

Career Outcomes of Temporary Employment: Disentangling Functions of Screening and Entry Port

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Abstract

Recent labor market trends are characterized by increasing incidences of temporary employment (i.e. jobs with a fixed duration) and a decline in the “standard” permanent employment relationship. Owing to this development, a broad literature on the career outcomes of temporary employment has emerged. Within this literature, usually two perspectives are contrasted: the entrapment and the integration scenario. The *entrapment* scenario assumes that temporary employment can lead to cycles of insecure jobs and entrapment in the secondary labor market where inferior jobs predominate. In contrast, the *integration* scenario describes that temporary jobs function as a *prolonged probationary period* and are used as a *screening device* for permanent jobs. Yet another assumption of the integration scenario, the *entry port* hypothesis states that temporary employment facilitates transitions to permanent employment because temporary employment (as opposed to unemployment) helps individuals to acquire human capital and social contacts. Because of this, temporary employment fosters finding a permanent job with a different employer and can be considered as an entry port leading to permanent contracts in the long run.

Thus far, the great majority of studies on the career consequences of temporary employment in terms of transition rates to permanent contracts does not separate between contracts with the same and different employer, mixing up the screening and entry port argument. An exception is the study by Baranowska et al. (2011) on Poland that tries to differentiate between screening and entry port by investigating the patterns of duration dependence in competing risk models. In this paper we propose a more proper test of the screening hypothesis by analyzing the transitions from temporary employment to permanent employment with the same employer. To truly consider temporary jobs as a screening device we would expect to observe such transitions within a rather short duration. This test is rarely applied in the literature and restricted to single country studies so far (e.g., see Schmelzer et al. 2015 and Reichelt 2015 for Germany and Fuller & Stecy-Hildebrandt 2015 for Canada).

Therefore, the question emerges under which conditions – both individual and institutional - which pathway to permanent employment is more likely. By investigating this question this study contributes to the previous literature by adding a valuable country-comparative perspective to it. On the one hand, we expect there to be micro-level determinants that influence transitions from temporary employment. More specifically, the screening argument might be especially applicable if person-job match is hard to observe before hiring, such as for high-skilled positions (H1.1). In

contrast, fixed-term employees in low-skilled positions might more often serve functions of *buffer stocks*, which allow firms to react to market volatilities and are less likely to be converted into permanent positions (H1.2). On the other hand, macro characteristics like the labor market regulation or the standardization of the educational system might influence the specific function temporary employment has across countries. Temporary employment as a prolonged probationary period might be especially rational for employers in countries where firing costs are high because strict employment protection legislation (EPL) for permanent contracts are in place (H2). Furthermore, the standardization of the educational systems and the closeness of the link between schools and employers influence to what extent employers can use educational credentials as a signal for the skills of prospective employees. In countries where the educational system is largely unstandardized employers might more often use fixed-term contracts to assess relevant job skills before offering someone a permanent position (H3).

The above assumptions are tested using the “EU Statistics on Income and Living Conditions” (EU-SILC). The EU-SILC data set is the only cross-country comparative longitudinal data set that allows analyzing the career consequences of temporary employment and tracking employer changes (over a period of up to 4 years), which is needed in order to differentiate between the screening and entry port hypothesis. Starting in 2005 until the most recently released wave all available longitudinal data for all EU-SILC countries are included into the empirical analysis. Our sample definition includes people aged 18 to 55 who were not in any education and training (including apprenticeship training) during the previous four weeks and who are employed in a fixed-term contract at the beginning of their employment career. Discrete time event history models in a multilevel context will be estimated to follow individuals who start their career with a fixed-term contract for up to 4 years. Employing multilevel models allows to separate individual-level effects from the effects of country-specific characteristics like EPL and signalling power of educational certificates. As in previous studies, the latter is measured as the percentage of individuals enrolled in upper secondary education who are in vocational and technical programs that combine school and work-based training. A two-step estimation procedure is conducted allowing the most flexible model specification for the main independent variable of interest and the micro-level control variables. Individual-level control variables such as age, gender, migration background and education are controlled for in order to account for socio-demographic compositional differences between the countries. Competing risk models will be estimated to investigate transitions from temporary employment into various states: unemployment/inactivity, temporary employment with a new employer, permanent employment with a different employer, permanent employment with the same employer.

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