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To be hired or not to be hired, the employer decides : relative chances of unemployed job-seekers on the Dutch labor market

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SUMMARY

How do employers select their personnel? What goals do they pursue and what criteria do they use? Are they trying only to maximize money profits? Or are there other mechanisms at work, as well? These questions are of interest both from a practical and from a theoretical point of view. The practical motivation stems from the exceptionally low employment rate in the Netherlands. If the employment rate is to be increased employers are needed to hire large numbers of people who by current standards may be regarded as unemployable. More insight in the criteria employers use when selecting personnel may improve our understanding of why some individuals are not demanded now and what can be done to increase their potential on the labor market.

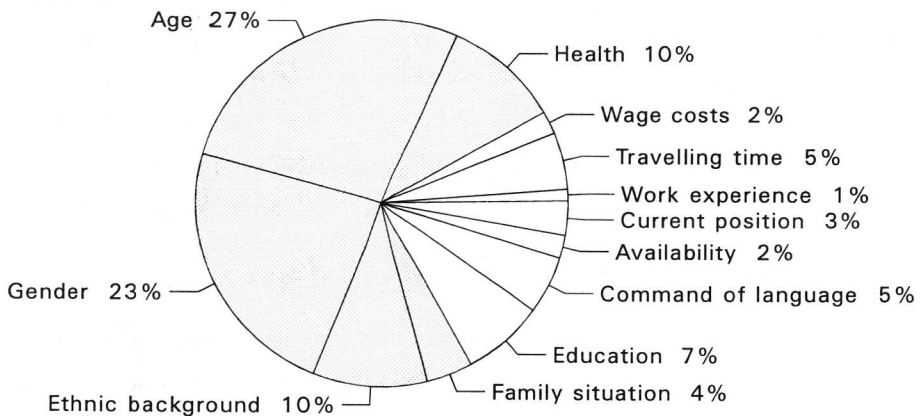
Although this study is in the first place an empirical investigation into the criteria employers use when selecting their lower skilled employees, there is also a theoretical motivation for it. Economic theory does not seem to provide us with unique answers when it comes to personnel selection. Marginal productivity theory would predict employers to hire personnel in line with profit maximization, but there are also economic theories that describe employer behavior which deviates from the profit maximizing path. The economic theory of discrimination, for example, describes a trade-off between money profits and discriminatory tastes.

This study uses the data-collection method of conjoint analysis to investigate selection behavior of employees. This method is known from market research where it is used to assess the marketability of different products. Conjoint analysis makes use of profile descriptions of - in this case - applicants. In qualitative preliminary studies, the characteristics on the profile descriptions were chosen in cooperation with employers of lower skilled workers.

The profile descriptions were used in a survey among employers which was carried out during the winter of 1989/1990. Respondents in the survey were mostly managing director of small firms or establishments or personnel managers in larger firms. The respondents in the survey first described a (possible) vacancy for a lower skilled employee within their firm and were then asked to evaluate a set of 18 profiles of fictitious applicants presented to them. They were asked to rank the profiles according to preferability for the vacancy at hand and to point out which applicants would be acceptable for the job.

The profile descriptions were built up of twelve characteristics, thought to be of importance to employers: age, gender, ethnic background, health, family situation, wage costs, level of education, travelling time, work experience, current position, availability and command of the Dutch language. The relative importance of these twelve attributes was derived from the respondents' rankings of profiles by means of a rank ordered logit model. The most important result is that those factors which cannot be influenced by the applicants themselves, such as age, gender, health and ethnic background, constitute at average over 70% of the preference of the employer:

Average relative importance of applicant characteristics for lower skilled work



Preferences, however, differ across employers and across vacancies. Health and age are important selection criteria across the board. Female job-seekers face much lower chances in industrial and construction firms than in other sectors; this is, apart from jobs requiring heavy physical labor for which females are even less wanted. Firms which employ a larger share of women, are less likely to select new applicants on gender. Ethnic minority job-seekers come close to an equal treatment only if they apply for a non-commercial job in a larger establishment.

The preference model was extended to a hiring model with the data on the acceptability of applicants. The results on preferences allow us to calculate quality-indices depicting the qualities employers attach to individual applicants. These quality-indices were then used to analyze the acceptability of candidates. Whether employers consider a candidate to be acceptable for employment in their firm appears to depend on two things: the perceived quality of competing candidates and a set of firm-specific values. This implies that acceptability is in part a *relative* phenomenon and that the firm's choice behavior is partly molded by the situation at hand.

If we suppose that applicants who are ranked first and considered acceptable, are in fact hired, it is possible to model the flow of job-seekers into jobs. A simulation on a constructed database of job-seekers illustrates that if selection criteria used by employers do not change, the low employment rate on the Dutch labor market for older workers, ethnic minorities, women and workers with a slightly increased probability of sick leave, may prove to be lasting.

The observed preferences of employers for young, healthy, native, male workers ask for an explanation. Characteristics of job-seekers which are directly related to productivity apparently are of less importance than those not or only indirectly related to productivity. This conclusion, however, is only skin deep: the finding that employers take characteristics into account that are not directly related to productivity leaves us with a variety of explanations for such behavior, some of which are in accordance with profit maximization. It may, for example, be argued that employers use easy to observe characteristics as cheap indicators of the expected productivity of applicants. Differences in preference may then be attributable to other measures of productivity, not included in the profiles, but correlated to variables on which employers base their preferences. Whether one concludes that the observed differences can reflect differences in true average productivity remains a matter of judgment. The large number of other characteristics which we control for, combined with the size of the observed differences, however, provide strong indications that besides profit maximizing behavior of employers, there are also discriminating mechanisms at work.

This study shows that lower skilled job-seekers without a job are primarily selected by employers on the basis of characteristics that they cannot influence themselves: age, gender, health and ethnic background are the most important selection criteria. Whether the observed preferences reflect discrimination or cost-efficient screening or lie somewhere in between these two and may be called pseudo-rationalizations, does not seem to alter the gloomy picture the results imply for lower skilled job-seekers who are not young, healthy, native and male. The finding that lower skilled job-seekers can do little to improve their own chances on the labor market, has strong implications for both theory and policy. Hiring behavior of employers appears to be of importance in analyzing employment and unemployment. Policy makers may use the results of this study to focus a greater part of their attention on the demand side of the labor market. Influencing employer preferences may be more successful in increasing chances of problem groups on the labor market than current efforts aimed improving qualifications of job-seekers. Finally, the findings on their selection behavior may stimulate employers themselves to critically review their own hiring policies: is it really optimal to select primarily on age, gender, health and ethnic background? Is there any solid information that justifies selection on these criteria? Or is it possible to design screening methods which result in selecting the best employee without using characteristics that are not directly related to productivity?