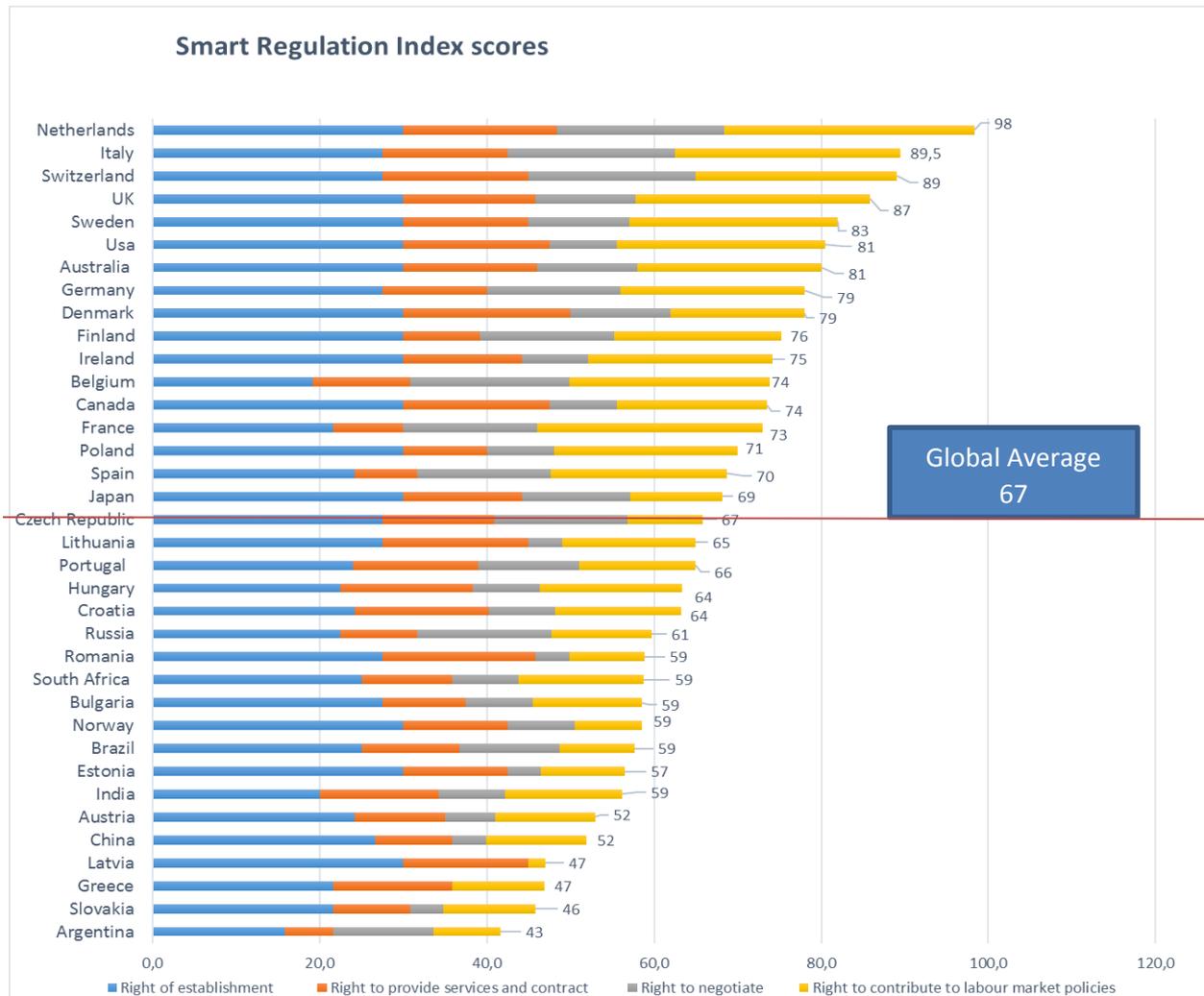


## Smart Regulation Index

2018



The Smart Regulation Index (SRI hereafter) measures the labour market's willingness to use Private Employment Agencies (PrEAS) in the indicated countries and focuses on the agency work sector. The index score is based on the World Employment Confederation's members' responses to a survey which was divided into four sections, with a maximum global score of 100:

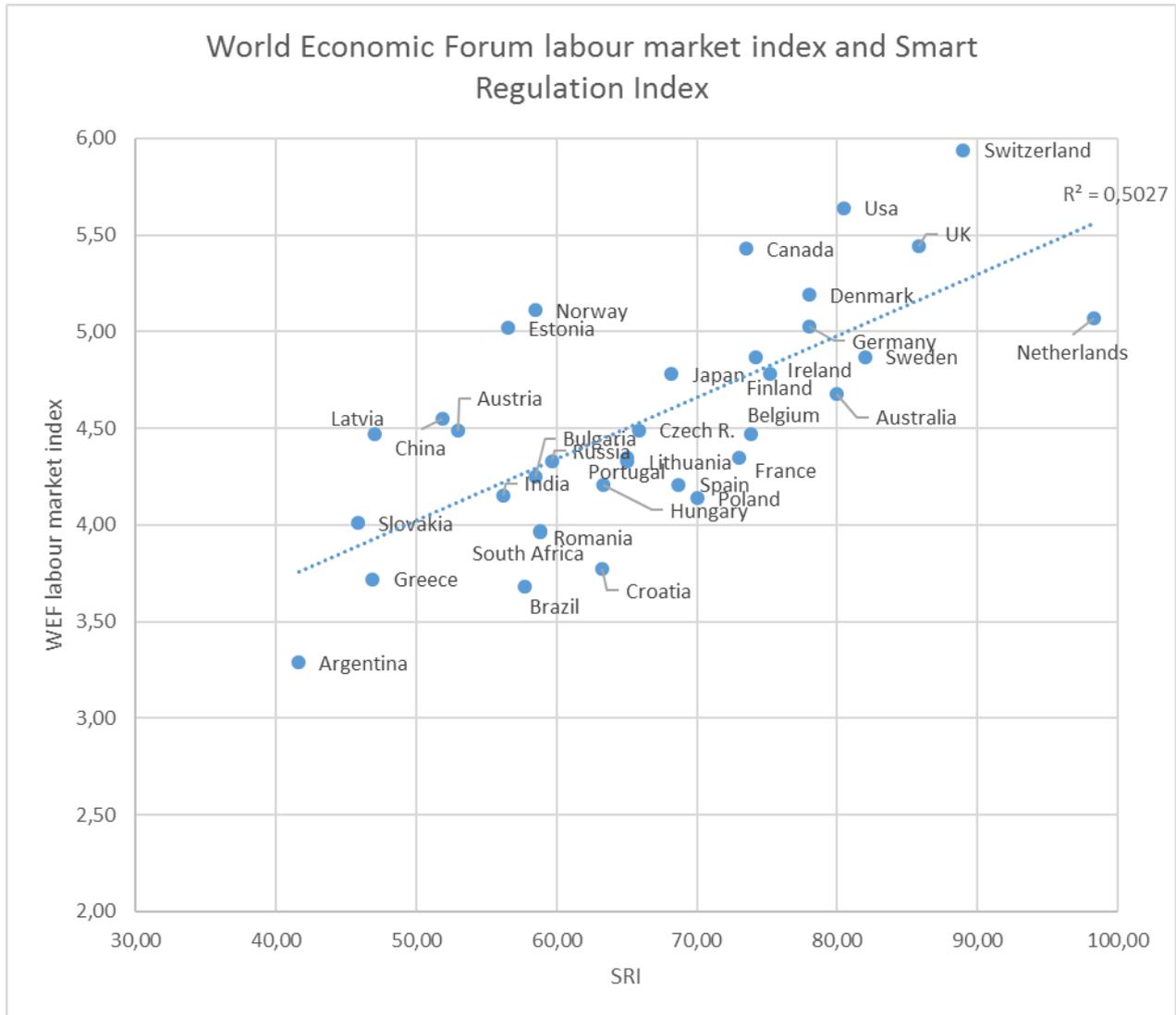
- **Right of establishment:** This indicator measures the ease of starting a legitimate PrEA business in any given country and accounts for 30 points.
- **Right to provide services and contracts:** This indicator measures the freedom of PrEAS in delivering the full range of HR services to companies and offers the full range of employment contracts to workers: This indicator accounts for 20 points.

- **Right to negotiate:** This indicator measures the level of participation of PrEAS in social discussions, either social dialogue or any other social system and the PrEAS ability to implement innovative forms of social protection. This indicator accounts for 20 points.
- **Right to contribute to labour market policies:** This indicator measures the level of participation of PREAS with regard to labour market policies, training for agency workers and social responsibility. This Indicator accounts for 30 points.



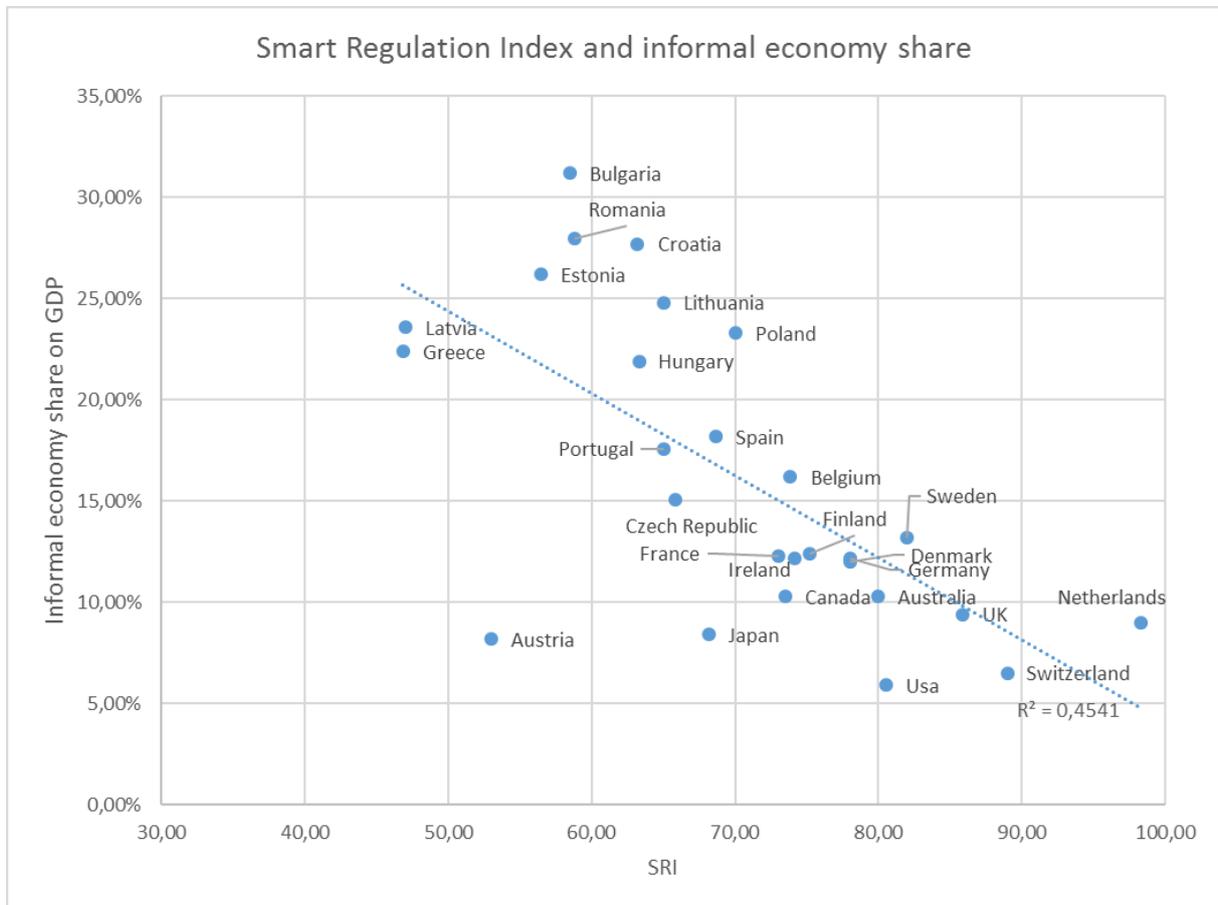
### Global Findings:

The Netherlands and Italy hold the first and second positions respectively. The Netherlands rank first in three (3) sections out of the four (4) and have a global score of 98, falling short of the maximum score by only 2 points. This result reflects a deep and decanal social involvement of PREAS in the local labour market and in society in general. By contrast, the Italian market has shifted from being one of the most recent in Europe to release the PREAS potential (1997) to one of most important markets, which is due to a series of deep reforms in 2015. Switzerland ranks directly after Italy (half a point less). Three Anglo-Saxon countries rank within the top ten: UK (4<sup>th</sup>), USA (6<sup>th</sup>) and Australia (7<sup>th</sup>), indicating once again, that different regulation systems can be equally efficient. Emerging markets are led by India (24<sup>th</sup>), whilst Poland is leading the Eastern European market in 13<sup>th</sup> position overall, having a total score of 5 points above the global average.



PrEAS are reliable players in the labour market that enable the job-matching, mitigating the information asymmetry. Therefore, the smarter the regulation on PrEAS is, the more efficient the labour market. The World Economic Forum has developed a “Competitiveness Index” to rank countries considering their overall performance in 12 sectors.<sup>1</sup> The most relevant sector for the purpose of our analysis concern the labour market efficiency, which is used in figure 3 to elaborate a linear correlation with the SRI. Indeed, there is an important statistically relationship between the level of the efficiency of the labour market in general and the regulation on PrEAS ( $r^2=0,5$ ). Although the labour market is a complex and various environment in which plays many components, this statistical relationships demonstrate that PrEAS are a positive factor to boost its efficiency.

<sup>1</sup> Institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation



Sources: F. Schneider, Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2015: Different Development, Johannes Kepler University of Linz, 2015:  
<http://www.econ.jku.at/members/Schneider/files/publications/2015/ShadEcEurope31.pdf>

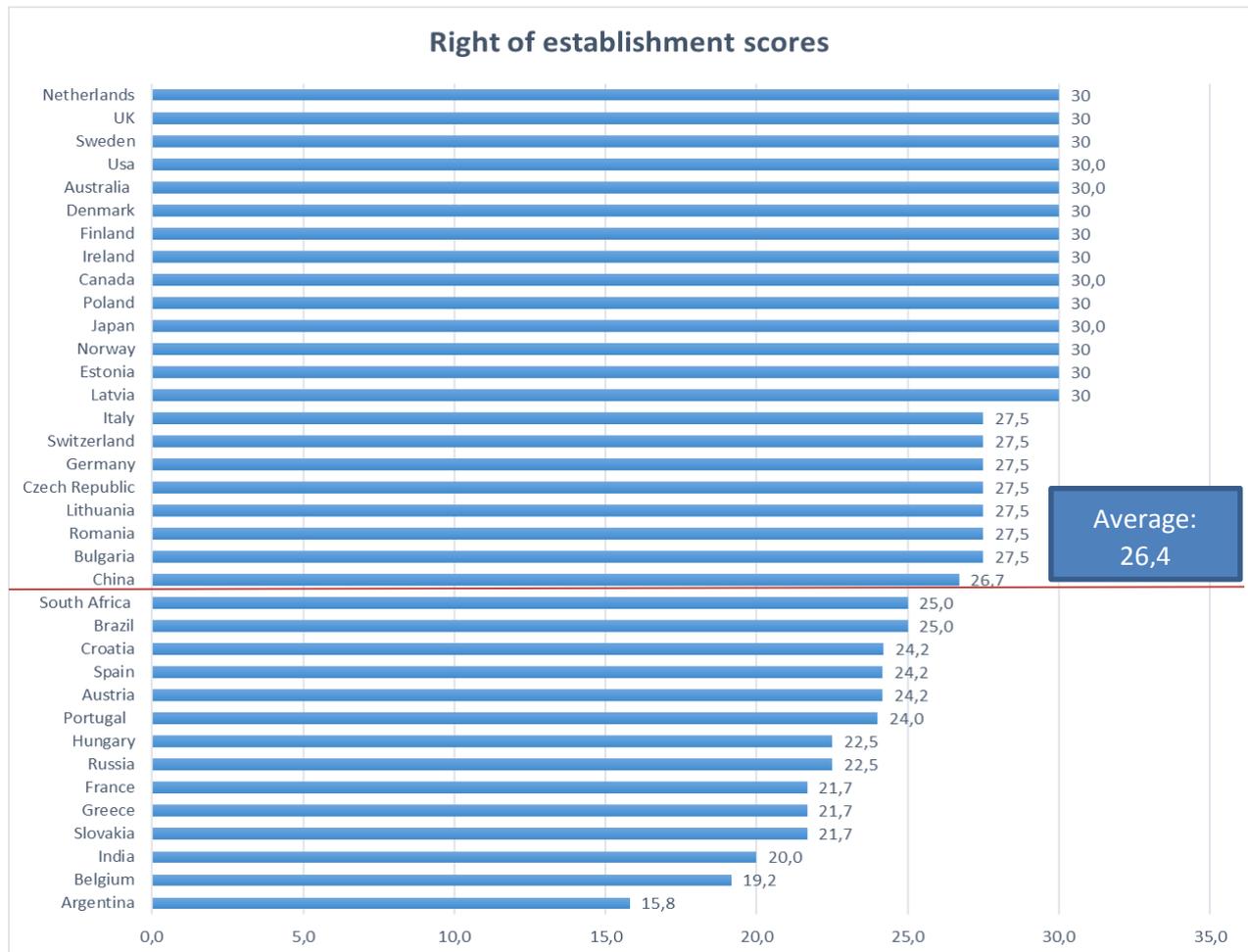
The importance to promote a smart regulation on PrEAS and in particular regarding agency work is well explained by the linear regression between SRI score and the share of informal economy (in comparison with the total GDP) in any given country. There is a significant negative correlation between the regulation smartness on PrEAS regulation and the level of informality ( $r^2=0,45$ ): country with higher scores in SRI have less informal economy. Indeed, a previous study already proved<sup>2</sup> that agency work act as a leverage against informal economy, bringing out jobs that would remain in the shadow otherwise. Such effect allows on one side people to get in the legal labour market, access to social protection, health insurance and any other workers rights and on the other side society gains taxes and social contributions that would be lost otherwise.

<sup>2</sup> P. Renooy, C.C. Williams, *Flexibility@work 2014 tackling undeclared work*, Randstad, 2014.

## Right of establishment

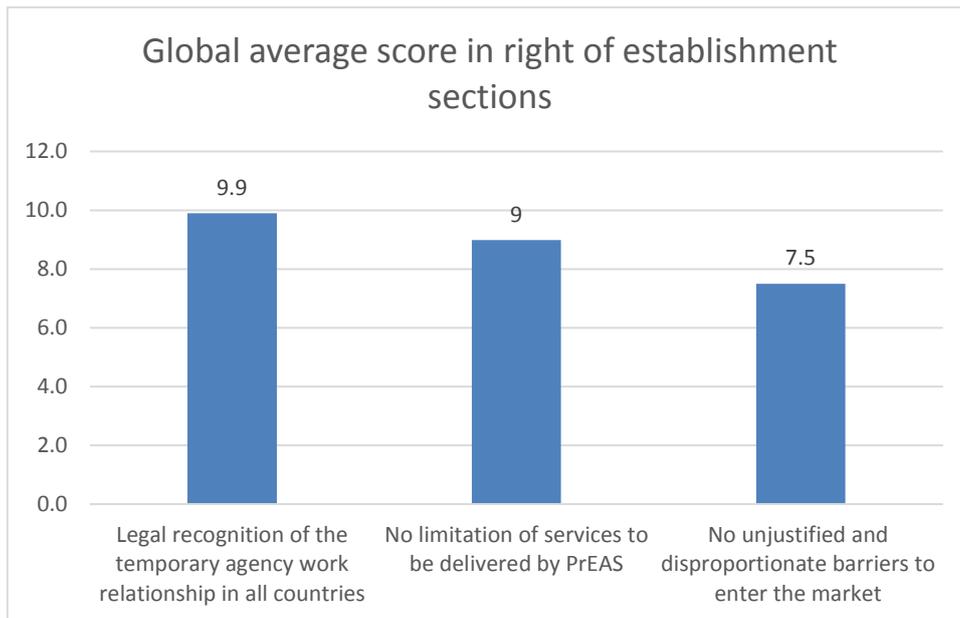
**Global Average:** 26,4/30

**Top 3 Countries:** Thirteen countries have the maximum score



The first important step in developing business in a country, is to implement a favorable regulation framework in order to encourage companies and people to invest money. PrEAS are no exception and needs a positive regulation framework to ease the establishment of businesses and further development. This index section measures the level of simplicity in establishing a business in any given country. After many years of skepticism, PrEAS are now acknowledged as an important contributor to the labourt market. This is indicated by both the high score and global average of this section. Indeed, the right to establish a business, is the most successful indictor with a global average of 88% .

However, it is important the industry does not become complacent and keeps working on strategies that will continue to improve the legal framework: as the single section's averages demonstrates, there is still room for improvement for example in the removal of disproportioned barriers in entering the PrEAS' market.



The most common disproportionate barrier to entering the PrEAS market, is the administrative burden of many legal requirements and conditions (14 countries), as well as many restrictions on the type of legal entities that can establish a PrEA (7 countries).

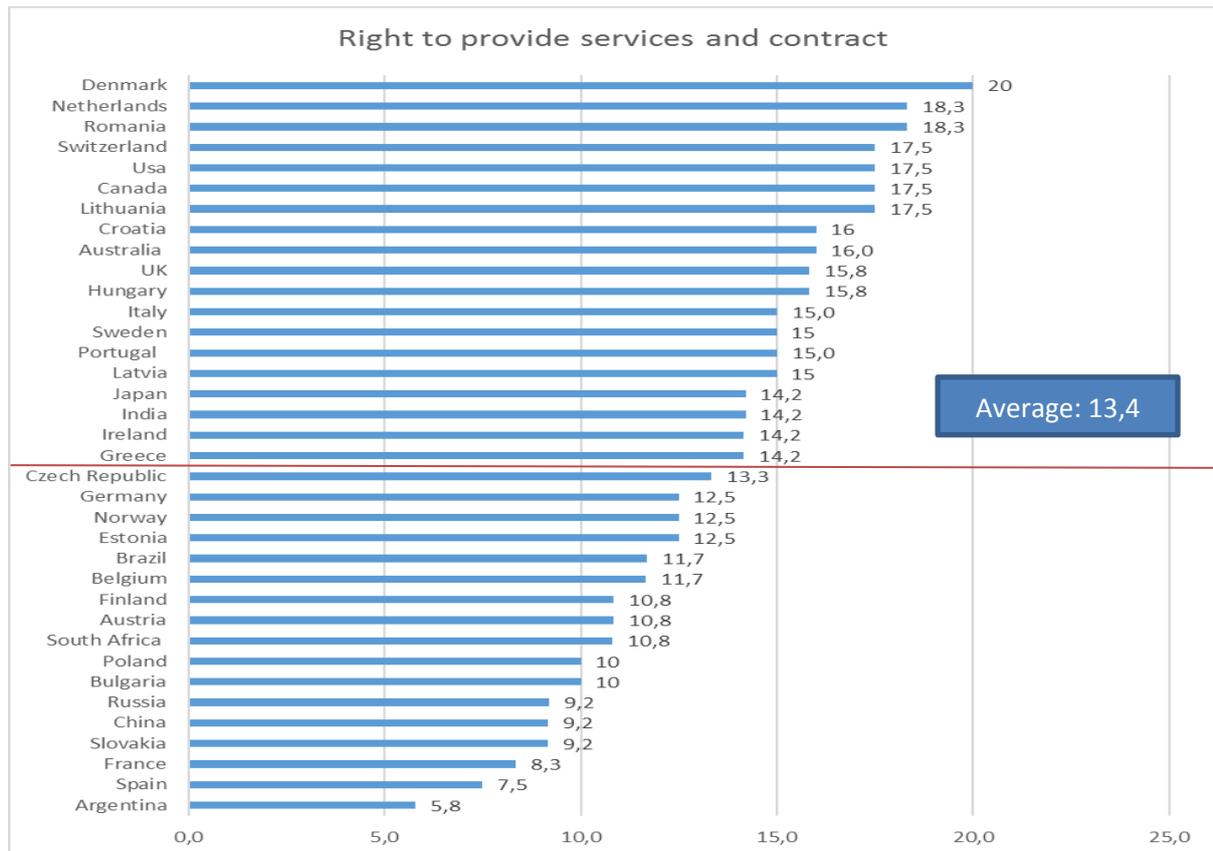
**Take-aways:**

- Right to establishment businesses has the highest score of the entire index with a global average of 88%.
- Yet, unjustified barriers to the PrEAS' market remains a concern, especially administrative conditions (reported by 14 countries).

## Right to provide services and contract

**Global Average: 13,4/20**

**Top 3 Countries: Denmark (20), Netherlands(18,3), Romania (18,3)**



If the right to establish businesses is the foundation in establishing a PrEAS' business, the right to be able to provide the full range of services and contracts are the load-bearing walls. This index section is specifically focused on agency work, which is the core to PrEAS business. In the past, agency work was restricted and in some areas continues to be, for example with regard to types of contracts offered and sectoral bans etc.

Such restrictions hinder the role that PrEAS can play in the labour market, slowing the process of getting people into work and limiting companies flexibility adjusting to economic cycles.

It therefore comes as no surprise that Denmark, the model country for the flexicurity gold triangle, occupies the top position in this section. Italy and Brazil represent two countries that have improved their regulation on PrEAS, which can be attributed to recent legislative reforms. By contrast, the future impact of the recent reforms in Japan, cannot be assessed yet. The analysis of the second pillar's subsections supports the theory that on a global level, restrictions in agency work are more widespread than the limited types of contracts offered to agency workers.



The most frequent form of restriction we see, is the presence of a maximum length of assignments (20 countries), followed by the need to justify the use of agency workers (15). However, a remarkable number of section bans on agency work are still in place (10 countries) and need further action to boost regulation smartness.

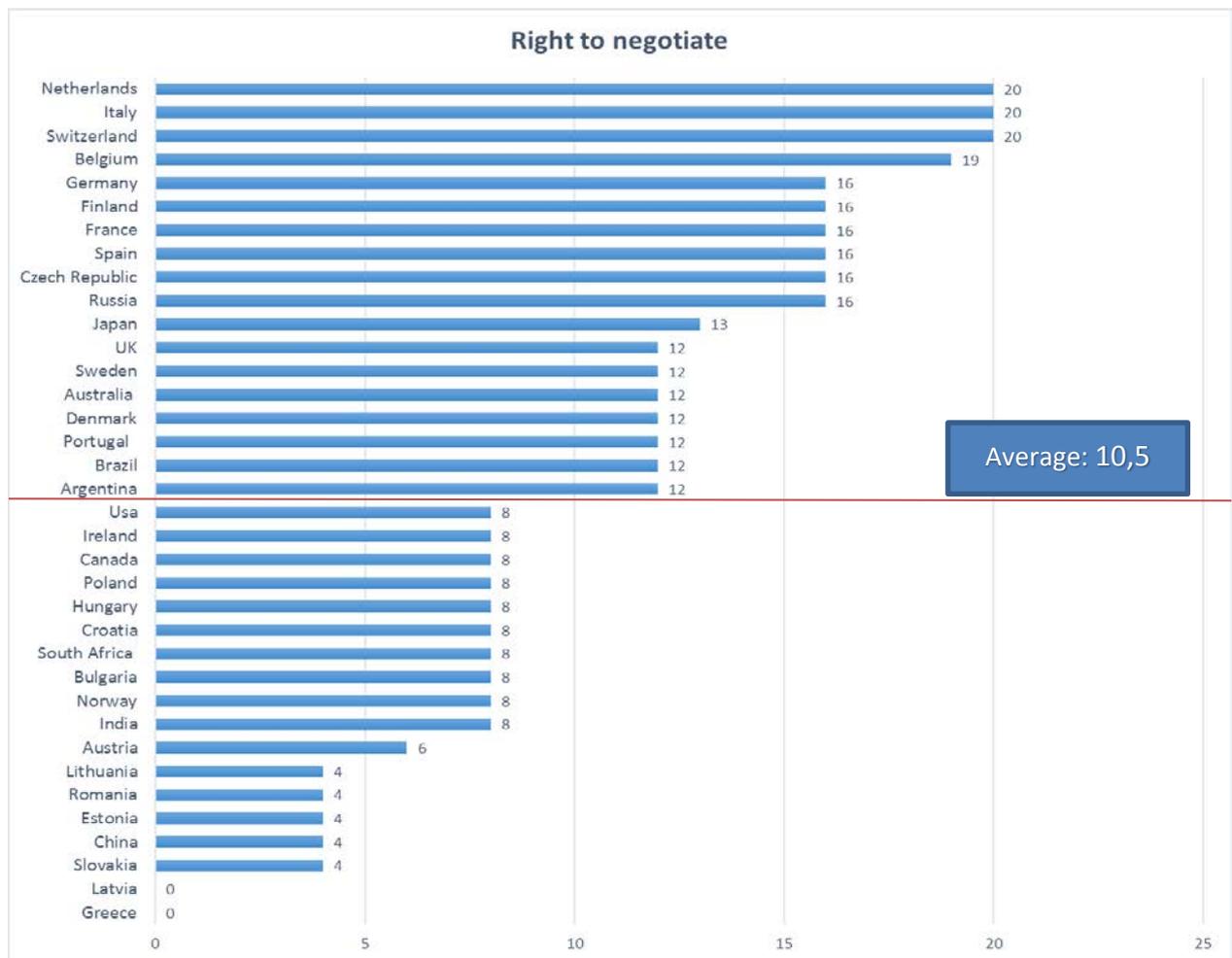
**Take-aways:**

- To date, only Denmark has been able to achieve access to both the complete range of contracts and services for PREAs.
- The most common form of legal restriction is maximum lengths of assignments (reported by 20 countries).
- 10 countries are still facing sectoral bans for agency work.

## Right to negotiate

**Global Average: 11/20**

**Top 3 Countries: Netherlands (20), Italy (20), Switzerland (20)**



Intermediation is an intrinsic and natural phenomenon of the labour market, therefore it is essential that we recognize and distinguish good and ethical forms of business from fraudulent and illegal players. In order to achieve this objective, it is fundamental that we build strong relationships between responsible PrEAS and social players. We need to recognize PrEAS' associations as rightful representatives of the agency work sector and involve PrEAS in changes to governmental consultation, concerning the labour market. This index section measures the level of recognition of PrEAS as a sector on its own in any given country.

The top three countries of the Smart Regulation Index, all have the maximum score in this particular section (the Netherlands, Italy and Switzerland). It can therefore, be inferred that recognizing their contribution is a strong indicator of the entire regulation on PrEAS.

Every rule has exceptions, for example, the USA represents a stand-alone case: PrEAS certainly recognize it as a sector on its own, but collective agreements are less in use in the USA industrial relations and therefore it scores lower than what it actually represents. The global average, slightly above 50% (10,5), proves that there is still some work to be done in order to achieve PrEAS representatives recognition around the world.

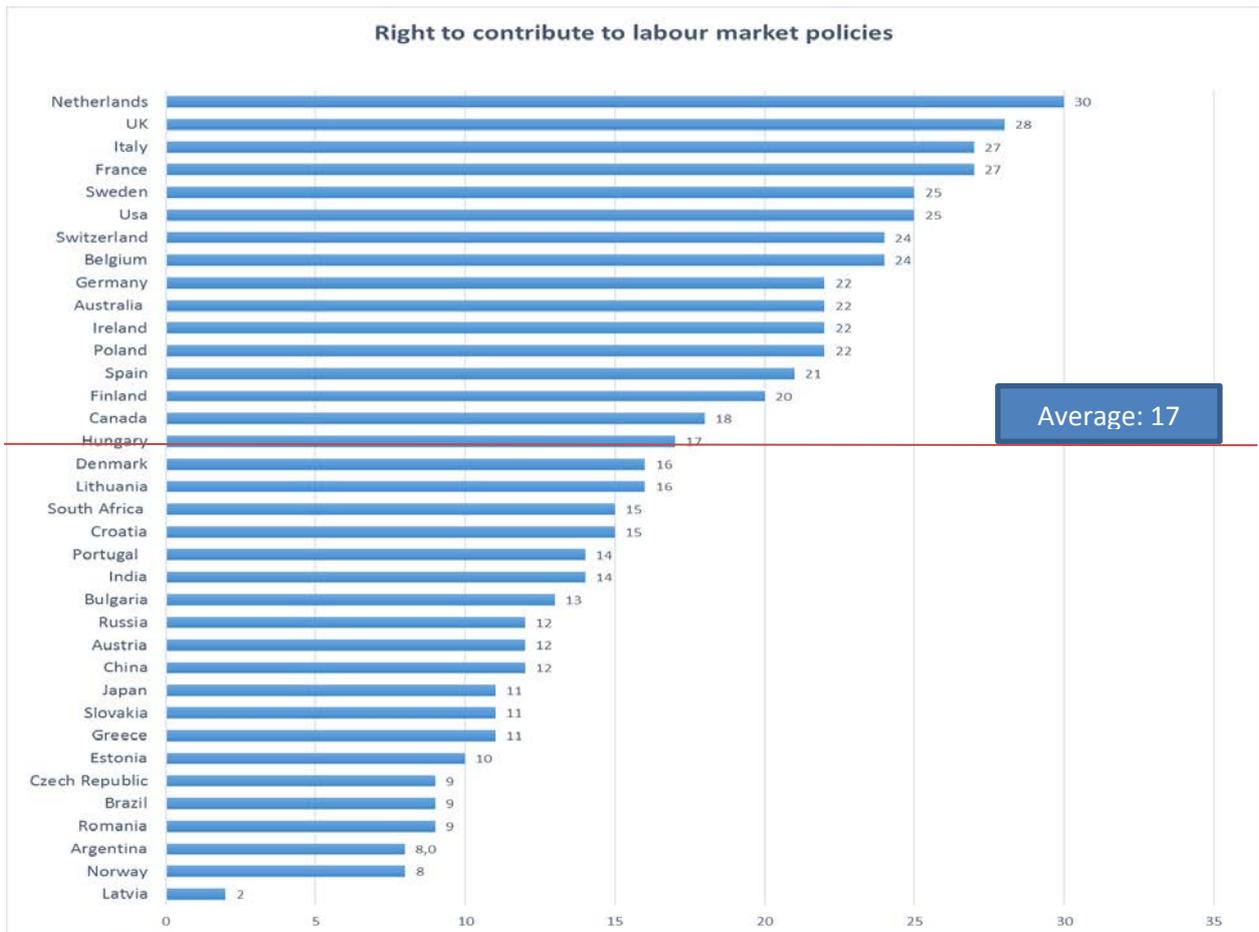
**Take-aways:**

- The recognition of the PrEAS representation bodies is still low, as the global average score of 50% demonstrates.
- The three top countries overall score the maximum in this section, proving that the right to negotiate is the cornerstone of a sound regulation of the PrEA sector.

## Right to contribute to labour market policies

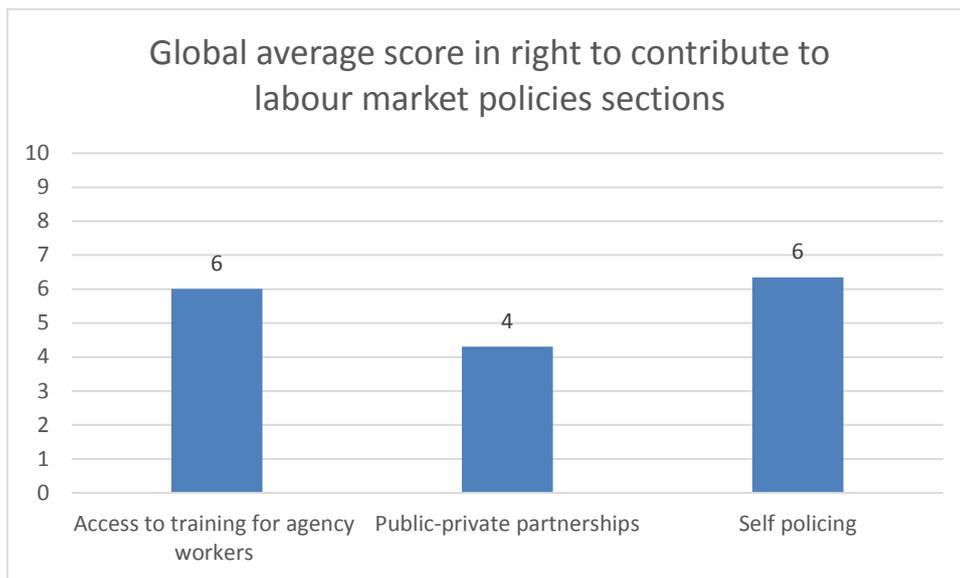
**Global Average: 17/30**

**Top 3 Countries: Netherlands (30), UK (28), Italy (27)**



Private employment agencies can deliver multiple services to the labour market, namely intermediation, professional career's advice, profiling, up-skilling and or re-skilling of workers who may be at risk of labour market exclusion etc... Such contributions should be fully considered by institutions implementing partnerships with reliable PrEAS when determining labour market policies. This index section measures the degree of involvement of PrEAS in labour market policies and also the level of social responsibility practices developed by the employment industry in any given country, for example, code of conduct and access to training for agency workers.

Unsurprisingly, the Netherlands leads this section with full marks, followed by UK, which falls short by only 2 points, which is due to the absence of a bipartite training fund. Countries who have a bipartite training fund all rank in the top ten positions of this particular section, with the exception of Austria which does not offer apprenticeships and has a low level of involvement in labour market policies. Nevertheless, also countries without bipartite training funds are extremely well positioned, with full marks in training opportunities, such as the USA and Australia, in addition to the former mentioned UK.



The global average supports the theory that public and private partnerships are the major concern that needs addressing by States in order to better integrate PREAS into labour market policies. Indeed, the global average score in this sub-section is 2 points less than others (a 33% difference). The most widespread form of private-public partnerships (also the least complex), is that of “Exchange of vacancies and job offer” (23 countries), followed by “Providing basic services to public employment services (e.g. skills assessment)” (16 countries). With regard to social responsibility, 28 members of WEC out of 35 have a national code of conduct and quality standards for the employment industry. 27 members have implemented an anti-discriminatory policy which their members must adhere to and 23 countries have carried out audits, some resulting in action against non-compliant members.

**Take-aways:**

- Private-public partnerships need to be improved and promoted as the global average suggests, scoring only 4/10 in this subsection.
- 80% of respondents have a national code of conduct, 77% have an anti-discrimination policy, 65% conducted audits and action of non-compliant members.