance for the German the labor market. A cause for the increase of atypical employment can be seen in a labor market deregulation, realized due to widespread criticism about the lack of flexibility of the German labor market, which was seen as a cause for high rates and long terms of unemployment (Andreß und Seeck 2007, p. 462). Yet, this trend leads to a discussion about the precarity of atypical forms of employment, the future of the standard form of employment and the success of the labor market flexibilization policy (Strotman 2009). Although especially temporary agency work is controversially discussed, because it is sometimes assumed that a rise of temporary agency contracts will lead to a replacement of permanent jobs through temporary agency work, this discussion, albeit being important, will due to be discussed

further at this point, due to the focus of this thesis on the micro-level of the stepping stone effect. Still, temporary agency work can be identified as part of these new forms of atypical employment, whose influence on the labor market has significantly increased over the past ten years.

In general, temporary agency employment can be described as a tripartite relationship, whereby a temporary agency worker is employed by a temporary work agency which hires the worker out under a commercial contract to perform a work assignment at a user firm, while the agency performs as the employer and determines the wage and the terms of employment (Antoni and Jahn: 2009, p. 229). The employment contract between the temporary agency worker and the temporary work agency are liable to the usual rights and obligations connected to an employment contract valid in Germany. This includes for example the employee's entitlement to a continued payment of wages in the event of illness, holiday pay, and vacation entitlements (Dreyer 2009, p. 21). However, this tripartite relationship is additionally regulated by the law on temporary employment (Arbeitnehmerüberlassungsgesetz [AÜG]), which has been modified significantly by the Hartz reforms. The synchronization ban, which required that an employment contract between a temporary agency and the employed worker exceed the length of the first assignment by a certain period, the prohibition of fixed-term contracts, which prohibited repeated temporary limitation of a contract, and the re-employment ban, which restricted the number of times a permanent employment contract with a temp could be dissolved and renewed, were dropped. Additionally, the temporal limitation of temporary agency work was dropped and a paragraph dictating the equal treatment of temps and permanent staff was introduced, although the possibility of avoiding equal treatment through a bipartisan – labor union and employers association - labor agreement remained possible (Antoni and Jahn 2009, pp. 231-233, Burda and Kvasinka 2005, pp. 195-196; Strotmann 2009, p. 68).

These deregulations were part of the Hartz legislation and should benefit unemployed individuals by offering them a lower entry threshold for entering the labor market. This lower entry threshold is due to the argument that employers are more inclined to employ an individual as a temporary agency worker, because the employee is only hired for a defined period of time and can be released without costs after this period, thus offering a higher flexibility and chance for an employee to screen an individual over a longer period of time before hiring him permanently (Schwaab 2009, p. 37). The argument was

made that due to the deregulations, temporary agency work would become more attractive for companies to use, offering more and more unemployed individuals the chance to enter the labor market again due to the lower entry threshold. Connected to this hope was the idea, that temporary agency workers would, if they worked well enough, eventually get employed permanently by the company they were lent to. For this effect, the catchphrase "temp-to-perm" was coined (Hartz et al 2002, pp. 144-148). The argument was made that temporary agency work on the one hand would prove beneficial for the company, because it could be used as a tool to screen employees for a longer time with little to no cost and eradicate "personell-related barriers for growth", on the other hand it was considered as a tool to prevent long term unemployment periods by offering individuals an easier access to the labor market (Hartz et al, pp. 271-274). These temporary agency contracts should then over time be transformed into a permanent employment due to the individual's capability to show his ability to work and his increased value for the company. For these effects, the German term "Klebeeffekt", literally translates too "adhesive effect" referred here to as intra-company transition, was used (Hartz et al, p. 147). The tool of temporary agency work was also employed by the federal employment agency itself, by setting up temporary work agencies connected to employment offices. These agencies were called PSAs, or personal service agency.

The function of these PSAs was to place unemployed individuals inside a company for a limited period. This employment relationship was then partially subsidized by the employment agency, which paid a monthly declining, case-based fee (Leschke, Schmid and Griga, 2006, p. 17). The idea was to privilege unemployed people with employment-barriers and help them to find employment. Additionally, a negotiable premium was set if the unemployed person was able to get a permanent employment contract inside the company. Moreover, the employment agency paid for necessary training measures and education the unemployed individual needed for his potential employment. The transitions into regular employment were hence supposed to be supported by a two-sided approach. On the one hand, employers were given financial incentives to take temporary agency workers from the employment office and place them in permanent jobs; on the other hand, the PSA or the employment office in general delivered training to workers in times when they were not assigned in order to improve their employability (Leschke, Schmid and Griga, 2006, p. 17). Although it was first required by every local employment agency to implement these personnel service

agencies, its failure to integrate unemployed individuals into the labor market caused an abolition of this mandatory instruction in 2006 (Leschke, Schmid and Griga, 2006, pp. 17-19). The inability to meet the high expectations connected to the PSAs in terms of the temp to perm caused a gradual elimination of this labor market instrument. The incapability for PSAs to achieve a sustainable job placement can be explained by the well-established and better connected private temporary work agencies, as well as to the effect that temporary agency workers from the federal employment agency conveyed a certain stigma of especially unqualified individuals (Schäfer 2009, p. 5).

Nevertheless, temporary agency work is still seen as a successful way to find permanent employment through a temporary period and experienced an exceptional period of growth after its deregulation in 2003 (Schäfer 2009, pp. 5-7). Since then, the number of temporary agency workers has more than tripled reaching 878.000 in 2012, about 2,7% of the entire work force (Agentur fuer Arbeit 2013). However, it has to be noted that the use of temporary agency work differs depending on the economic sector. Temporary agency work seems still used mostly in the industrial sector, although the use of temporary agency work in the service sector remains growing (Schäfer 2009, p. 12). Regarding the gender and the qualification of temporary agency workers it has to be said that temporary agency workers are predominantly male (71%) and compared to permanent employees lower qualified. While a total of thirteen percent of all employees have no record of occupational training, the share regarding temporary agency workers is with 29 percent more than twice as high. On the one hand, the high number of men can be explained by the still very high use of temporary agency workers in the manufacturing industry, including jobs that are not predominately occupied by women. On the other hand the lower qualification can be explained by the lower entry threshold temporary agency work offers for low qualified individuals into the labor market (Bundesagentur für Arbeit 2013, pp. 14-16).

Nevertheless, it can be said that temporary agency work is seen as an important way to reduce unemployment by helping unemployed individuals to take up employment through a lower entry threshold into the labor marker, enabling them by offering a daily routine and through qualifications they receive on the job, offering them a chance to show their qualification first hand to a potential employer and thus enhancing their chances of finding a permanent employment as well as relieving the financial strain on the unemployment insurance (Brömser 2008). Nevertheless, the positive effects of

temporary agency work remain controversial, and this form of employment can also prove to have negative outcomes for the individuals.

3. Positive and negative effects attributed to temporary agency work

Not all temporary work contracts offer the chance for unemployed individuals to qualify themselves and enhance their labor market chances. Schild and Petzold (2009) for example distinguish between three different types of temporary agency jobs (Schild and Petzold 2009, p. 109). The "wage-orientated temporary agency work" relies on cheap labor and aims at establishing an operational low-wage sector inside the company. The "flexibility-oriented temporary agency work" tries to set up high flexibility of their staff in terms of employment. Only the "placement-oriented temporary agency" ultimately aims at the reintegration of the unemployed and difficult-to-place workers in the primary labor market and can be considered as a chance to enhance the labor market outcomes (Schild and Petzold 2009, p. 109). Although such a distinction can be described as sketchy, because temporary agency work may offer positive or negative labor market outcomes for individuals despite the company's strategy regarding the use of temporary agency work, it nonetheless offers an important reference to the different use and outcome of temporary agency work depending on the company's policy.

Connected to this categorization is the discussion about equal pay and equal treatment of temporary agency workers. Even though it is stated that temporary agency workers should receive equal treatment compared to their permanent employed counterparts, it is possible to circumvent this law through bipartisan labor agreements as well as different wage classifications of temporary agency workers. While a temporary agency worker may on a daily basis perform similar tasks as a permanent employee, his or her formal classification, defining the work requirements and the wage, may differ from permanent employees. However, since this study will mainly focus on the intra-company transition of temporary agency workers on the individual level, the discussion of the different chances of temporary agency workers of finding permanent employment depending on the company's strategy and the discussion about equal treatment of temporary agency workers will not be investigated further.

Still, when it comes to the temporary agency work discourse, the advantages, especially for the companies using it, remain highlighted. For a company, temporary agency work

means firstly the possibility of enhancing one's personal flexibility. It offers an advantage, when a company, for example during uncertain economic situations or during an unexpected production peak, prefers creating flexible jobs instead of permanent employment (Schwaab 2009, p. 37). Additionally, it is possible for a company to save labor recruitment and administration cost by relying on a temporary work agency. Especially for shorter periods of employment, it can be cheaper for a company to rely on external personnel agencies than to arrange the recruitment process themselves. However, especially regarding the long-term employment, temporary agency workers under the permission of equal pay and equal treatment, are to be considered as more expensive than permanent employees, because a company has to pay a fee to the temporary work agency in addition to the wages of the employee. Thus, it is assumed that if a company wants to hire an individual on a longer basis, it becomes cheaper at a certain point to hire him permanently than to prolong the contract with the temporary work agency (Schwaab 2009, pp. 37, 41).

Additionally, temporary agency work offers employers a chance to test an employee over a longer period of time, to confirm if he is indeed the right person for a job. Therefore, temporary agency workers may be inclined to work especially hard to get a permanent employment, which could be considered another advantage for the company (Moser und Galais 2009, p. 61). Nonetheless, this flexibility may also prove to be a disadvantage for a company. Since a lending period is mostly scheduled for a number of weeks or months, it may be entirely possible that the temporary agency chooses another company over the company he was lend to after his initial temp period. If an initial training process is necessary to ensure the quality of work of a temporary agency worker, lending a new individual has additional costs, which makes a replacement of one temporary agency worker through another one difficult and more costly (Schwaab 2009, pp. 37-39).

Although also for an employee the positive effects of temporary agency work in terms of offering a bridge into permanent employment are often highlighted, there are also certain negative effects of temporary agency work that should not be neglected (Promberger 2006). When it comes to the reasons for taking up temporary agency work, it can be said that it is mostly used as a form of employment by individuals who do not have a better labor market perspective. It is seen as a chance to collect important qualifications during their time of temporary employment, which should enhance their

labor market outcomes and help them to find permanent employment (Moser und Galais 2009, p. 51, Segal and Sullivan, 1997, p. 121). The temporary work agency in this case serves as an intermediary, which should help the individual to find adequate employment. The argument is made that temporary agency work is considered better than unemployment, because it offers individuals the chance to upgrade their qualifications, improve their labor market situation and hence have a higher chance of finding a permanent employment. This argument, that temporary agency work can prove to be a bridge from unemployment into permanent employment, and in this context may prove to be more successful in finding permanent employment than an unemployed job search, is seen as the core benefit for individuals who join a temporary work agency. Although a rise in well qualified, especially young people joining temporary agency work to get a better overview of the labor market and the work opportunities in it has to be acknowledged, these individuals use temporary agency work to test different employees to find the perfect job for them individually. These people still make up a rather small portion of temporary agency workers, are not the ones compliant with the stepping stone theory (cf. Garsten 2008). This is mostly due to the fact that these individuals are usually highly qualified and do not have a problem finding permanent employment outside a temporary work agency. The framework of the stepping stone hypothesis, as well as the framework of this thesis, focuses on individuals who take up temporary agency work primarily because they consider it their best option due to a relatively weak labor market position.

Hence, especially for these individuals, temporary agency work may also be connected to a lot of psychological stress because they are confronted with the possibility that their employment is ended after their current ending contract. Consequently, their income security is fairly limited. Moreover, it is possible that temporary agency workers are seen as second class employees by future employers, causing a succession of temporary contract by temporary contract. A stigmatization process may also take place inside a company, because permanent employees may see temporary agency workers as contestants for their jobs, leading to different forms of harassment (Moser and Galais 2009, p. 53). Nevertheless, mostly due to lacking alternatives, temporary agency work is seen as a way out of unemployment and a chance to find permanent employment, or even employment in general, again. However, whether temporary agency work proves to lead to favorable labor market outcomes is still controversially discussed and a number of studies have already been conducted regarding this topic. To come to a

general conclusion about these effects, it is necessary to review the findings different studies verified around this topic have to offer. Since there is no structured, consistent or even constant research about the positive impact of temporary agency work in any country, the general review about the positive effects of temporary agency work will be based on a range of studies.

4. Current Research

The research concerning temporary agency work and its various effects can at best be described as heterogeneous. Although various aspects of temporary agency work, as well as temporary work in general, have been studied, long-term comparative studies about the positive and negative effects of temporary agency work are rare, and those existent differ greatly regarding the methodologies employed, institutional settings investigated and populations of workers considered, which makes it nearly impossible to draw any general conclusions about positive or negative effects of temporary agency work (Kvasnicka 2008, p. 5). While in general most studies favor the positive aspects and support the hypothesis of temporary agency work offering a stepping stone to a more regular and stable employment, some studies introduced impeding effects of temporary work, thus blurring the image. To give an adequate overview of the different results with regard to positive and negative effects of temporary agency work, it seems necessary to primarily differentiate between the different stepping stones identified by the literature that temporary agencies might be able to offer. One possible positive effect can describe the improved chance of finding employment, meaning any form of employment, in the future and should here be named the ‘access to work function’, as coined by Kvasnicka (2008, p. 24). This effect describes the possibility of temporary agency work to improve the labor market participation of the unemployed through offering a lower entry threshold regarding the labor market entrance. Another positive effect can describe the transition into regular, at best but not necessarily full-time, employment outside of the temporary work sector. This effect will be referred to as the stepping stone effect, because temporary agency work may offer a better chance when it comes to the transition into regular employment than the regular unemployed job search (Promberger 2006). A third effect, which will be the main topic of this study, describes the job transition from temporary agency work into regular employment in the client company after the temp contract ended, the intra-company transition, so to speak. This

effect, in Germany usually labeled as the “adhesive effect” (Klebeeffekt), describes the improved chance of temporary agency workers to be hired by the company they were lent to in comparison to people outside the company. To come to a conclusion regarding possible positive effects of temporary agency work, it seems necessary to compare the different empirical findings regarding the various effects. Due to the fact that these empirical findings mostly consist of case studies conducted independently from each other, and therefore differ greatly regarding their design, and because a long-term research on these effects is nonexistent in any country, it seems necessary to compare the results of these studies conducted throughout different countries to be able to draw a remotely general conclusion about the existence of these positive effects.

4.1 Access to work function

On the subject of the access to work effect of temporary agency work, a number of studies have shown that temporary agency work improves the likelihood of being employed a certain time span later in comparison to those who continued their job search remaining unemployed.

For the American labor market, Addison and Surfield (2005) compared the employment carriers of temporary agency workers and examined, the likeliness of continues employment for jobless who selected temporary agency work, compared to jobless who opted to continue their job search without temporary agency work (Addisison and Surfield 2005, p. 12). Their findings support the hypothesis that, at least for the American labor market, the use of temporary agency work increases the employment stability of an unemployed individual over the course of one year. In fact, Addison and Surfield conclude that compared to individuals who continued their job search unemployed, unemployed people who took up temporary agency work had a higher probability, 21 percentage points, to be employed one year later. (Addisison and Surfield 2005, p. 16). This leads to the conclusion that over the time span of one year, the jobless who took up temporary agency work were more likely to remain employed than those who may avoided such employment in search of a better offer. Their study additionally suggests that atypical employment may not differ materially from open-ended employment in generating employment stability, since the jobless individuals who took up temporary agency work were just as likely to remain employed as those who accepted an offer of regular employment (Addison and Surfield 2005, p. 17; 19).

Concluding, it can be said that according to Addison and Surfield, there seems to be no evidence that taking an temporary agency job, rather than continuing the job search, only results in a short-term reemployment gain and that temporary agency work does not harm jobseeker in the medium run (Addison and Surfield 2005, p. 16). Temporary agency work in this case offers an access to work for unemployed individuals and a higher probability of being employed a year after their initial temporary work.

A slightly different study, also focusing on the American case, was conducted by David Autor and Susan Houseman (2005a). Using the data of the Michigan "Work First" program, in which the state acted as a quasi temp agency, providing welfare recipients with temporary jobs in a large number of different local businesses and nonprofit organizations, the authors researched if holding temporary help jobs, compared to direct hire placement, facilitates a labor market advancement for the unemployed, low skilled workers participating in this program (Autor and Houseman 2005a, pp. 1-3). Their findings suggested that taking up a temporary help job improved their earnings over a short period of time (Autor and Houseman 2005a, pp. 23-25; 34-36). Although these findings support the access to work function of temporary work initially, long-term benefits of temporary agency work proved to be nonexistent. On the contrary, the initial gains were equalized by less frequent employment, lower earnings and potentially higher relapse into welfare over the next two years compared to direct-hire jobs (Autor and Houseman 2005a: pp. 34-35, Author and Houseman 2005b, p. 29). Therefore, this study firmly disproved a potential access to work function of temporary agency work.

In contrast, most European studies agree, at least regarding the access to work function, on the positive effect of temporary agency work (Andersen and Wadensjö 2004; Barbieri and Sesito 2008; de Graf-Zilj, van den Berg and Heyma 2011; Lehmer and Ziegler 2010; Kvasnicka 2008; Jahn and Rosholm 2010). In the case of Germany, an important case study was done by Michael Kvasnicka (2005), describing the positive effect of offering unemployed people an improved chance of finding employment in the future after taking up temporary agency work and thus coining the term "access to work" function (Kvasnicka 2005, p. 24). Using long term administrative data from the federal employment agency, Kvasnicka compared the probability of regular employment, temporary agency work and unemployment for unemployed people who took up temporary agency work at a certain point with people who choose not to, over a four year period (Kvasnicka 2005, pp. 12-13). His findings indicated that individuals

who left unemployment for temporary agency work were significantly more likely throughout the whole four year period after they entered agency work to be employed. Furthermore regarding the chances of finding any employment which is subject to social security contributions, unemployed individuals who joined a temporary work agency had a higher chance than individuals who did not. This likelihood, despite being significantly higher in the beginning, declined rapidly over the first eight to nine months, and roughly stabilized at around 17 percentage points after two years at (Kvasnicka 2005, pp. 24-25). Additionally, the probability of unemployment was significantly reduced for temporary agency workers in their first six months after entering a temporary work agency. Whereas this effect was reversed between six months and two years after the initial temp period, it turned statistically indifferent from the risks of unemployment experienced by unemployed individuals who did not join temporary agency work, thus disproving any long-term harm of temporary agency work on employment careers (Kvasnicka 2005, p. 26). These findings therefore strongly support the theory that temporary agency work improves the chance of finding employment in the future, compared to an unemployed job search, although the initial positive effect might be reversed due to an increased risk of unemployment, which may be attributed to the unstable nature of the employment in the temporary work sector (Moser und Galais 2009, p. 54).

Concluding the case of the access to work function, current literature suggests that temporary agency work, at least in various European labor markets, offers unemployed individuals an improved chance of finding employment, meaning any form of employment, in the future. Even though studies by Author and Houseman (2005a; 2005b) suggest for the American case, that temporary agency work can indeed prove to be harmful for future employment careers with respect to payment and employment chances, the overwhelming majority of studies points out that temporary agency work increases the likelihood of finding employment in contrast to a regular job search and therefore serves as an improvement rather than an obstacle when it comes to accessing work in general. When it comes to the next step though, the transition from temporary agency work into regular employment, also compared to the chances of finding a regular job without temporary agency work, the positive effect of temp work remains partially controversial

4.2 Stepping stone effect

The stepping stone effect generally refers to the chance of temporary agency work to offer unemployed people a bridge into regular employment (Jan and Rosholm. 2012, p. 2; Kvasnicka 2005, pp. 2, 4-5; Promberger 2006, p. 10). The underlying assumption is that formerly unemployed people are able to acquire skills and gain work experience in temporary agency work jobs which will increase their productivity and thus improve their position on the labor market and enhance their chance of finding full time open end employment. Additionally, temporary agency work may prove to be a more effective way to search for regular employment, because it offers a chance to provide different opportunities due to a number of different work assignments, as well as a chance to prove their skills to potential employers (Kvasnicka 2005, pp. 3-4). Besides these positive effects however, there are also possible negative effects of temporary agency work. One example is the risk of stigmatization of temporary agency work, or even temporary work in general, meaning that temporary agency work might be a negative signal for employers, thus limiting the chance of finding regular job for temporary agency workers, which may lead to a continues long term cycle of temporary employment (Booth, Francesconi and Frank 2002, p. 189). Additionally, temporary agency workers may face resentment inside a company's workforce, usually due to the fear of regular employees of losing their job, thus limiting their probability to acquire skills on the job, harming their health and generally limiting their chances of finding regular employment (Boyce, Ryan and Imus 2007; Purcell, Brook and Lucas 2011). To confirm if either positive or negative effects of temporary agency work are prevalent, it is necessary to take a closer look at a number of empirical studies conducted on that topic.

Positive effects of temporary agency work for the German labor market were for example proven by a case study conducted by Lehmer and Ziegler (2010). Comparing the employment careers of unemployed individuals with and without a temporary agency work engagement and different employment backgrounds, the authors were able to prove the existence of stepping stone effects for the unemployed who joined a temporary work agency, although they differed depending on their occupational background. Their findings suggested that unemployed individuals who took up temporary agency work had a 17 percent higher chance of finding regular employment over the course of two years than individuals who did not join a temporary work agency

(Lehmer and Ziegler 2010, p. 6). But these effects differed regarding the employment background of the unemployed involved. Especially people with overall low work experience in the two years before their temporary work employment faced significantly higher risks of sliding back into unemployment and a lower chance of finding employment outside a temp agency. While the results only differed very slightly between people who were, before their unemployment period, mainly employed in temporary work agency and people who were mainly employed outside a temporary work agency, both groups showed a significantly higher chance of finding permanent employment after their temp period than people with low work experience (Lehmer and Ziegler 2010, p. 4). Although a stepping stone effect of temporary agency work was, in this study, visible regardless of their occupational background, unemployed people with relatively few work experience faced a higher chance of falling back into unemployment.

A different assessment of temporary agency work in Germany was given by Kvasnicka (2005). Using long term administrative data from the federal employment agency, Kvasnicka study, despite confirming the access to work function of temporary agency work, did not support the stepping stone hypothesis (Kvasnicka 2005, pp. 24-26). Albeit joining a temporary work agency had no long-term negative effects for unemployed individuals, it likewise did not facilitate higher chances of finding regular employment than an unemployed job search, thus questioning the stepping stone hypothesis of temporary agency work in general (Kvasnicka 2005, pp. 22).

Although the research for the Germany labor market remains controversial, different studies conducted in different labor markets tend to tell another story. Studies conducted in Denmark (Jahn and Rosholm 2010) and Sweden (Andersson and Wadensjö 2004) found highly positive labor market outcomes for individuals who choose temporary agency employment over a regular unemployment job search. In Denmark, the authors examined the time needed for unemployed workers to find another, non-temp based job, comparing individuals who joined a temporary work agency with people who did not (Jahn and Rosholm 2010, pp. 8). Their findings suggested that taking up temporary agency work offered unemployed people a significantly better labor market position and a higher chance of finding regular employment faster, thus supporting the stepping-stone hypothesis (Jahn and Rosholm 2010, pp. 24-25). Additionally, according to the authors, the success of temporary agency work was connected to the overall labor

market performance. A better labor market performance seems to aid the stepping stone effect, because employers, due to a labor shortage and a lack of qualified employees, used temporary agency work more often as a way to screen potential candidates, thus offering temp workers a chance to overcome potential stigmatizing effects (Jahn and Rosholm 2010, p. 25). Both studies also found especially high benefits of temporary agency work for non-Western immigrants and second generation non-Western immigrants, although they were unable to identify if these effects were due to a better market signaling, an enhanced human capital or better social networks (Andersson and Wadensjö 2004, p. 17; Jahn and Rosholm 2010, p. 25).

A different study was conducted for the Dutch labor market by de Graaf-Zijl, van den Berg and Heyma (2011), who, due to data limitations, included the effect of picking up temporary jobs in general, meaning fixed term jobs without an explicit agreement to become permanent, on-call contracts, subsidized temporary jobs and temporary agency work, in their research (de Graaf-Zijl, van den Berg and Heyma 2011, p. 118). Using longitude panel data collected by the Dutch labor institute (OSA), the authors, using the timing of events method, compared transition rates from unemployment to temporary employment, from unemployment to regular employment and from temporary employment to regular employment (de Graaf-Zijl, van den Berg and Heyma 2011, p. 112). Analyzing the effect of temporary employment for the employment opportunities of unemployed individuals, their study suggested that temporary work in general proved no harm for unemployed individuals regarding their chances for future permanent employment. Although temporary workers initially had a slightly lower transition rate into regular work than unemployment, this changed after the temporary work lasted longer than one and a half years, which might be, according to the authors, due to human capital acquisition or an advanced social network (de Graaf-Zijl, van den Berg and Heyma 2011, p. 135).

Also researching temporary jobs in general, Barbieri and Sesito (2008) found similar positive effects for labor market outcomes of temporary employment in Italy using data from the Labor Force Survey (LFS) Their study, focusing on job satisfaction, suggested that temporary agency work had a positive influence on future employment satisfaction. Compared to a transition from unemployment, people who took up temporary jobs had a 30 percentage point higher probability of finding satisfactory employment one year after their initial unemployment spell (Barbierie and Sesito 2008, pp. 148-152). This

lead to the conclusion that temporary employment in Italy, including temporary agency work, had no negative influence on future labor market outcomes regarding the probability of finding satisfactory employment, thus rather suggesting the existence of a stepping stone effect than a stigmatization effect (Barbierie and Sesito 2008, p. 146, 152).

A similar study, using BHPS¹ panel data and examining the employment effects of temporary employment on the career prospects, but focusing on payroll earnings, was conducted by Booth, Francesconi and Frank in Britain (2002). Although in general, temporary workers reported a lower level of job satisfaction compared to regular, full time employees, it nevertheless offered a stepping stone into regular employment, which was also confirmed by a later study based on the LFS by Forde and Slater (Booth, Francesconi and Frank 2002, p. 211; Forde and Slater 2005, pp. 263-265). Despite these positive effects, temporary work caused a wage growth penalty even long after a transition into regular employment, thus giving a rather mixed result regarding the stepping stone effect (Booth, Francesconi and Frank 2002, pp. 211-212). Although temporary jobs offered a bridge into regular employment, they also caused a wage penalty even ten years after a transition from a temporary job into regular employment, thus indicating a certain stigmatization effect of temporary agency work.

Despite the fact that researching the effect of taking up temporary jobs in general without differentiating between the different types of temporary work can give some evidence regarding the stepping stone effect of temporary agency work, these results have to be interpreted cautiously. Due to the lack of comparative studies regarding temporary agency work, it is necessary to include the results of these studies, although it seems crucial to differentiate between the labor market outcomes of different temporary jobs. An important study concerning this topic was done by García-Pérez and Muñoz-Bullón (2009) for the Spanish labor market, focusing especially on young people (García-Pérez and Muñoz-Bullón 2009, p. 104). Their results showed that not only the transition from temporary jobs into permanent jobs was less likely than the transition from unemployment into a permanent job (García-Pérez and Muñoz-Bullón 2009, p. 111), confirming previous findings by Güell and Petrongolo (2007), but also that temporary agency workers were, compared to people employed in other forms of temporary employment, like fixed term contracts, substantially less likely to enter into

¹ *British Household Panel Survey*

regular employment (García-Pérez and Muñoz-Bullón 2009, p. 137). Therefore, their study heavily questioned the existence of a stepping stone effect of temporary agency work in general, and further highlighted the inferiority of temporary agency work when it comes to a transition into regular employment compared to other forms of temporary contracts, thus amending the positive results of other studies concerning the positive effects of temporary employment to a certain extent.

Due to these mixed findings regarding the stepping stone effect of temporary agency work, it seems difficult to come to a general conclusion. Although the majority of studies seem to favor a positive effect of temporary agency work regarding the transition into permanent, full time employment, these positive effects are by no means undisputed. Regarding these findings, one also needs to keep in mind the difference of these studies regarding their methodological approach – some studies investigate different types of atypical employment form, subsumed ’’under the ambiguous catch-all term’’ (Kvasnicka 2008: 7) ’’temporary employment’’ (Addison and Surfield 2006; Booth, Francesconi, and Frank 2002; de Graf, van den Berg, Heyma 2009) -, different groups of unemployed people – young people (García-Pérez and Muñoz-Bullón 2009); work first recipients (Autor and Houseman (2005a, 2005b) – as well as different institutional settings with regards to the legal framework and the labor market performance. This makes the assessment of temporary agency work even more difficult, especially considering that the successful transition from temporary agency work into permanent employment might be highly dependent of the general rigidity of the labor market itself (Antonini and Jahn 2009, p. 245; García-Pérez and Muñoz-Bullón 2009, p. 138; Ichhino, Maelli and Nannicini 2008, p. 325). However, one can argue that a general trend pointing towards the positive aspects of temporary agency work and the stepping stone hypothesis is visible. Temporary agency work seems to offer a better labor market outcome than the unemployed job search, at least in most European countries. Although positive outcomes of temporary agency work remain controversial for the American and the British and mostly absent for the Spanish labor market, case studies conducted in the Netherlands, Sweden, Denmark, Italy and Germany found a rather positive effect on the transition into regular employment for temporary agency work. Albeit the extent of the effects differed between these countries, it can be said that temporary agency work can be generally considered as a stepping stone. Nevertheless, besides the general stepping stone effect of temporary agency work, there is also the intra-company transition of an employee, which can be described as a specific part of

the stepping stone theory. Although this effect is only rarely discussed in the international literature it plays a central role for the German labor market and the discussion about the positive and negative effects of temporary agency work (Strotmann 2009, p. 77).

4.3 Intra-company transition

Regarding the transition from temporary agency work into regular employment in the client company, most studies focus on measuring the effect by analyzing the labor turnover of the temp sector rather than analyzing its cause. Similar to the research about the stepping stone effect of temporary agency work in general, there are only very few studies, most of them using completely different methodical designs (Burda and Kvasnicka 2006, p. 206). Most of these studies try to measure the extent of the intra company transition by examining the labor turnover of the temporary agency work sector and quantifying the number of workers who found a permanent employment in the company they were lent to. Using company panel data, collected by the IAB-Betriebspanel, Promberger (2006) estimated that about 12 percent of all temporary agency workers were able to find permanent employment in their client company (Promberger 2006, p. 119). A different study focusing only on Baden-Württemberg and using data from the federal employment agency however estimated that only around 7 percent of temporary agency workers were able to find permanent employment in the company they were lent to (Strotmann & Vogel 2004, Strotmann 2009, p. 77). Other studies, using panel data from the Cologne Institute for Economic Research (IW) estimated that 15 percent of all temporary agency workers were able to transition from temporary to permanent employment (IW 2011, p. 32), while studies using data from temporary work agencies estimated that up to 30% of temporary agency workers were able to transition into permanent employment (Weinkopf and Vanselow 2008, p.8). This significant difference in assessing the intra-company transition rate, depending on the data used, indicates how controversial this topic is discussed and leads to the conclusion, that, although intra-company transition seems to be happening, a consistent measurement is almost impossible. More importantly, although this descriptive design may be able to measure the number of people who found employment in a company directly after their temp period, the definite connection of temp work and regular employment remains hard to pin down, because these results cannot answer the question how the job search would have ended for these people if they had not joined a

temporary work agency (Kvasnicka 2008, pp. 5-6; Strotmann 2009, p. 78). To address this problem, one study based on the panel data of the Cologne Institute for Economic Research used additional employer survey data to identify if the individuals employed by the companies would have gotten the permanent job without a temp period. Their findings were that 75% of the employers stated that they would not have employed a temporary agency worker if he had not been working as a temp in their company beforehand (IW 2011: 32-35). Unfortunately, the research regarding the intra-company transition of temporary agency workers remains fairly limited. There are no studies available measuring the percentage of workers finding permanent employment in the company they are lent on an annual basis and the ones measuring it, are usually unable to add data on the employees perspective on the influence of the temp period for the permanent employment. Similar to the research conducted regarding the stepping stone effect in general, studies that include the individual perspective are very rare, and the question of why these effects occur are usually not answered sufficiently enough.

Coming to a general conclusion with regards to the current research done regarding this topic, it can be said that temporary agency workers transitioning into permanent jobs in the company they are lent to, is indeed happening, even though the exact numbers remain controversial. Moreover, it seems likely that they would not have gotten the job without a previous period of temporary employment. However, although studies conducted about the stepping stone effect in general seem to prove a general positive effect on the chance of finding regular employment, and the existence of intra company transition in Germany can be confirmed, none of these studies are examining the reasons which actually lead to the improved chances of finding permanent employment, or the mechanisms which helped temporary agency workers to transition into permanent employment in a company they were lent to. This individual perspective though, seems to be extremely relevant to understand the effect temporary agency work is having on an individual and how this atypical type of employment is able to improve the labor market outcomes of individuals, compared to an unemployed job search. Therefore, it seems relevant to ask the question why and how such stepping stone effects may occur on the individual level. However first, it is necessary to identify the theoretical framework of the stepping stone effect.

5. Theoretical framework of the stepping stone hypothesis

Although most studies are indeed able to identify positive effects on the labor market situation, the methodological framework of these studies is limited by only using quantitative methods to compare the labor market outcomes of temporary agency workers and unemployed individuals, but not examining the reasons which actually lead to the improved chances of finding permanent employment, or the mechanisms which helped temporary agency workers to transition into permanent employment in a company they were lent to. To explain their results, they rely on theoretical assumptions of the human capital theory and the job market signaling theory. Since this work will focus empirically on the intra-company transition of temporary agency workers into permanent employment, in this part, these theories will be explained further and applied to this part of the stepping stone effect. However, as will be argued later, this theoretical explanation remains somewhat sketchy and mostly ignores the possible influence of social capital and social network ties. Yet, since it can be argued that social capital can indeed be seen as a prerequisite for the acquirement of human capital and the circumvention of negative market signals, this study will focus on the effect of social network ties and social capital on the chances of temporary agency workers of finding permanent employment in their client company.

5.1 Human capital theory

When it comes to theoretically explaining the stepping stone effect of temporary agency, most studies refer to the human capital theory (e.g. de Graf-Zilj, van den Berg and Heyma 2009; Kvasnicka 2008; Jahn and Rosholm 2010; Promberger 2006). Human capital, on a very basic level, describes the view of human skills, abilities and general knowledge as a form of capital, in which one can invest as a mean to generate future gains. Education, for example, can therefore be generally described as ‘an investment in man’, and consequently as a form of capital, which due to its attachment to the person results in the term human capital (Schulz 1960, p. 571). Due to the fact that it becomes an inseparable part of a person, it cannot be bought or sold or moved in any way like other forms of capital, while the owner stays put (Becker 1994, p. 16). Still, it can be defined as a form of capital because it ‘renders a productive service of value to the economy’ (Schulz 1960, p. 571). However, education is not the only aspect of human capital. Besides different forms of schooling, a training course or expenditures

on medical care can be described as human capital investments too, because they improve health, raise earnings, and therefore potentially facilitate gains in the future (Becker 1994, pp. 15-16). Schultz for example distinguished between five different categories of human capital investments. Besides health services and formally organized education at the elementary, secondary, and higher levels, Schulz also introduces on-the-job training as well as study programs for adults that are not organized by firms as ways to improve a person's human capital. Furthermore, he also characterizes migration as a mean to adjust to changing job opportunities as a human capital investment (Schultz 1961, p. 9).

With special reference to the labor market, human capital is usually described as the value added to a laborer when he or she acquires knowledge, skills and other assets useful to the employer or firm in the production and exchange process. It is usually operationalized and measured by education, training and experience (Lin 2001, p. 9). Regarding these categories, an important distinction has to be made between firm-specific human capital acquired by on-the-job training and formally organized training measures and human capital acquired by general training (Becker 1962, p. 12; 1994, p. 31). While the later one is usually able to help an individual to receive gains from their initial investment on the labor market in general, meaning that qualifications are usually accepted by a wide range of different companies, the former one usually includes company specific skills, thus not transferable between two firms.

Besides this definition of human capital, another related topic seems to be especially relevant for the labor market, and particularly for the discussion of temporary agency work: The general persistence of human capital and its deterioration, especially during times of unemployment. The general argument is here, that when a person becomes unemployed, the acquisition of further human capital, at least on the job, stops and the human capital itself starts to deteriorate (Blanchard and Summers 1986; Möller 1990). Essentially, this is usually due to the fact that workers who are unemployed lose the opportunity to maintain and update their skills by working. Thus, a worker may miss out on important technological improvements and new techniques connected to his profession, which will render his stock of human capital less valuable compared to employed workers (Blanchard and Summers 1986, p. 28). Although such technological advancements may be at first limited to one company, as soon as they influence the performance of a profession as a whole, the unemployed individual is faced with severe

disadvantages due to a lack of knowledge. Additionally, not being able to perform different work related tasks on a daily basis can hinder the ability to perform them smoothly in the future (Paul und Moser 2007, p. 293-294). More importantly, this effect is not only limited to the task connected to a profession, but to the performance of basic social interactions as a whole. As proven for example by Jahoda (1995), unemployment, especially a long-term unemployment spell, can negatively influence the psychical health and the social skill of a person. Jahoda names for example the maintaining of a daily routine or to perform tasks over a longer time span as parts of the social skills, which are declining due to unemployment. Additionally, the deprivation of collective social experiences outside of the family, due to the lack of colleagues as a social group and the lack of a daily goal deprives the individual emotionally, which can lead to mental problems and problems in regular social interactions (Jahoda, 1995, pp. 40-50, p. 99). Thus unemployment not only leads to a deterioration of occupation-specific human capital, but also to a decline in the ability to perform regular daily tasks and social interactions. This effect not only has severe negative consequences for the individual in question, but also for the economy itself, particularly because long-term unemployed people become more and more estranged with work itself, resulting in an exclusion from the work force and thus a reduction of the pool of workers companies are able to choose from (Blanchard and Summers 1986, pp. 28-29).

The main argument for temporary agency work is hence its possibility to stop the deterioration of human capital and offer unemployed people a possibility to improve their qualifications, usually on the job, and therefore the possibility to enhance their human capital. Due to the lower entry threshold temporary agency work offers for the labor market, unemployed individuals are more likely to pick up work again and stop the declining process of human capital. Additionally, companies may start investing in the human capital of their employees, for example through additional training measures, to improve their productivity (Barbieri and Sesito 2008, p. 140). This process may lead to an improvement of the value the worker has from the viewpoint of the employer, especially compared to other, unemployed contestants, which may lead to a permanent job. Depending on the type of human capital an individual is able to accumulate during a temp period, this process may favor permanent employability in general, if his skills are transferable, or permanent employability inside the company to which the individual is currently lend to, if the skills he is acquiring are mostly company-specific, thus giving him an advantage over outside testers.

5.2 Insider-Outsider theory

Attached to this line of thought, especially regarding the improved chance of transitioning into permanent employment inside a company, are theoretical implications proposed by the insider outsider theory (Lindbeck and Snower 1984; 1986; 1988; 2001). According to the insider-outsider theory, the labor force can be divided into three subcategories (insiders, outsiders and entrants). The insiders represent the experienced, trained employees, opposed to the outsiders who represent lower qualified unemployed people. The entrant however, as newly employed, inexperienced workers or apprentices, has an intermediary position between these two groups. The usual process for an outsider to become an insider is through the regular employment process. If an outsider gets employed by a company, he reaches the position of an entrant and after acquiring a certain level of experience through work and further qualifications; he finally takes up the position of an insider (Lindbeck & Snower 1984: 3; 1988: 169; 2001: 167). Since the recruitment and dismissal of employees generates for the employer, an imbalance of power in favor of insiders is created, which can be used by them to secure their own employment against entrants and outsiders (Lindbeck & Snower 1984 pp. 3-6; 1984, pp. 5-10). Due to the fact that neither entrants nor outsiders are complete substitutes to insiders when it comes to knowledge and productivity, a lack of competition between insiders and outsiders is created. These so called insider-outsider effects can lead to a solidification of unemployment (Lindbeck & Snower 1988: 168). To avoid such an effect, it is necessary to either restrict the power of insiders, or to facilitate the skills of outsiders, for example either through a relaxation of employment protection or training and qualification of outsiders.

Applied to the concept of temporary agency work, this form of employment can offer an intermediate position for unemployed people by offering a lower entry threshold when it comes to employment. If one considers the division of the workforce as either well qualified workers (Insider) or unqualified unemployed people (Outsider), temporary agency workers could be considered as in the position connecting those two parts, namely the entrant. Although temporary agency work may also be used as a technique to protect well qualified insiders during times of economic downturn by reducing personnel costs through firing temporary agency workers, it nonetheless offers unemployed people a chance to enter a company in an entrant position. These entrants have an advantage when it comes to the contestation of a vacant position compared to

contesters outside the firm because of the specific skills, or human capital, they acquired during their time in the company. However, since the temporary agency workers, who are in an entrant position, may be dependent on the cooperation of well qualified insiders, the insiders may use their positional advantage to solidify their position by not helping temporary agency workers, thus minimizing the chance of being replaced by them (Lindbeck and Snower 2001, p. 165). Nonetheless, temporary agency may also offer better labor market outcomes for unemployed individuals compared to an unemployed jobs search, due to the ability of employers to test their potential employees before hiring them (Andersson and Wadensjö 2004, p. 17; Jahn and Rosholm 2010, p. 25). The argument is that temporary agency work offers individuals a chance to prove negative aspects of their résumé, like a lower education or a longer unemployment period, wrong, by showing the employee their abilities first hand. This effect refers to the theory of job market signaling.

5.3 Job market signaling theory

The signaling theory assumes that an employer is unable to estimate the productivity of an employee before a job offering and therefore has to rely on observable characteristics, such as education, previous work or gender, to predict the value of the employee regarding his or her productivity. These characteristics therefore serve as signals for the employer (Spence 1973, p. 357). A particularly high signaling effect is usually generated by the employee's education and his or her employment history (Buch et al 2010; Kohlrausch 2012, Protsch 2008). However, if a person has a relatively low qualification or is in a rather long spell of unemployment, these negative signals discourage an employer from employing an individual. Temporary agency work offers a possibility to avoid these signaling effects by offering a chance for the employer to test his employee before employing him on a permanent contract, due to the diminished hiring and firing costs of temp work, and thus reducing the uncertainty which comes with the regular employment process. On the other hand, the employee is able to surpass his possible negative signals by proving himself as a skilled and hardworking employee. Additionally, he gains the ability to improve his employment history by adding work experience which may prove as a positive signal for future employers, although the positive signal effect of temp work remains somewhat controversial (Booth, Francesconi and Frank 2002, p. 189; Purcell, Brook and Lucas 2011). On the one hand, temporary agency workers may be seen as second class

workers in the eyes of potential employers, on the other hand, especially in large companies, the ability to prove one's quality of work directly to the individuals, who are actually deciding the employment of a worker, seems nearly impossible.

Summarizing this line of thought, the stepping stone effect of temporary agency work is usually explained by referring to theoretical implications proposed by the human capital theory and the insider outsider theory. The argument is made that temporary agency work offers unemployed individuals a lower entry threshold to enter the labor market, due to lower hiring and firing costs for companies. Through this lower entry threshold, unemployed people are offered a chance to not only stop the deterioration of their human capital, but also to learn new skills, thus making them more valuable for potential employers. Additionally, due to their entrant position in a company, they also occupy an improved position compared to unemployed individuals, or outsiders, when it comes to the contestation of vacant positions inside a company. Furthermore, temporary agency may also offer unemployed people a chance to resolve potential negative labor market signals by proving their quality of work to an employer first handedly. Due to these advantages, temporary agency work should be able to offer unemployed people overall better labor market positions and a higher chance to find permanent employment. However, as noted before, these effects are by no means certain. Although a majority verified the advanced labor market chances of individuals who took up temporary agency work, and explained them by referring to either the human capital theory, or the job-market signaling theory, or both, another possible explanation of the stepping stone effects is mostly ignored. Nevertheless, especially when it comes to the inter-company transition from temporary agency work into permanent employment, social capital and network ties promises interesting new information about the process of this stepping stone effect.

5.4 Relevance of social capital and social networks

Only very few studies mention the possibility of social capital having an effect on the improved labor market position of temporary agency workers compared to unemployed individuals (cf. de Graf-Zilj, van den Berg and Heyma 2009; Jahn and Rosholm 2010). While these studies refer to the possibility of a positive influence of social capital and personal networks, an approach including social capital theories or network analysis to the stepping stone hypothesis is not pursued and comprehensive explanation is not

given. However when looking at the theoretical background of the stepping stone literature used to explain positive effect, the relevance of networks the influence of social capital seems plausible.

The insider-outsider theory states for example, that entrants depend on the cooperation of insiders when it comes to the acquirement of new skills (Lindbeck and Snower 2001). The acquirement of new skills or a greater human capital is characterized as essential for the stepping stone effect. The acquiring of greater human capital is then depended on contacts to well qualified employees, hence social capital. Furthermore, if temporary agency work is to serve as a mean to avoid the signal effects of the employee's education and his or her employment history and offers employers the chance to test the employee before permanently hiring him, its seems necessary to ask the question how the employer is able to monitor the performance of the temp worker and how and through which channels the report of his or her work is transmitted. Thus, if temporary agency workers aim to achieve a permanent job in the firm they are currently lend to, or a general expansion of their skills and hence their human capital, it seems plausible to assume that they have to build a network to be able to enhance their skills and to inform people of their ability and willingness to work well. Therefore, if it comes to a review of stepping stone effects on the individual level, the influence of personal networks on stepping stone effects of temporary agency work, especially when it comes to transition from temporary agency work into regular employment in the hirer's company, should not be underestimated. Therefore, this study will focus on exploring the influence of social networks on the intra-company transition of temporary agency workers.

5.5 Social capital and social network theory

The definition of social capital can vary significantly, depending on the theoretical concept in which the term is applied. Although there are a number of different definitions of social capital, most famously Bourdieu (1983), Coleman (1988) and Putnam (1995/2000), this study will use the social capital term used by network theorists², which is mainly used in the context of analyzing the influence of social capital on economic and professional success (Koop 2007, p. 269).

² In this study Ron Burt, Marc Granovetter and Nan Lin

According to Lin (2001, p. 29) social capital can be defined as ‘resources embedded in a social structure, which are accessed and/or mobilized in purposive actions’ (Lin 2001, p. 29). Furthermore, social capital can be defined as a resource, which is integrated in relations between individuals. Although it is in a sense related to one or a number of individuals, but not essentially owned by an individual alone or part of the individual itself, which is why it has to be distinguished from forms of personal capital such as economic capital or human capital (Lin 2001, pp. 19-20, 55-56). The definition of social capital as ‘resources embedded in a social structure, which are accessed and/or mobilized in purposive actions’ includes, according to Lin, three important components. Firstly, the embeddedness of resources in a social structure, secondly the accessibility of such resources for individuals through the use of interactions and social networks, and thirdly the possibility of accessing of gains through the mobilization of one’s social resources (Lin 2001, p. 29).

This concept is based on a hierarchical organization of social structures. A hierarchically organized social structure contains a set of social units that hold different amounts of one or more types of valued resources and are occupied by entrusted agents, who hold control of different positions in the hierarchy and act according to certain rules and procedures (Lin 2001, p. 33). These structures are usually shaped in a pyramidal way in terms of accessibility to and control of resources. A position closer to the top of such a structure has greater access and control of the valued resources due to the resources that are attached to this position and because of the positions better accessibility to positions at other rankings (Lin 2001, p. 56). Thus, connections to individuals in a higher position in a hierarchical structure should offer a person an advantage, since the higher position has more to offer in terms of resources and structural overview (Lin 2001, p. 56). Therefore, it seems necessary for individuals who want to gain additional resources, besides a formal promotion inside the structure, to seek connections to individuals in a higher position. This process of gaining valued resources, defined by Lin as ‘instrumental actions’. It is driven by the purpose of acquiring additional resources from others, who are in a position where they have access to dissimilar, and presumably better, resources (Lin 2001, p. 58). Opposed to this, Lin characterizes the process of ‘expressive action’, which main goal is to maintain and defend ones resources. Expressive action is driven by the concept of homophily, which states that people with similar interests, activities and resources are more likely to interact with each other, than people with dissimilar interests and resources. However,

when both actors are in possession of similar resources, there is little to gain for both actors in terms of additional resources (Lin 2001, pp. 48-49). Instead, such contacts offer an individual a shared ground to be the basis for sentiment, respect or concern for one's position. The fact that such individuals share a similar position and similar resources inside a power structure results in a better connection towards each other, making them more likely to interact (Lin 2001, p. 39).

Connected to these concepts are two important propositions of the social network theory: The "strength of strong tie proposition" and the "strength of weak tie proposition" (Lin 2001, pp. 65-67). The former one states the principle that a stronger relationship results in a higher likelihood of sharing and exchanging one's resources (Lin 2001, p. 66; Granovetter 1973). Nevertheless, due to the concept of homophily, which states the connection between interactions, sentiments and likeness of resources or connections to resources are positively related. Therefore, although stronger ties may be more likely to result in an exchange of resources, these resources are most likely to be alike and thus not able to help the individuals involved (Lin 2001, p. 66). The later proposition however, famously substantiated by Granovetter (1973), states that a weaker tie will make it more likely for ego to access social capital for instrumental action (Granovetter 1973, p. 1378, Lin 2001; p. 67). Again referring to the homophilious principle, this proposition states that resources available in the close social circle of ego, which are characterized by strong ties, are similar to their own. To find new resources and access new information, these individuals have to find links to access different social circles. These links, named bridges (Granovetter 1973) or structural holes (Burt 1992) usually consist of weak ties, because both individuals connected by it are participating in a different social circle. Thus exploring weak ties, individuals enhance their chances of gaining different information from accessing their weak ties and finding access to different social circles, resulting in the "strength of weak ties" proposition (Lin 2001, p. 67).

The concept of the structural hole was further researched by Burt (1992). Defining it as a "relationship of nonredundancy between two contacts", the two networks connected through a structural hole provide network benefits that are "additive rather than overlapping" (Burt 1992, p. 18). As noted above, this offers individuals a chance to access resources that are different from their own. However, since not all individuals are able to maintain structural holes themselves, their position in a social circle are of

importance. This leads to the proposition, “the closer individuals are to a structural hole, the better the social capital to which they will have access” (Lin 2001, p. 77). This can be seen as an addition to the “strength of weak tie” concept.

Applied to the concept of temporary agency work and the stepping stone effect, especially when it comes to intra-company transition, this theory offers further explanations for different scenarios. Firstly a company itself offers a hierarchically organized power structure, in which the temporary agency workers have little to influence and power. However, according to the human capital and insider-outsider theory, they are dependent on people who are higher placed in this power structure, mainly the permanent employees from whom they have to learn certain skills, and from people who are managing the permanent employment of individuals, most likely the works council and the human resource department. In this context the strength of weak tie proposition can be applied to the requirement of a temporary agency worker to cooperate with the well qualified, permanently employed workers to acquire skills on the job. Although it seems, according to the concept of homophilie, more likely for temporary agency workers to interact with other temporary agency workers, the ones who are able to use their contact to permanent employees are more likely to acquire additional skills, enhance their human capital, and therefore improve their chances of finding permanent employment.

Additionally with regards to the hiring process, a temporary agency worker with a position near a structural whole, which will connect the social circle on the level of the workers with the social circle of the human resource department in charge of hiring people, should have a higher chance promoting their skills and finding permanent employment. Since it seems unlikely that the human resource department monitors the performance of every individual, it seems plausible to assume that they have to rely on some sort of mediator to get the information they cannot get first hand. In an industrial company, someone like the divisional director, who will most definitely monitor his employees, may be the one giving the assessment of the temporary agency worker in the end. The ability to access this position of a structural hole may therefore improve the chances of a temporary agency worker to find a permanent employment in a company.

6. Hypothesis and aim of research

As the theoretical analysis has shown, it seems plausible that in fact social capital may have an important influence on the realization of an intra-company transition from temporary agency work into permanent employment. Since it can be argued that the acquiring of greater human capital on the job is depended on contacts to well qualified employees, it is necessary for temporary agency workers to build up network ties in order to acquire certain skills and enhance their labor market position. Additionally, the setup and access of network ties connecting temporary agency workers to the human resource department seem crucial to enable the worker to improve their initial negative job market signals effects by distributing information about his or her good working performance. Thus, it seems relevant to ask, if social capital and social network indeed have a positive influence on the individual level when it comes to the intra-company transition of temporary agency workers. The hypothesis, resulting from the theoretical framework stated before, can therefore be formulated as follows:

In order to acquire human capital and to improve their market signaling, it is necessary for temporary agency workers to establish networks ties to individuals controlling these resources

Since in the given theoretical framework, it is argued that social capital can be defined as a prerequisite for the human capital acquisition and the circumvention of job market signaling, it is necessary to examine if the basic assumptions of these theoretical concepts hold true on the individual level, thus examining the potential of social networks to have an influence. Therefore it seems necessary to identify to what extend human capital accumulation is happening on the job, or if it is acquisitions formalized through training courses. If human capital accumulation happens mostly in training courses in which all temporary workers participate, the potential to influence the successful human capital accumulation through the use of one's informal social contacts is limited. Additionally, it is necessary to identify, to what extend the hiring process is influenced by the individual assessment of the working performance of a temporary agency worker, or if the process to determine which temporary agency worker is to be considered for a permanent employment is based only on formal criteria, like passed company training courses or seniority. This would tie the employment process to different signals instead of circumventing them.

7. Design and Methods

To explore the transition into permanent employment of temporary agency workers on the individual level and test the hypothesis stated before, a qualitative analyses of semi-standardized interviews was conducted. The qualitative and rather explorative design of this study can be justified by the lack of research done regarding the stepping stone effect on the individual level. Although especially social network analysis mostly works with quantitative methods, like name-generator or position generator studies, which use standardized questionnaires, it seemed necessary in the given context to firstly explore the possibility of an influence of social networks proposed by the theoretical concept through a qualitative analysis (cf. Lin 2001, pp. 84-89). To explore the relevance of social capital and social networks on a permanent job offering inside a company, it was necessary to interview temporary agency workers who currently achieved a permanent employment on the one hand, and on the other hand individuals who executed the employment process. Although an approach involving periodical interviews with a group of temporary agency workers who joined the company at one point in time and who were able or unable to find employment later on would have been more informative, since it would have been possible to evaluate the situation of people not being able to find permanent employment inside this company, this approach had to be dismissed due to the limitations set by the academic framework. Hence, the current approach involving temporary agency workers who recently joined the company was used. The individuals selected for the interviews were two former temporary agency workers whose permanent employment happened less than a year before the interview, as well as the head of the human resource department and the works council. Since the works council has a significant influence on personnel decisions inside a company, it seemed important to include their position on the permanent employment process. For this thesis, the head of works council served as a gatekeeper, establishing contacts with the former temporary agency workers and the human resource department.

The interviews were structured by a semistructured interview guide, designed to test the hypothesis and based on the theoretical assumptions stated in the theoretical framework. To follow up on the interview process and to comprehend the intentions connected to each question, the interview guide with additional short comments regarding the theoretical framework can be found in the appendix. To ensure anonymity, the product of the company, as well locations and names remain disclosed. The data collected

through the interviews was then evaluated through a software based standardized qualitative content analysis, based on Mayring (Mayring 2010, p. 98). The categories for the analysis were derived deductively from the theoretical background and were loosely based on the structure of the interview guide. The code-system used for this analysis can be found in the appendix.

7.1 Description of the company and the interview partners

The plant of the company in which the interviews were conducted in is operating in the manufacturing industry. The factory currently employs about 2800 people, 2000 of them permanent employees, 600 temporary agency workers and 200 apprentices. During the financial crisis in 2008, the number of temporary agency workers was reduced by more than 500 people, but started growing again in 2010, reaching about 600 in 2014. The tasks performed inside this plant predominantly require a certain qualification, thus it is mainly relying on skilled workers, having finished an apprenticeship either in the specific area in which the company operates, or adjacent occupations, like craftsmen activities or the metal processing industry. This imposes a set of requirements for temporary agency workers if they want to join the company. Since the potential to employ unqualified individuals for help jobs are fairly limited, potential temporary agency workers are usually required to have at least a finished apprenticeship in the craft sector or the industrial sector to join the company on a temporary basis. Besides the hiring and permanent employment of temporary agency workers, the factory predominantly secures its personnel requirements through the training and permanent employment of apprentices. Direct, permanent hiring of qualified employees is, at least for the production area of the company, where well over 80% of all employees work, relatively rare (cf. WC³: 00:08:11-6). Therefore, it can be said that temporary agency workers indeed have an advantage when it comes to the contestation of permanent positions compared to outside contestants.

Although the company and the particular plant where the interviews were conducted is overall performing well, its occupation has a high dependency on the world market and is vulnerable for external shocks. As pointed out by the head of the human resource department, the industry usually experiences a market related cut every seven to eight years. To be able to react accordingly to such situation, a collective agreement between

³ Works Council

the trade union and the company as well as an additional collective agreement regarding the treatment of temporary agency workers was introduced in 2003, to ensure a higher flexibility regarding the personnel policy (cf. HR⁴: 00:45:40). This collective agreement was formed under the catchphrase ‘security through flexibility’. It introduced a range of instruments like a flextime wage record, agreements about reduction of working hours as well as extra work and an increased use of temporary agency work. These instruments should ensure the job security of permanent employees and prevent termination of employment for operational reasons during times of economic downturn. Although temporary agency work is used as a mean to ensure flexibility, it is additionally stated that the reduction of manpower, including temporary agency work, should only happen if methods like the reduction of time accounts and the reduction of working hours is not sufficient enough (cf. WC 00:04:21). Besides these means of flexibility, the collective agreement ensures temporary agency worker equal pay and equal treatment after being employed in the company for three months. Temporary agency workers are paid the same amount their permanent employed counter parts are paid and given the possibility to participate in occupational related qualification measures. However, a principle for the permanent employment of temporary agency workers is not formally stated, but relies on negotiations between the works council and the human resource department.

Summarizing these settings, it seems noteworthy that that this form of treatment of temporary agency workers can be seen as a positive exception for the treatment of temporary agency workers and does not necessarily reflect the industrial standard. This was emphasized by all interview partners, temporary agency workers, head of the human resource department and head of the works council alike (cf. HR: 00:29:08-5; WC: 00:09:31-2; TAW#1⁵: 00:07:37-2). Nevertheless, these institutional settings, especially the reliance on relatively well qualified workers, impose certain limits on the scope of the results of this thesis, because they excludes low qualified workers, for whom temporary agency work is seen as an important way to gain labor market qualification (Bundesagentur für Arbeit 2013, pp. 12-15).

However, although both former temporary agency workers interviewed finished an apprenticeship, their formal qualifications and their employment history can be

⁴ Human Resource Department

⁵ Temporary Agency Worker number one

described as offering predominantly negative signals for potential employers. One interviewee had no secondary school degree, failed two apprenticeships, had drug problems and joined a rehabilitation facility, before finishing his apprenticeship after a re-integration program. He then worked for four years, before joining a temporary work agency after becoming unemployed. The other interviewee finished his apprenticeship and had a few years of work experience, but suffered from a longer spell of unemployment after his company declared bankruptcy. Both took up a temporary agency work due to a lack of labor market alternatives, thus offering a rather typical case of a temporary agency work career (Moser and Galais 2009, pp. 51-54; cf. TAW#1: 00:00:15-4 - 00:03:02-9). Both former temporary agency workers were able to archive a permanent job, after being temporarily employed by the company for six (TAW#1) or seven (TAW#2) years. However, they were both laid off during the financial crisis in 2009 and received unemployment benefits for over one year, before being employed by the company through a temporary work agency again.

8. Results

In this thesis, it is argued that social capital can be defined as a prerequisite for the human capital acquisition and the circumvention of job market signaling. To examine the data and to find evidence for the support or the refusal of this hypothesis, the analysis will be structured with regards to the two parts to the hypothesis, the human capital acquisition and the usage of network contacts in order to get information about ones work performance to the individuals deciding the permanent employment. Hence, the results of the interviews will be separately discussed at first, before coming to an overall conclusion.

8.1 Acquiring of Human Capital

Before analyzing the influence of social networks on the acquiring of human capital, it is necessary to identify the institutional process of acquirement to determine the influence potential of social capital. Both temporary agency workers reported having an initial training course preparing them for their future temporary employment inside the company. This form of qualification can be characterized as a basic training measure, to enable temporary agency workers who come from a different, though technically proximal occupation to perform their new job accordingly. This training measure, for a

duration of three months, was held on the company property, but was organized by an educational provider in cooperation with the temporary work agency and the hiring company. The course was mainly focused on training the new manual work stages the temporary agency workers had to undertake during their temp period. As one temporary agency worker puts it⁶:

We had-, that was the company ‘‘educational provider’’-, that was kind of the sponsor of this course, but at the course was someone-, back then it was still ‘‘former parent company’’. ‘‘Former parent company’’ had someone here who taught us this stuff and someone from the ‘‘educational provider’’.

[...]

It was riveting, how to rivet, what rivets exist, how high the rivet must be and so on. So you-, the thing you did was you were riveting on trays all day (TAW#1: 00:03:49-3- 00:05:44-6).

This course was mandatory and for one temporary agency worker, who joined the temporary work agency from unemployment, unpaid. He received unemployment benefits during that period. According to him, there was a selection process during that time, which determined, based on once performance, who was allowed to join the company as a temporary agency worker.

Back then, you did not get any money, what you got was from the employment office. You had the unemployment benefit and this was part of the assistance, so to speak. And there, you could either be stupid or not so stupid. I guess I have not been that stupid, and then started here as a temp at the 01.01. 2005. (TAW # 1 00: 05: 44-6)

However, besides enabling the temporary agency worker to perform his daily tasks, these training courses are necessary to guarantee quality and safety standards. As noted by the head of the human resource department:

Yes, so we cannot always portray everything internal, but we must of course enable them, so that they of course then are able to work in their remit. We also have to do this for auditing purposes. We are audited and we cannot, of course, let anyone mess around with ‘‘part c’’. This is essential. (HR: 00: 37: 17-5)

Nevertheless, this process ensures the learning of the essential work related qualification off the job in an evaluated class, thus minimizing potential influence of network contacts for the process of acquiring human capital. When contacts to better resources in terms of knowledge are not individually build up, but intuitionally established ,for example through lectures or courses, the acquired resources are the same for all

⁶ The following quotes will be translated for a stylistic purpose. The original quotes can be found in the appendix at the respective time code

temporary agency works. Thus, it can be said that the acquiring of skills and knowledge, hence human capital, at the beginning of the temp period is not influenced by social networks.

After this time of a formalized training course, the temporary agency workers reported that they were introduced to their workplace, but were not allowed to work alone. Instead, they were given a ‘buddy’, a permanently employed, well qualified worker, who should help them come to grips with their tasks and help them if necessary.

And then, after a month or so, we came into the production area, where we had something like a buddy, who worked with us on our stage. He then took you a bit under his wing and you were already working at normal parts for two months. (TAW # 1: 00: 05: 44-6 - 00: 06: 14-6)

For the period until you learned what you do, you worked with a second person at your side. So I think for half a year you needed only to sit and watch, or slowly start working, until you were able to work alone with the riveters. After that you were completely alone. (TAW # 2: 00: 03: 58-9)

Again, the acquisition of additional human capital seems to be structured by the company. By giving the temporary agency workers a well-qualified employee to help them with their tasks, the necessity is taken for the temporary workers to build up contacts to well employed individuals themselves. The contact, or network tie, to a well-qualified individual is done for them, not by them. Therefore, it seems like even for the further acquisition of human capital on the job, social network can be defined as relatively irrelevant. Nevertheless, these contacts, at times, proved to be not as efficient and smooth as they should have been. As told by one temporary agency worker:

Although I imagine that sometimes some colleagues were left alone. They arrived at the company and their colleagues taught them nothing, they had to teach themselves everything there was. Yes, I know such a situation. But I have been lucky, I always had good colleagues (TAW # 2: 00: 03: 58-9 - 00: 04: 42-7)

Thus, although the acquisition of human capital, even on the job, is highly structured, during the beginning of the temp period, the network contacts to well qualified workers introduced by the company do not necessarily offer an advantage. Thus, the temporary agency worker is dependent on knitting network ties to other individuals, who possess the valued resources in terms of knowledge they need to perform the tasks. However, this case seems to be relatively rare in this company. As noted by the temporary agency workers, as well as by the head of the works council, the company does their best to encourage a smooth information exchange between temporary agency workers and a pleasant work environment in general. Nevertheless, even if such instances are

occurring, this behavior is emphatically discouraged. As pointed out by one temporary agency worker as well as the works council:

So I can say to this, and you can record that-, that I have here in this company actually-, despite maybe some provocations from some foremen, never had the feeling that I am the temporary agency worker for my fellow employees. That did not exist here. I went to City A and there it was something else. They dealt quite differently with temporary agency workers, which was completely different compared to here. So here one was an employees and that was it. Anyway, that's how I felt (TAW # 1: 00: 07: 01-9)

I've also had a foreman who told me to my face, 'just think who you are', but there was also my representative, my trusted person from the company, and she noticed it. And then he wanted to row back, but he said it and this is actually the thing where everyone gets angry, the works council and the boss and so on. (TAW # 1: 00: 22: 01-8 - 00: 24: 21-0)

I think this works pretty well in this company, so there's really no such thing as a separation, that a temp is experienced in everyday life as second class worker. There is also a lot of cohesion and solidarity when there is a crisis, so to speak. [...]. I think this of course differs from area to area and again depends on the people, who are acting differently. I would say all in all-, we've not seen something like a divided workforce. (WC: 00: 20: 34-6)

Although the relevance of social networks for the acquirement of human capital seems to be relatively irrelevant during the first few months of temporary employment inside this company, it becomes, according to both temporary agency workers, more and more important during the further period of temporary agency work. Since the structured acquisition period during the first few months mainly covered basic tasks necessary for working in the given setting, the tasks demanded by the working process may change over time.

Well, I would say after three months, no one is fit enough to walk alone. Of course, there are also jobs where the skill level is not as high, but in the assembly area-, this is the same with our trained apprentices. They have learned for three and a half years, but you cannot let them run alone, but there is, depending on the work you are doing, a period of several months or years even until you can then do all the tricks. (WC: 00: 23: 41-5)

Additionally, it is possible for the temporary agency worker to change to a different manufacturing sector inside the company. During such times, there is usually no structured process to acquire the knowledge necessary to handle the tasks, leaving the temporary agency worker in the situation to acquire the knowledge on his own. In this situation, contacts to permanent employed individuals can prove to be helpful. However, as noted before, these contacts are not to be taken for granted, since it is possible that permanent employees refuse to share necessary information.

Then I obviously went to the colleagues who are permanently employed, who work there directly, you actually have to. So of course there were also times were I was lent so to speak, were you went into different areas, because you were a temporary agency worker. Of course there were colleagues who said 'I'll tell you nothing'. [...] But I had no chance; I could not talk to other temporary agency workers, because they were new. We were three people in the department, all three were new and when I had questions, I had to ask a permanent employee (TAW # 2: 00: 08: 12-9)

This quote additionally focuses on the necessity to talk to permanent employees, since other temporary agency workers were not able to access the valued resources in terms of knowledge the contact to permanent employee promised, thus confirming the principles given by the human capital period with regards to the hierarchical structure of the company and the access to valued resources. Nevertheless, it seems plausible that after a longer period of temporary agency work in the company, the temporary agency worker becomes, at least with regards to his knowledge, similar to a temporary employee, thus offering temporary agency workers an additional contact person, who may be more inclined to cooperation due to their similar background. Both temporary agency workers were employed in a temp position longer than five year, yet this possibility cannot be explored further with the given data. However, it is possible to confirm an additional proposition given by the social capital theory: The principle of homophily. Temporary agency workers were more inclined to build up connections to other temporary agency workers, although this inclination declined after a few years. As noted by one temporary agency worker, regarding the contacts in his workspace:

So we were mixed, I'd say half temporary workers, half permanent employees. Although, of course, you interacted more with temporary agency workers-, you feel drawn to them, more then to permanent employees, because although you are somehow already inside, but you're not quit, you know what I mean. It is because you are still on the brink; because you are a contract worker. So you had more contact to temporary agency workers than to permanent employees. But over time, of course, the other contacts started to builds up too. [...] After a few years, it can be said that you were part of it, somehow. Overall, it was quite ok here. (TAW # 2: 00: 06: 43-4)

Although this tendency was present, their contacts to permanent employees proved indeed profitable. As both explained, they were relatively outgoing and had no problems connecting to permanent employees. One temporary agency worker characterized this behavior as positive for his working process and the situation at their work place in general.

So I was able to go to everyone and they came and helped. So it worked quite well. [...]. But I am a sociable person, may well be that I coped better with the

others. I don't know it exactly, because I cannot speak for the others, yes, but I had no problems. I'm the kind of guy who speaks to people, I do not draw back, like "Should I ask him or not", so may very well be, that this worked better for me. At that time, after three, four months, after we came to grips with the work, there was foreman for example, he contacted us-, we wanted to talk a little bit if everything works well and so on. And he said 'you're the first of all temporary agency workers who can do everything and so on ', and I think this was because of my attitude I always asked, I always did everything I could, I said I need to know everything. Although sometimes people said something like: 'you again'. But I had no problems with it. (TAW # 2: 00: 08: 12-9 - 00: 09: 58-7)

However, their contacts were remaining work related. There were no private interactions with their contacts at work, underlining the weakness of their ties.

Interviewer: And were you also in private contact with your [permanent] fellow workers, or was your contact limited to the company? (00: 09: 42-0)

Person 1: No, actually it was rather limited to the company. (TAW # 1: 00: 09: 42-0)

[..] I did not have anything to do with them privately, because I have a house, I have a family and many others came from relatively far away, there weren't many people from here. (TAW # 2: 00: 13: 14-3)

Summarizing the findings regarding the influence of social capital and network ties on the acquisition of human capital, it can be said that network contacts to permanent employees are not as essential as it might be assumed by the propositions of the social capital theory. This is, however, largely due to the institutional setting of the company regarding the learning process of skills relevant to their work. Due to a relatively long training measure in the beginning of temp period and due to a buddy system, individual network ties become less important when it comes to the acquisition of human capital. Nonetheless, social network ties are not completely irrelevant for the acquisition of human capital. One reason is, that the well qualified individuals assigned to the temporary agency workers may indeed refuse to cooperate with them, causing the need to seek the contact to other well qualified individuals in order to assure the further human capital acquisition. Additionally, a temporary agency worker may indeed come across further tasks or change to another section of the company, leaving him in a situation where he has to seek the contact to well qualified employees to learn the necessary skills. However, the noncooperation of permanent employees seems to be relatively marginal and actively discouraged by company policy. Although it can be said that network ties to well qualified, permanently employed workers can indeed prove helpful for the work process and the situation of the temporary agency worker in general, the importance of social networks cannot be characterized as essential for the

acquiring of human capital. Therefore, it can be said that this aspect of the hypothesis can only partially be confirmed.

8.2 Influence on the improvement of market signals and the permanent employment process

To analyze the possible influence of social networks on finding permanent employment inside a client company, it seems necessary to examine the institutional settings regarding the employment process of temporary agency workers for an open ended job. Since it can be argued, that the setup and access of network ties connecting temporary agency workers to the human resource department is crucial to enable the worker to improve their initial negative job market signals effects by distributing information about his good working performance, it is necessary to analyze the institutional setting first and identify the potential of social networks having an influence.

This employment process of temporary agency workers as permanent employees and the criteria relevant for this transition are in the given company dependent on a variety of different factors. First of all, it is noteworthy that due the occupation of the company, their personnel policy, especially regarding temporary agency workers, differs from the industry standard. According to the DGB, the average retention period of a temporary agency worker inside a company in the manufacturing sector is around one year (DGB 2010, p. 9). Nonetheless, according to the works council, a large number of temporary agency workers in the given company are employed for five years or longer. This is, according to the head of the human resource department, mostly due to the special economic framework condition of the sector the company is active in is facing. As noted above, the economic situation of the company and the sector itself is relatively good and still largely growing; however they are usually facing a crisis every six to seven years. Therefore, the human resource policy consists of a balance between flexibility and security. The exact arrangement of this balance, and with it the possible permanent employment of temporary agency workers, is partially determined by an annual negotiation between the management and the works council.

And because of the fact that we have quite a predictable situation, we have also regulated with this agreement ‘security through flexibility’ that the personnel planning is always-, let's say starting from the top management, general works council and then is discussed at the plant level with the local work councils[...] and from this follows a human resource planning and a workload planning and in the process we always have a final consultation process at the beginning of

every year, where we, so to speak, bash each other for how many permanent employees we get and how much flexibility the employer gets (WC: 00: 12: 28-2 - 00: 13: 53-3)

This institutional setting means that it seems impossible to get employed permanently for a temporary worker outside this companywide negotiation process. However well his work performance might be and however well he is connected inside the company, if the economic strategy does not allow the permanent employment of temporary agency workers, it will not happen. This aspect imposes certain limit on the influence potential of temporary agency work to find permanent employment, and hence potential of social capital influencing it.

Additionally, as the relatively long residence time of temporary agency workers in this form of employment already implies, there is no plan for a temporary employed individual, when he joins the company, to be permanently employed after a certain time span or when he finished a number of formal qualifications.

So that means primarily that we do not really get a temporary agency worker with the idea of 'yes we will take him on permanently in half a year or so'. [...]. Yes of course, it is inevitably a long test then, yes, you have to say that when someone is transitioning here in a regular employment relationship. However, it is not planned per se, that they say we get him as a temp and test him for a year and then we intend to take him on permanently, such as a strategy is not applied here. (HR: 00: 11: 16-0)

We also have people here who are temporary agency workers for six or seven years in a row, where we also note that has nothing more to do with the origin of agency work, in the sense of compensating fluctuation. (WC: 00: 16: 38-9 - 00: 18: 18-2)

Yet, since the permanent employment it not connected to an objectivized set of skills, the signaling of the employee's performance inside the company becomes important. Although it has to be noted that the test period, given to the temporary agency worker to prove himself qualified for a permanent job, is exceptionally long. Although the employment process in not connected to formal qualifications, there are, besides the economic situation, other criteria which hinder the influence of social networks. The three main conditions for employing a temporary employed individual permanently regarding the individual level, meaning if the macroeconomic situation is permitting it, are the period of employment, intercompany proportions and individual assessment. The intra-company proposition can affect the influence of social capital and network ties, because it offers, as well as the economic situation, certain boundaries to the permanent employment of temporary agency workers that cannot be circumvented. A

similar influence has the seniority principle. In the given case, the period of employment operates like a disqualifier, meaning that when it comes to a permanent transition of a number of individuals, only the temporary agency workers with the longest period of employment inside the company are considered. This serves two different purposes. On the one hand, it establishes a set of objective justification for the range of people who are considered for a permanent job. On the other hand, the years of employment serve as a mean to ensure the qualification of the individual. Since the framework of temporary agency work offers a tool to relieve the company of employees who are not fulfilling the requirements regarding the working process any time, the argument is made that people who are employed as temporary agency workers for five years or longer have to be qualified enough to do the job permanently, because they would have been relieved from their position otherwise.

So there are two, three premises, where I would say that on the one hand, the works council particularly values them, but on the other hand, we also value a bit. So the first is certainly the, I would say the 'seniority'. Meaning how long the temporary agency worker is employed here and we also consider prior operating periods, when they are not too long apart from each other. So it may well be that a temp, let's say from 2006 to 2009 was working here, then he was gone for one and a half years, working elsewhere, and then came back. In this case, we would count this prior employment and look at the whole time. So this is a very important criterion for the works council. But I can understand this, because I would say-, for the ones that are working here for a long time, it is difficult to say in the end 'well, actually he does not really fit', because then you would have had to terminate the relationship earlier already, because that is what this flexible instrument offers. If one does not agree with the qualification or the work of the temporary agency worker, one has to say "It just does not work". (HR: 00: 16: 24-6)

Well, we have at the moment many temporary colleagues that are here for five or more years, so there should be no qualification problem. So if anyone would say 'but the man is not fit, I would not take him', you would have to ask 'man what have you actually done in the past five years'. And if he is a 'loopy' so to speak, then you have to also ask around like 'man, what have you done in the last five years, so that it either gets better or that you make a decision in the sense that it just does not work". But not when it comes to the question of permanent employment, then to say 'he is not ready' is no longer an option, such things do not happen in this period. (WC: 00: 14: 11-9)

Hence, it can be argued that the influence potential of social networks is indeed limited through this process. Due to the fact that when it comes to the allocation of permanent jobs to temporary agency workers, the number of years being employed as a temp serves as a disqualifier, network ties helping you to show your ability and your qualification to work will not help the individual, because he or she does not fulfill the

official criterion regarding the number of years. Even if an individual is working extremely hard and is well connected inside the company, if he or she only works there for example only since two years, he or she will not be considered for being permanently employed, if there are a number of people currently employed as temporary agency workers who are there for five years. As noted by a temporary agency worker:

Because I have also seen such thing; you work and work and work and I'm not the only one. I have enough colleagues who have done similar things and they did not get a permanent contract faster. Some of them are still not permanently employed and they have been here for years and years. At the time it depends on how long you are there, but none can-say, [...]. I think in such a big company some things are always depended on Vitamin B (coll. network contacts). (TAW # 1: 00: 39: 25-7)

Still, as noted by the individual and as stated by the head of the human resource department, besides these standardized criteria, there is also the individual assessment that influences the permanent employment of an individual. This concept involves significant chance of social networks positively influencing the permanent employment process. This process is organized as an information process between the human resource department and the department where the temporary agency worker is currently working. In this process, the human resource department to certain extent cedes its influence on the permanent employment by leaving the evaluation between individuals up the department, and here mainly to the assessments done by the foreman. As noted by the head of the human resource department, answering the question of how the information process between the human resource department and the department of the temporary agency worker is organized:

Yes, they exchange ideas, they talk to each other. They exchange ideas and of course, they [the people at the department of the temp] have the correct image of the person, they know them, have worked with him every day and know his performance. And ultimately, they have they can say the most about this person. (HR: 00: 21: 58-1).

Summarizing this process, the temporary agency workers generally considered for permanent employment are first selected in a relatively standardized process according to the time they spent in the company and a similar distribution between the different company departments. However, after drafting such a shortlist, the department itself finally decides which temporary agency worker is permanently employed. This choice then is definite, if it does not deviate excessively from the formal criteria, although even this might be possible in exceptional cases. An example for this was stated by one

temporary agency worker, although his statement shows, that it may be in the company's own interest to minimize deviation from the principles, because it may cause unrest amongst the temporary agency workers.

There is something like a pre-selection. We meet together with the works council and make it a first list depending on seniority and equal departmental distribution, [...], but we give this list of course to the department for inspection, for them to test it, because ultimately know if the person- they if it's the right person or not. But I have to say when someone worked here continuously for four or five years, the department has to have a good reason not to take them. But such individual cases do happen sometimes [...]. Of course it's important that the department can go along with the decision, because they are the ones who ultimately take over, not we as HR or the works council, but the department in which he works. Thus, they have a right to influence the decision. (HR: 00: 20: 04-4 - 00: 21: 50-5)

Because that was of course-, I got myself wrought up, because in our department was one temporary workers, who was here for a year or so, and got a permanent position. So you thought 'what are they doing'. I have been here for seven and a half years and just recently got permanently employed, and you thought you can do what you want; you will always remain a temp. (TAW # 1: 00: 33: 01-1)

In the department itself, the evaluation process is influenced by the opinion of the foremen and the department head, which are involved with the individuals on a daily basis and know about their skills and their work ethic.

Yes but I think that is a very central story, that the immediate superior, I'd say superior in the department- whether it is now a foreman or the department head, is able to better evaluate and assess, as we outsiders or the council (HR : 00: 39: 12-5)

In this context it seems very likely that interpersonal network ties of temporary agency workers can have a significant influence. Since the final decision about the permanent employment is highly influenced by the personal assessment of the foreman or the head of the department, temporary agency workers who are able to build up network tie to these individuals and positively influence their chance of being permanently employed. The foreman for example takes up a position described in theoretical framework as a mediator. He or she is highly responsible for the information about the temporary agency worker back to the human resource department, by influencing the decision about a permanent employment with his assessment of the quality of work the temporary agency worker did during his temp period. With the given data it is not entirely possible to investigate the severity, connections to a foreman or the head of the department, who serve to a certain degree as a gatekeeper for the permanent employment, have on the chance of finding permanent employment. However, the

statements of the temporary agency workers seem to rather verify than falsify the importance of network ties to these gatekeepers. For example, both temporary agency workers mention having a relatively good relationship with their foremen, working hard, and in their perspective devoting themselves to the company.

This was probably influenced by the fact that I worked my ass off in this company. I did not do half a job, which leads again to the Saturday topic, but I had months, were I worked so much that the works council came to me and said, 'First Name you may not do this', meaning working 58 hours a week, this is absolutely not allowed, but I did it (TAW # 1: 00: 10: 04-3).

So I was able to go to everyone and they came and helped. So it worked quite well. [...]. But I am a sociable person, may well be that I coped better with the others. I don't know it exactly, because I cannot speak for the others, yes, but I had no problems. I'm the kind of guy who speaks to people, I do not draw back, like "I should ask him or not", so may very well be, that this worked better for me. At that time, after three, four months, after we came to grips with the work, there was foreman for example, he contacted us-, we wanted to talk a little bit if everything works well and so on. And he said 'you're the first of all temporary agency workers who can do everything and so on ', and I think this was because of my attitude I always asked, I always did everything I could, I said I need to know everything. Although sometimes people said something like: 'you again'. But I had no problems with it (TAW # 2: 00: 08: 12-9 - 00: 09: 58-7).

Additionally, when facing potential unemployment due to a negative economic situation, one temporary agency worker got feedback from his foremen, which showed their appreciation for his work.

Well, there were also permanent employees where I talked to my foreman, and my foreman, to various foremen, and they said to you, when you had to leave because of the economic situation: 'You know, I would rather let five of my permanent employees go, before I let you go'(TAW # 1: 00: 28: 55-4)

Although he generally mentions that his superiors were noticing his good work, there was sometimes a lack of appreciation.

So, I know that my superiors have indeed noticed [my work], but they never said anything positive. Well, there is actually -, at least one of my foremen said it this way-, he said he cannot say thank you. (TAW # 1: 00: 11: 09-0)

Nevertheless, concluding these statements, both temporary agency workers mentioned having good personal contacts with the foreman and were able to signal their ability to work, leading to appreciation and, although not always, to statements of appreciation. Thus, it can be said that in the given case, both temporary agency worker had network ties established to their foreman to signal their good work performance. Additionally,

one of the two temporary agency workers actively used them when it came to the transition into permanent employment:

Yes, of course I immediately knew that a few people were getting permanently employed. And I tried to get this permanent job, I talked to my foreman about it, but he said he cannot do anything, because the time is important. [...] Then again, I had to wait a year and then I was, thank God, able to get it, through the department head this time. I talked again to the foreman, but he said, 'I can do nothing, nothing I can do', and then I talked to the department head, informed him, I also informed the works council, and it seemed like my name was circulating there, because I also called the head of the department, and then it worked. (TAW # 2: 00: 17: 24-5) [...] I did not need a job interview or something. I've always done my job, so who knew what they would get when they hire me. (TAW # 2: 00: 18: 45-7)

However, although using his network contacts, he was unable to get a permanent placement during his first try, because he was disqualified for a permanent placement due to his time as a temporary agency worker in the company. Nevertheless, in his opinion, his contacts were helpful for the transition process into temporary employment during his second attempt. Since there is no data available for other temporary agency workers in his department who were not able to find permanent employment during that time or data from the foremen and the head of the department about the transition process and the reason for their choice, this interpretation remains speculative. Yet, it seems likely that indeed the usage of network are indeed an advantage when it comes to assessing valued resources in terms of communicating his work performance for finding permanent placement.

Concluding the findings regarding the influence of social networks on the improvement of market signals and the permanent employment process, it can be said that network ties can play an important role, but its influence is to some extent constrained by company policy. Besides the dependence of the permanent employment of temporary agency workers on the economic situation and intercompany proportion, especially the influence of seniority, when it comes to the selection of temporary agency workers, can be seen as a constrain to the influence of social networks. Since a low number of years as a temp can be seen as a disqualifier, because network ties does offer no help for the transition into permanent employment if this central criterion is not fulfilled. However, the general influence of the foremen and department heads on the individual selection of temporary agency workers qualified for a permanent job according to the principle of seniority contradicts a general non-influence of social capital and network ties of temporary agency workers on their chances of being permanently employed.

As exemplified by the statement of one temporary agency worker, even the active assessment of one's personal network ties offer no benefit, if one is not part of the shortlist drafted by the human resource department and the works council with regards to seniority. Nevertheless, when this criterion is fulfilled, his ability to access these contacts may indeed offer him a benefit compared to other individuals formally qualified, but not able to use the same contacts due to the lack of proper social capital. The statements of both temporary agency workers suggested that social capital in such a situation can indeed prove helpful. However, even if the potential seems to be existent and the statements lean in the direction of a general positive influence of social capital, given the right situation, for a permanent employment, its extent of the influence of social networks though cannot be answered with the data currently accessible. The findings nevertheless suggest that, although constrained by the institutional setting network ties can indeed have a positive influence on one chance of being permanently employed by signaling ones quality of work, thus only partially confirming this part of the hypothesis.

9. Conclusion

The goal of this study was to examine, if social networks prove to be beneficial when it comes to transitioning from a temporary agency employment into a permanent job in the client company. This approach seemed necessary, because although the current research generally speaks in favor of an advantage for accessing permanent jobs for unemployed individuals who join a temporary work agency, most studies focus on the effects in general, thus compromising the position of the single individual, in particular the question how and why such effects may occur. To explain their findings, most studies rely on assumptions based on the propositions of the human capital theory and the theory of job market signaling, without further testing their influence. It has to be noted here that the influence of human capital and the circumvention of one's initial negative job market signals as part of the stepping stone hypothesis and hence the reason for a permanent employment can be confirmed by the interviews, because the time temporary employment in this case proved to be an especially long testing period, combined with the acquisition of company specific human capital. This process, combined with the personnel policy of the company, granted temporary agency workers an significant advantage compared to outside contestants when acquiring permanent job

Yet, as the theoretical analysis has shown, when it comes to the transition into permanent employment inside a company, the effect of social capital and network ties established during the time of a temporary agency worker may play an important role in positively affecting this process, and can even be seen as a prerequisite for the human capital acquisition and the circumvention of previously bad job market signaling. To shed light on the mechanisms influencing the transition process on the individual level and to examine, if social networks, as proposed by the theoretical framework, indeed have a positive influence on this process, interviews with former temporary agency workers as well as the head of the human resource department and the works council, and hence with people responsible for their permanent employment, were conducted. The results of these interviews show, that the significance of social networks proposed by the theoretical framework cannot be confirmed.

With regards to the influence on the acquisition of human capital, it can be said that network contacts to permanent employees are not as essential as it might be assumed based on the propositions of the social capital theory. This can be attributed mainly to the institutional setting of the company regarding the learning process of temporary agency workers. Due to a relatively long training measure in the beginning of temp period and due to a buddy system, it can be argued that individual network ties indeed become less important when it comes to the acquisition of human capital, because the acquisition of human capital is happening in a rather formalized way with a great similarity for all individuals involved. However, social network ties cannot be considered irrelevant for the acquisition of human capital. One reason to assume this is the possibility of permanent workers assigned to the temporary agency workers refusing to cooperate with them, causing a need to build up network ties to other well qualified individuals in order to assure the further human capital acquisition, necessary to perform their tasks and ensure further employment. Additionally, it is likely that the tasks of a temporary agency worker change during his employment, or that he is transferred to a different department, which would leave him with the need of accessing network ties to well qualified individuals to help him with his work and learn the necessary skills. Although again a noncooperation of permanent employees is possible, this effect seems to be relatively marginal and actively discouraged by company policy. Summarizing the influence of social capital on the acquisition of human capital, it can be said that network ties to well qualified, permanently employed workers can indeed prove helpful for the work process and the situation of the temporary agency worker in

general, but they are rendered less important by the structuring of human capital acquisition through the company policy.

Regarding the influence of social networks on the improvement of market signals and the permanent employment process, the results are similar, leading to the assessment that network ties can indeed play an important role, but their influence is somewhat constrained by company policy. As noted before, besides the dependence of permanent employment of temporary agency workers on the overall economic situation of the company and on the abundance of intercompany proportions, especially the influence of seniority when it comes to the selection of temporary agency workers can be seen as a constrain to the influence potential of social networks. Nevertheless, although partially constrained, the influence potential of social networks can be seen through the influence of the foremen and department heads on the individual selection of temporary agency workers qualified for a permanent job according to the principle of seniority. When the formal criteria are fulfilled, the ability to access network ties with these individuals seems to offer indeed a benefit compared to other individuals who formally qualified, but not able to use the same contacts due to the lack of proper social capital. Summarizing these findings, it has to be said that even if the potential of social capital and social networks on improving initial market signals and improving their employment probability is somewhat constrained by the institutional settings, a positive influence potential can be identified. Similar to the findings regarding the acquisition of human capital, the positive influence of social capital and network ties can only partially be confirmed.

Concluding these findings, it has to be said that the proposed hypothesis, that in order to acquire human capital and to improve their market signaling, it is necessary for temporary agency workers to establish networks ties to individuals controlling these resources, cannot be fully confirmed and that in the given context, social capital cannot be identified as a prerequisite to acquire human capital. This can be attributed to the institutional framework of the company regarding the training and permanent employment. Nevertheless, it can be said that although social networks are not essential for the stepping stone effect, they seem to offer at least the potential to positively influence a transition into permanent employment. Albeit it is impossible to determine the extent of this positive influence, the given statements lead to the conclusion that social networks inside the company can indeed prove to be beneficial. Especially with

regards to the permanent employment process and the circumvention of one's initially negative market signals, the mediator position of the foremen and the head of the department seem to have a relatively strong influence potential of human capital. Therefore, it can be said that further research regarding this topic is indeed necessary, for example through a study using the name generator methodology (c.f. Lin 2001, pp. 87-89). By asking temporary agency workers and foremen, as well as department heads about their contacts to their respective employees, their content as well as their intimacy would generate a list of contacts for each individual and hence a network of contacts and interaction of a department. It would then be possible to match the list of people who found permanent employment with the network contacts of the people being permanently employed as well as of the individuals drafting this list, hence offering a possibility to analyze the influence network contacts had on this process.

Finishing this thesis, it can be said that although social networks cannot be seen as a prerequisite for human capital acquisition and the circumvention of one's initial bad job market signaling, they nevertheless seem to have certain relevance when it comes to getting a permanent job as a temporary agency worker. Although this potential seems to be relatively limited for the company the interviews were conducted in, this result may however vary for companies who do not have a formalized approach regarding the training and the permanent employment of their temporary agency workers.

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