

# Employers and the recruitment of unemployed people: An evidence review

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**Chris Hasluck  
Hasluck Employment Research**

**UK Commission for Employment and Skills**

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**Views expressed by the author of this Briefing Paper are not necessarily those of the UK Commission for Employment and Skills.**

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# Executive Summary

## Introduction

The UK economy is struggling to recover from the effects of the most serious recession for a generation. Public policy has a role to play in easing the process of employment recovery and facilitating transitions from unemployment into employment. It is a priority for the UK Commission to work with employers to maximise opportunities for unemployed people and to be effective in this regard we must gain an appreciation of employers' recruitment practices regarding unemployed and other workless people.

This evidence review was carried out by Hasluck Employment Research on behalf of the UK Commission for Employment and Skills. The aim of the review was to collate and assess evidence regarding the recruitment of unemployed people from the employers' perspective and to consider the processes that might result in disadvantage.

## Key findings

The key findings from the review were as follows.

- While unemployment can occur in any occupation, the unemployed cohort consists predominantly of people who previously worked in low skilled, entry level occupations and who seek to continue working in such occupations.
- There is a significant mismatch between the composition of jobs in the UK economy and the composition of occupations sought by unemployed job seekers. This means that unemployed people start from the weak labour market position of relatively weak demand for their labour.
- There are many ways by which employers can adjust their labour inputs to meet the needs of their business and only some of those responses require recruitment on the external job market. Whether or not to recruit, and who to recruit depends on the relative costs and benefits of different workforce adjustments. These costs and benefits will vary with the economic cycle.
- Employers use a variety of formal and informal channels to communicate vacancies to the job market. Each recruitment channel in turn has its own associated costs and benefits in terms of its coverage of potential recruits and its effectiveness in identifying suitable recruits.

- Hiring decisions are complex. Possession of the particular skills being sought, relevant qualifications or licenses, past experience in a similar job, personal circumstances and personal qualities are all likely to be taken into account but, ultimately, employers are seeking 'the right person for the job'.
- Employers use a range recruitment channels, both formal (e.g. Jobcentre, newspaper advertising, internet) and informal (e.g. word of mouth, employee recommendations). Informal recruitment channels tend to disadvantage unemployed job seekers since those channels are focussed on the workplace. The use of informal recruitment channels by employers is increasing, especially during the recent recession.
- Unemployed people are particularly dependent on formal recruitment channels, especially the Jobcentre but many employers prefer not to notify vacancies to the Jobcentre but use informal recruitment methods instead thus excluding unemployed people. Ultimately it is the recruitment channel used by the employer that determines the route by which recruitment takes place.
- Qualifications play only a limited role in employers' selection decisions regarding applicants for low skilled occupations and greater weight appears to be given to generic skills: attitudes, motivation, and flexibility. While this appears favourable to unemployed people (who are often unqualified) many have difficulty demonstrating that they possess such soft skills.
- There is little evidence that being unemployed per se has a negative impact on being successful in a job application. Nonetheless, employers are wary of job applicants with a problematic work history (frequent job changes, previous spells of unemployment, any history of dismissals or disputes with previous employers).
- Employers regard job applicants who have been unemployed for a long time as a serious risk, both in terms of additional cost, poor performance and risk of leaving the job at short notice. Long term unemployment is seen as a signal that the applicant lacks drive or a desire to work and is out of touch with the world of work.
- While employers also select on grounds other than economic status, such as age, disability, ethnicity or even address, those other factors are often directly associated with unemployment so there is an indirect effect on unemployed people.
- Unprofessional recruitment and selection practices that disadvantage unemployed people in the job market are inefficient for both employers' and for the economy and society as a whole. This is because such methods fail to obtain the best matches between people seeking employment and the jobs on offer.
- While many employers perceived unemployed recruits as a costly risk, there are potential benefits to employers including lower recruitment and wage costs, higher productivity and intrinsic rewards such as enhanced employee loyalty.

- The balance of costs and benefits varies from organisation to organisation. Some socially motivated organisations are likely to recruit unemployed people while other, more commercially oriented organisations are less. Some may not recruit unemployed people at all. The latter tend to be small firms operating with small margins who require recruits to be fully competent on arrival or which have few resources for training and support of unemployed recruits and firms offering jobs that require very up-to-date skills or require specialist expertise.
- From an employer perspective, there are a number of approaches that could be taken to improving opportunities open to unemployed job seekers. These include increased regulation of recruitment, engagement with employers and financial incentives.
- There appears little basis for seeking increased regulation of recruitment and most employers want less regulation.
- Helping people into employment is not the sole responsibility of employers but is shared with individual job seekers and the State. There are many actions that individuals can take to increase their employability by addressing the concerns of employers about recruiting unemployed people. Where individuals cannot address those issues themselves they may need information, active guidance and, indeed, support in raising their confidence to do this.



# 1 Introduction

## 1.1 Background to the review

With the UK economy recovering from the effects of the most serious recession for a generation, it is to be hoped that the economic recovery process will lead to the re-employment of previously redundant and unemployed people. The pattern of employment that emerges is, however, unlikely, to simply replicate that which went before. There is likely to be a shift from public sector to private sector employment, while employers may be seeking to recruit to new types of work requiring new and different patterns of skill.

Public policy has a role to play in easing the process of employment recovery and facilitating transitions from unemployment into employment. For instance, it is a priority for the UK Commission to work with employers to maximise opportunities for unemployed people. To be effective in this regard, public policy must be informed by an appreciation of employers' recruitment practices regarding unemployed and other workless people. It is important, therefore, to know when (or if) employers consider recruiting unemployed people (as opposed to other sources of recruits), the barriers (real or perceived) to recruiting unemployed people and the factors that might encourage employers to recruit from the pool of unemployed job seekers. Of particular concern is the extent to which different groups of unemployed and workless people are at different risks as a consequence of employers' recruitment practices. This report provides a review of the regarding these important issues.

## 1.2 Aims and objectives

The aim of the evidence review was to collate and assess recent evidence on employers' recruitment practices in regard to the recruitment of unemployed and other workless people and to consider the processes that may result in disadvantage for different groups of job seekers in the job market.

Specifically, the review sought to answer the following research questions:

- Which employers recruit or do not recruit unemployed people (and why)?
- What are employers' recruitment practices in regard to unemployed people, and do such practices change over time and the economic cycle?
- How do employers' recruitment practices differ in regard to different groups of unemployed people, and what are the reasons for such differences?
- What forms of support / help / facilitation would result in greater recruitment of unemployed people?

### **1.2.1 Method and sources**

The review has drawn on a range of sources including (but not limited to):

- journal and other academic publications;
- official reports and evaluations (including those from the UK Commission, Department for Work and Pensions, Jobcentre Plus);
- 'grey' literature consisting of unpublished material and working papers.

The evidence was mainly obtained via on-line sources but also includes material (such as unpublished working papers) provided by other experts in the field.

There is a substantial body of historical evidence relating to the recruitment of unemployed people. Where possible the review focussed on evidence from the last five years (2007 to date), partly to keep the review concise but also as a response to the sense that the current economic and employment context may be somewhat different to that of the past. Nonetheless, there is a danger in that in focussing only on recent evidence key lessons drawn from earlier research will be overlooked (Keep and James, 2010) so, where appropriate, reference will be made to evidence from an earlier period where it is especially significant.

## 2 Jobseekers and entry to employment

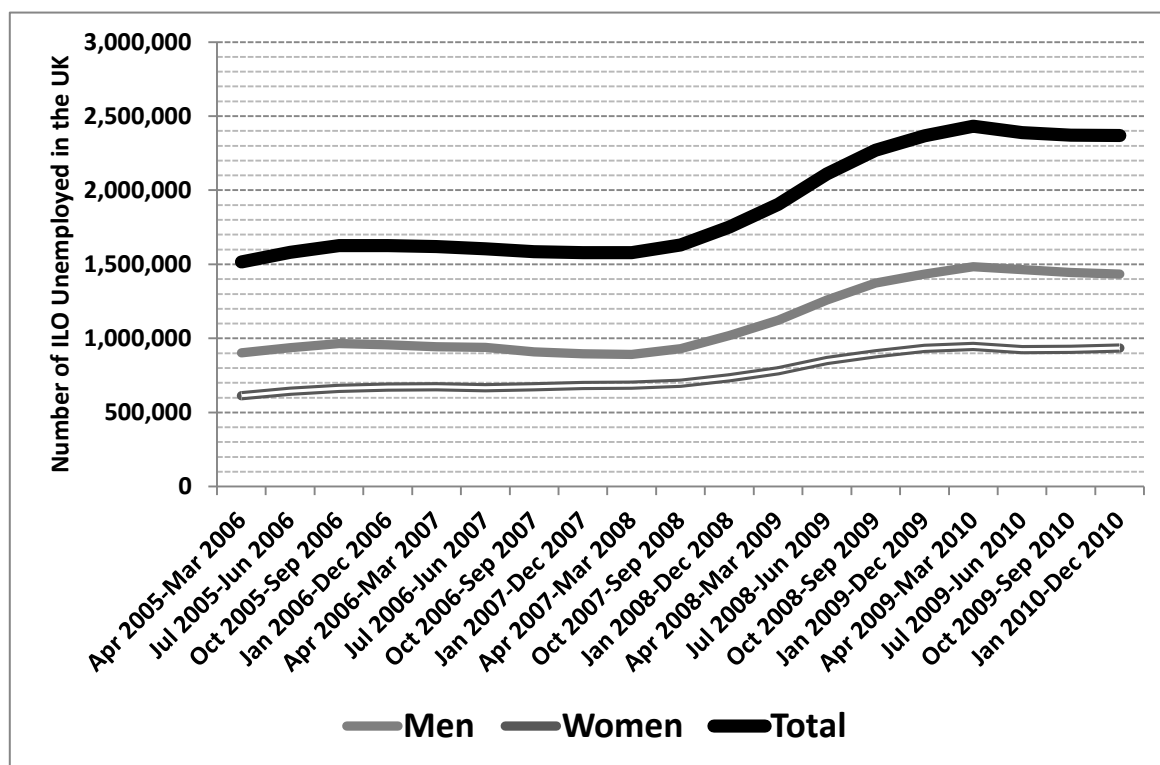
### 2.1 Introduction

This chapter provides some recent evidence relating to the number of unemployed people seeking work and their entry to employment. The evidence relates either to unemployment as measured by the Annual Population Survey/Labour Force Survey (LFS) or to people claiming Jobseekers Allowance (JSA) drawn from the Department for Work and Pensions administrative records (accessed via NOMIS). In both cases unemployed people are defined as actively seeking work. The LFS uses the ILO definition of unemployment (where a person must be seeking and available for work) while actively seeking work is a condition for the receipt of JSA.

#### 2.1.1 The number of job seekers

The number of unemployed job seekers has grown significantly over the past five years or so as a consequence of the recession. The number of unemployed estimated from the LFS is shown in Figure 2.1. From a total of 1,516,700 averaged over the period April 2005-March 2006, the number of unemployed people increased to 2,431,100 over the period April 2009-March 2010: an increase from 5.1 per cent to 8.0 per cent of the working age population.

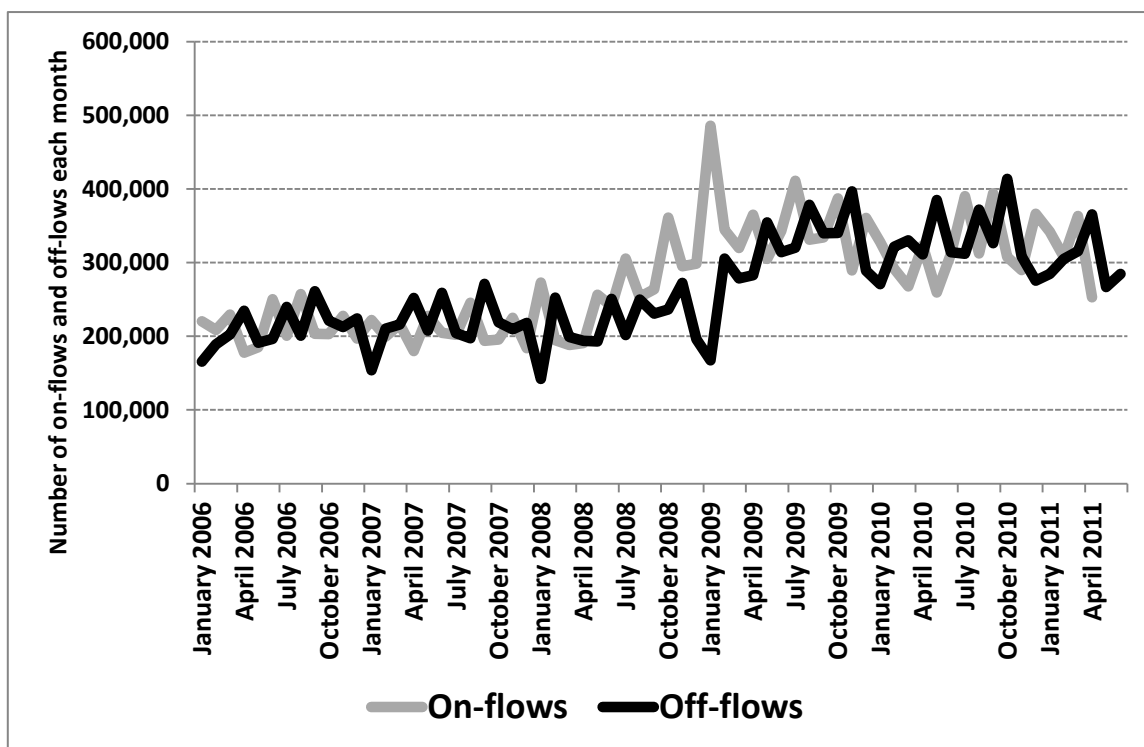
Figure 2.1 Numbers unemployed, UK, 2005-2010



Source: Annual Population Survey/Labour Force Survey

It is tempting to think of the unemployed cohort as a fixed stock of people but the reality is that the pool of unemployed job seekers is constantly changing. Large numbers leave the pool each month and are replaced by newly unemployed people (the difference between on-flows and off-flows resulting in changes in the total number of unemployed people). Figure 2.2 shows the numbers of people making a new JSA claim together with the numbers leaving benefit over the period from early 2006 to early 2011. As can be seen, the numbers fluctuate month on month but generally exceed 200,000 per month and since the beginning of 2009 have generally been in excess of 300,000 per month.

**Figure 2.2 Monthly claimant on-flows and off-flows, UK, 2006-2011**



Source: Claimant count, NOMIS

On the basis of the monthly off-flows, it can be estimated that the average length of JSA claim is in the region of 5 months, but this is misleading since many claimants leave JSA well before that point and a small proportion have very long claim durations. It should also be noted that not all off-flows are the result of being hired into employment, some are transfers to inactive benefits or withdrawals from the labour force. The LFS shows that of working age people who were unemployed at the end of 2009, around 40 per cent were in employment 12 months later at the end of 2010.

Where unemployed people have entered employment, a disproportionate number are recruited to relatively low skilled occupations. Table 2.1 shows that at the end of 2010, people who had been unemployed 12 months before, around a quarter (27.7 per cent) were employed in elementary jobs while a further 13 per cent were employed in sales and customer services. Taken together with personal services and semi-skilled operative

jobs, these four occupational groups accounted for well over half (57 per cent) of all re-employment of unemployed people of working age.

**Table 2.1 Occupation of people unemployed in 2009 and employed in 2010**

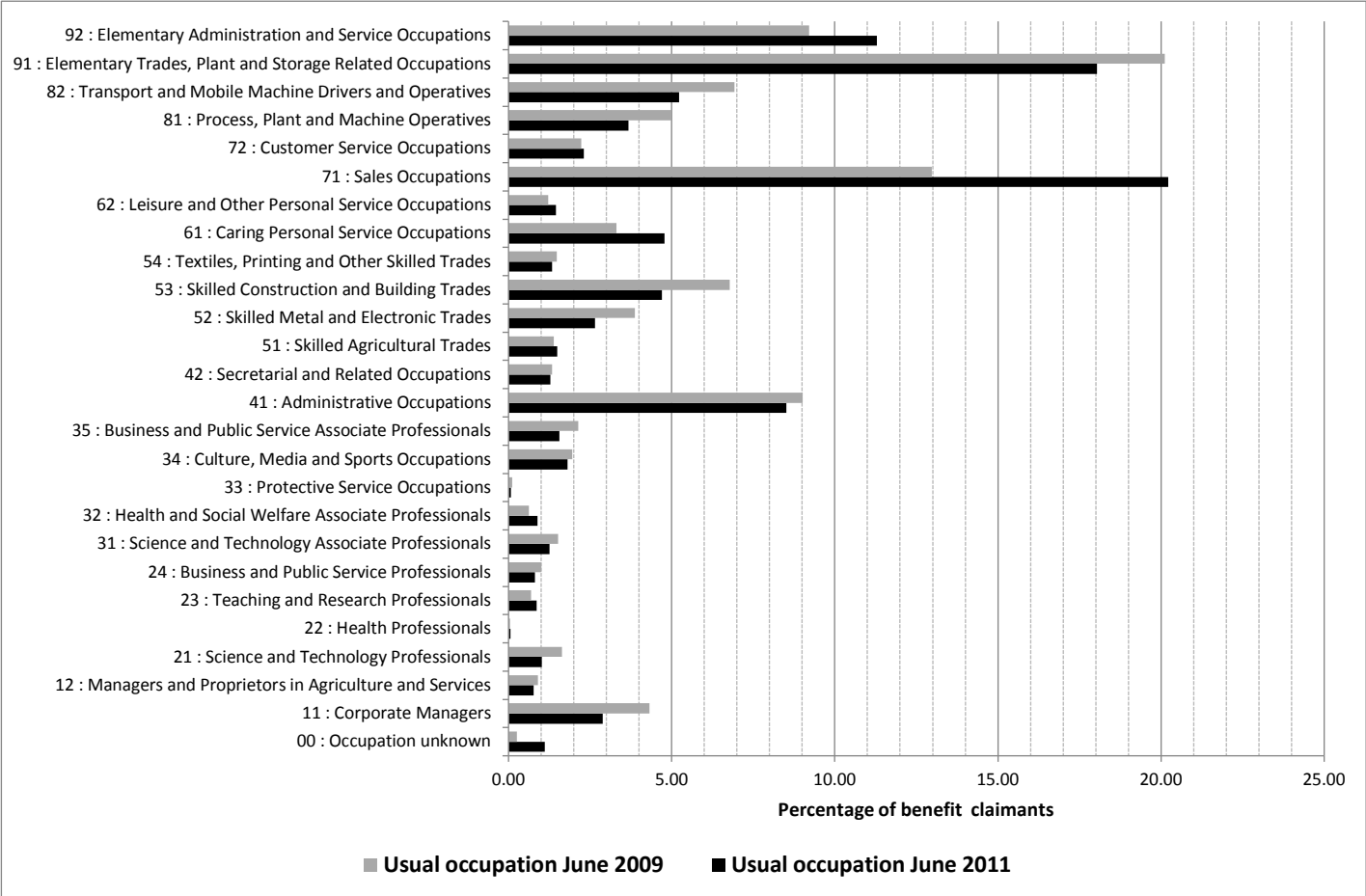
	Number	Per cent
Managers	37175	6.1
Professionals	49256	8.1
Associate professionals	58253	9.6
Administration & secretarial	61553	10.1
Skilled manual trades	57066	9.4
Personal services	51625	8.5
Sales and customer services	79581	13.0
Semi-skilled operatives	48206	7.9
Elementary jobs	167107	27.4
<b>Total</b>	<b>609822</b>	<b>100.0</b>

Source: Labour Force Survey 2010

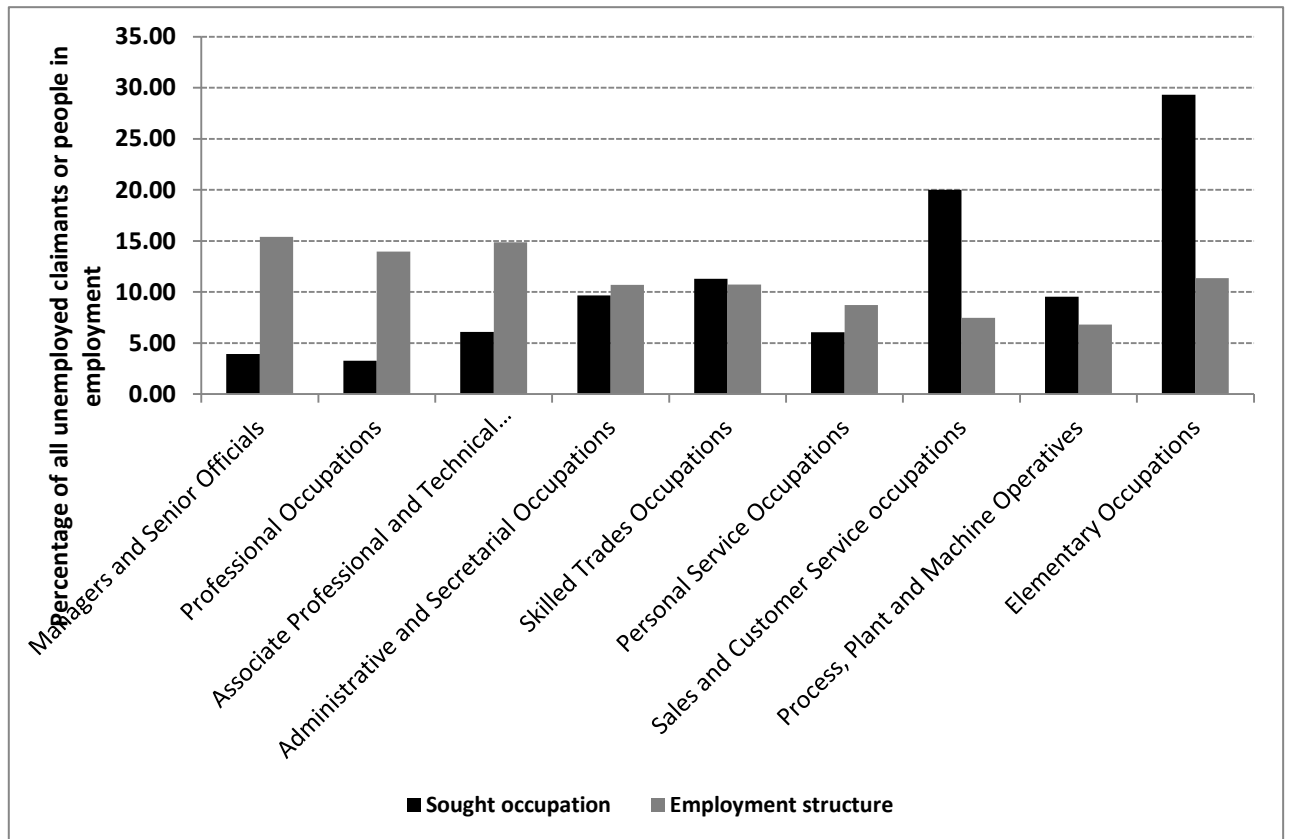
The findings reported in Table 2.1 are to be expected as the occupational composition of unemployed people is skewed towards those with low skill levels and this is especially so in the case of people who are unemployed and claiming JSA. Figure 2.3 describes the occupations of JSA claimants in terms of their 'usual' occupation. The chart illustrates how the distribution of job seeker occupations are clustered in a small number of job types, principally elementary occupations of one type or another, transport operatives, sales occupations, skilled construction trades and administrative occupations. This is a pattern that is replicating that of previous decades.

One of the reasons for the preponderance of people from low skilled and elementary occupations in the stock of unemployment is that the demand for such labour has been declining steadily over several decades in the UK. This allied with a tendency for employers to lay off less skilled workers during economic downturns means that the supply of labour exceeds demand in many of those occupations. Figure 2.4 contrasts the occupational structure of jobs in the UK with the pattern of jobs that claimants are seeking. The contrast is marked with the pattern of jobs sought being almost the reverse of that of the employment structure. While employment in 2010 is skewed towards intermediate and higher skilled jobs, unemployed claimants are skewed towards low skilled and elementary jobs. Faced with such a contrast it might be thought likely that job seekers would look for different types of job but, as Figure 2.5 suggests, such occupational mobility appears limited with little difference being apparent between the usual job and the sought job of claimants. This highlights the challenge facing the labour market in terms of how to reconcile this pattern of labour supply with what employers want or need to hire.

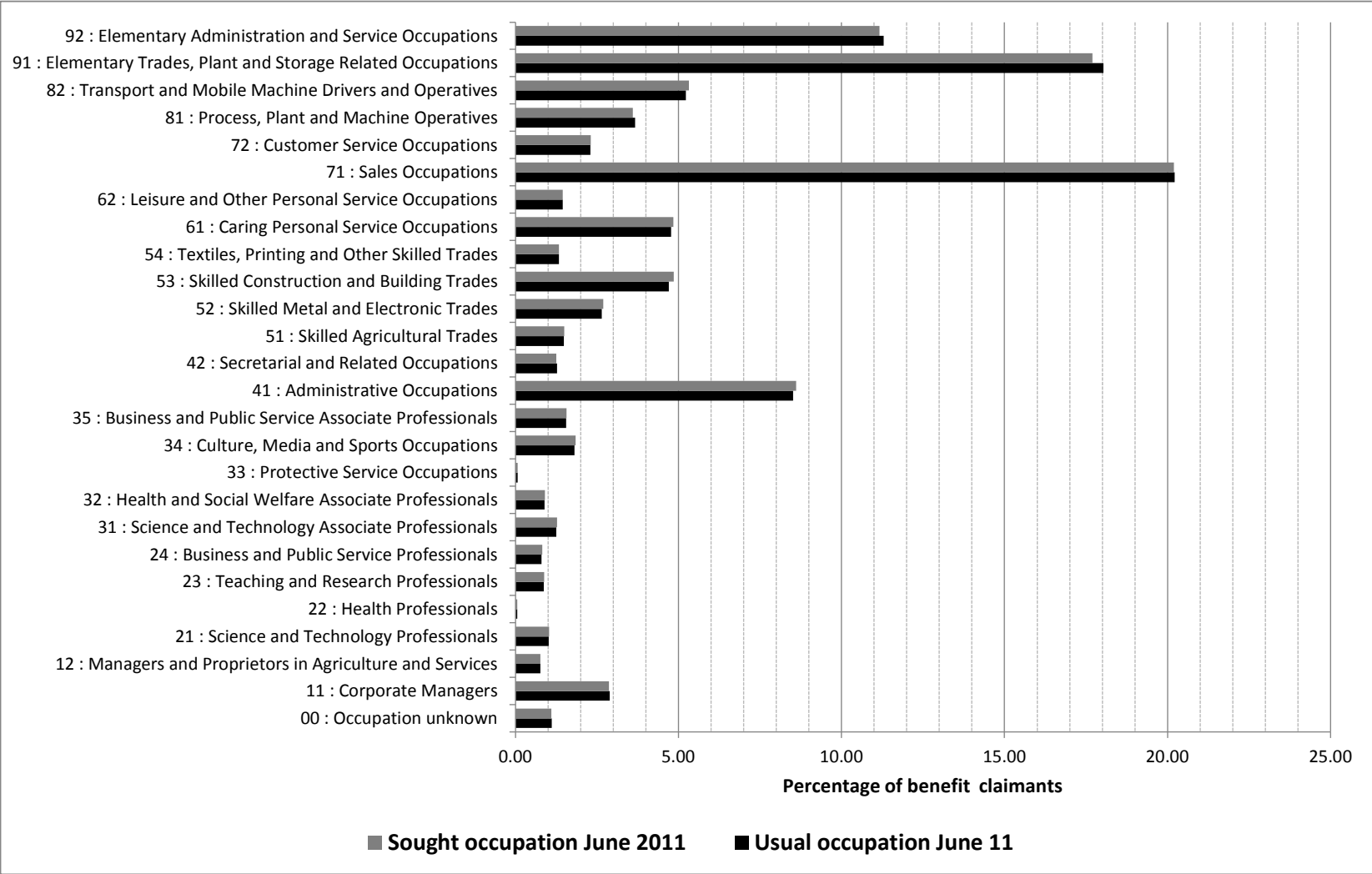
**Figure 2.3 .....Usual occupation of JSA claimants, UK, 2009 and 2011**



**Figure 2.4 UK employment structure and JSA claimants' sought occupation**



**Figure 2.5 .....Usual and sought occupation of JSA claimants, UK, 2011**





## **3 The recruitment process**

### **3.1 Introduction**

The recruitment of unemployed and other workless people needs to be seen within the broader context of the recruitment process. By definition unemployed and other workless people are outside of the workplace and can only enter employment by being recruited by an employer from the external job market. By considering when employers' recruit, how they recruit and what they want from the people they recruit, some light can be shed on the position of unemployed people in the job market and help identify aspects of the process that may disadvantage unemployed job seekers. This chapter sets out some of these broader considerations before looking specifically at the recruitment of unemployed people in greater detail in following chapters.

### **3.2 Why, and when, employers recruit**

Employers are the 'gate-keepers' in the market for jobs. Jobs are created by employers in response to the labour requirements of their enterprise, and those requirements are in turn determined by the type of economic activity that the business is engaged in and the 'production' techniques available to it. With a given production technology and rate of labour utilization (for instance, normal hours of work), labour requirements (or jobs) are driven by the level of output or activity within the enterprise.

Standard labour economics textbooks generally provide only an outline of the determinants of employers' demand for labour (Cahuc and Zylberberg [2004] and Ehrenburg and Smith [2009]) but there are exceptions that have provided a more complete account of the dynamics of employer behaviour in terms of workforce adjustment, recruitment and turnover (Joll *et al* [1983] provide one of the most complete accounts). Most accounts of the dynamics of employer behaviour are to be found implicit in more specialist analyses of unemployment, such as Layard, Nickell and Jackman (1991), Snower and de la Dehesa (1996) or Boeri and van Ours (2008). These accounts of unemployment are built on the microeconomic foundation of a dynamic analysis of employment behaviour that focuses on the ways that employers cope with continuous change in the labour market (such as turnover in their workforce) and respond to 'shocks', such as a temporary fluctuation in sales or a major economic recession.

A dynamic perspective on employment suggests that an employer can respond in a number of different ways to workforce change and economic shocks, only some of which will result in recruitment in the external job market. For instance, faced with the need for additional labour of a particular type, an employer could:

1. change the utilization of the existing workforce, e.g. by working overtime, extending job responsibilities;
2. redeploy the existing workforce;
3. reduce turnover within the existing workforce, e.g. reduce quits, delay retirements etc;
4. hire a replacement employee of the type required;
5. hire and train a less skilled worker;
6. leave the vacancy unfilled.

Only in the case of (4), (5) and (6) will a job vacancy appear on the external market, as the other responses require the new labour requirement of the enterprise to be met by the existing workforce. The number of recruits that employers will be seeking will thus be given by the following identity:

$$R = Q + D + W - RD - FTE - UV$$

where R is recruitment, Q is quits, D is dismissals (or layoffs), W is withdrawals (retirements, maternity leave, sick leave etc.), RD is redeployment, FTE is the full-time job equivalent change in labour utilization (hours and effort) and UV is unfilled vacancies. The number of people recruited from the external job market would be high where Q, D or W is high and lower where RD, FTE or V is high (Joll *et al*, 1983).

The choice made by an enterprise as to its strategy for dealing with changing labour resource needs, and hence whether it seeks to recruit on the external market will depend upon the relative net costs of each response. Leaving a job unfilled results in a loss of output and possible disruption to the production process, so it might seem that where a job becomes vacant an employer would immediately seek to fill that vacancy by recruiting somebody. In fact, vacancies may be left unfilled, and recruitment delayed because employers operate in a world of uncertainty and imperfect information. Some responses are most appropriate in the short-term because they are relatively cheap or quick. Overtime may be preferable to recruitment if it is not clear whether an increase in activity is temporary or permanent. Similarly, shedding labour in response to a reduction in activity may also be deferred where a change in activity is thought to be short-term. It may be cheaper to retain the existing workforce (and cut hours or reduce productivity) than it is to reduce the workforce, provided that the fall in activity is not protracted.

Equally, labour tends to be of variable quality or suitability, so that it is necessary for

employers to spend time searching out potential recruits who are of an acceptable standard. How much effort is put into this search process will depend upon the extent of the differences between workers (and hence the costs of making a poor engagement), the costs of carrying out the recruitment activity and search and, finally, how choosy the employer is (the hiring standards that are set). For instance, Welters and Muysken (2006) have shown that firms are more likely to take long-term unemployed people into consideration for a vacancy (that is, change their normal hiring standard) if the vacancy needs quick filling, for example because it is a critical operation or includes supervisory tasks. Similarly, Holzer *et al* (2006) showed that employers became more willing to hire a range of disadvantaged workers during the 1990s boom—including ethnic minorities, workers with certain stigmas (such as welfare recipients), and those without recent experience or qualifications.

The more resources that are devoted to this search process, the greater the initial costs but the greater will also be the potential benefits in terms of high quality recruits and future output. Brenčič (2009) found, for instance, that employers facing high search costs responded by lowering hiring requirements. While such an adjustment increased the employer's chances of filling the vacancy, it also resulted in a match that tended to be terminated prematurely. The study found that the benefits of lowering hiring requirements when search costs were high tended to be outweighed by high firing costs if an under-qualified worker was hired on a permanent contract or by the cost of undertaking a new search later if an under-qualified worker was hired on a temporary contract.

The approaches to recruitment will reflect prevailing economic conditions. Davies *et al* (2010), using data from the USA, found that the rate at which employers recruited (filled vacancies) increased in a buoyant job market (and fell in times of recession) but increased steeply with employer growth rates in the cross section as the simple model above would predict. They also noted that rate of recruitment decreased with employer size (small firms recruit fewer people than larger organisations), increased with staff turnover rates, and varied greatly across major industry groups. According to the CIPD (2011) the impact of the recent recession has been to increase the percentage of employers concentrating on retaining existing employees (51 per cent in 2011 compared with 28 per cent in 2010) or redeploying people to new roles (44 per cent in 2011, 30 per cent in 2010) rather than recruiting. Many (22 per cent in 2011) were not recruiting at all or were reducing the head count in the business (35 per cent).

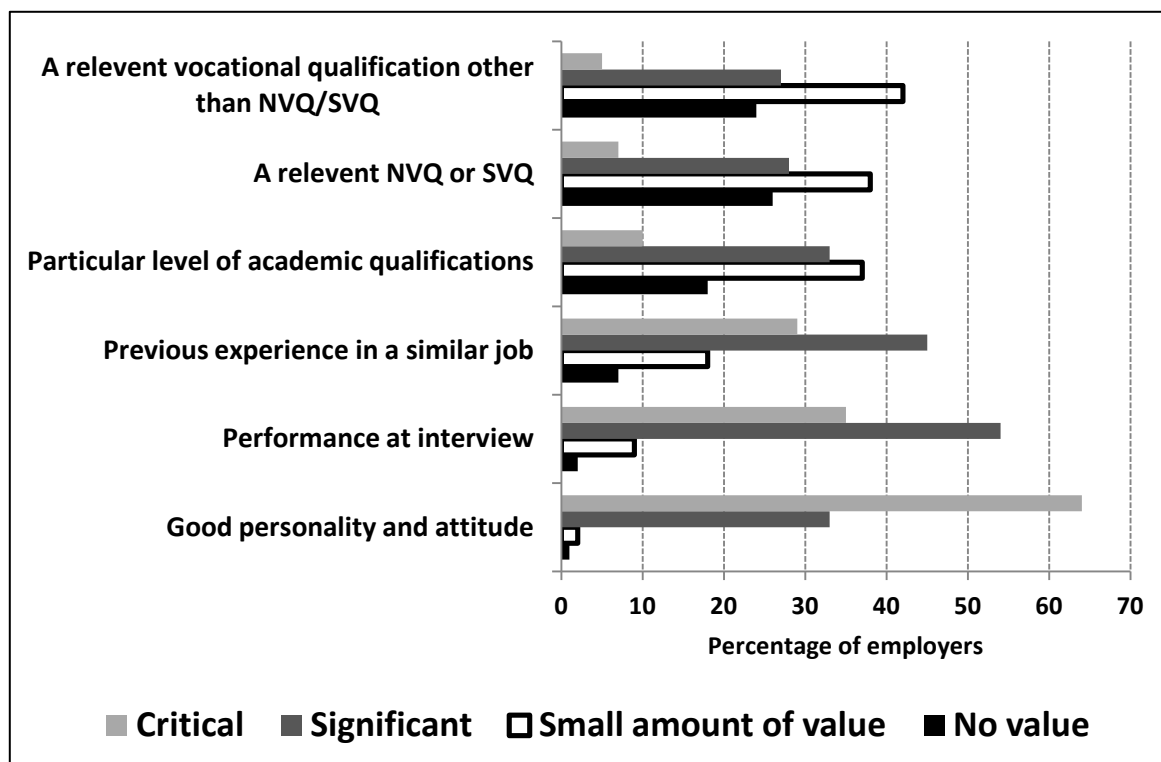
### **3.3 What do employers want?**

What employers look for in their recruits differs from job to job, depending upon the job specification, sector and region (Bunt *et al*, 2005). Many different components can feature in the hiring decision, including;

- possession of the particular skills being sought;
- possession of relevant qualifications or licenses;
- past experience in a similar job;
- personal circumstances;
- personal qualities.

Recent evidence from the *UK Employer Perspectives Survey 2010* (EPS2010) provides an indication of the weight employers attach to different attributes when recruiting. These are illustrated by Figure 3.1.

**Figure 3.1 Attributes employers look for in recruits, UK 2010**



Source: *UK Employer Perspectives Survey 2010* (Shury *et al*, 2011)

The evidence from EPS2010 is that the most important factor of ‘critical importance’ cited by employers is a good personality and attitude. This was mentioned by 64 per cent of employers in EPS2010. Performance in an interview and previous experience were also regarded as critical or significant by a large proportion of employers. Qualifications, either academic or vocational, were relatively less important than personality and attitude or previous experience (Shury *et al*, 2011). A similar emphasis on ‘soft skills’ has been reported by other studies of the recruitment process (Newton *et. al.* 2005; Bunt *et. al* 2005; Shury *et. al.*, 2008.). These findings, while consistent, are puzzling in the light of

evidence of higher employment rates and lifetime earnings amongst people holding qualifications (Dickerson and Vignoles, 2007; Jenkins *et al*, 2007), as well as persistent complaints by some employers of skill shortages. One explanation for this may be that with qualifications now so widely held (only around 1 in 10 of the working age group in the UK hold no qualifications) they no longer offer employers an effective means to distinguish between job applicants. Qualifications may thus provide a threshold for entry to a job but thereafter employers use other indicators to help them select the right candidates for recruitment (Roe *et al*, 2006; Keep and James, 2010).

It is also plausible that the relative weight attached to qualifications versus individual attributes varies according to the size and sector of a business (Bunt *et al*, 2005). While employers of all sizes broadly agreed on the critical importance of personality and attitude, small businesses were more likely to place a critical value on previous experience while large employers were more likely to place critical significance on the attainment of some specific level of attainment in academic qualifications. There was little difference across the size bands in terms of the (lack of) importance of vocational qualification, with only between 5 and 9 per cent of employers regarding such qualifications as critical (Shury *et al*, 2011). In addition to establishment size, the product strategy and skill mix of an enterprise is also likely to modify the weight attached to formal qualifications versus soft skills and personal qualities (Ashton and Sung, 2006; Lloyd, 2007).

Nonetheless, while all these factors are likely to carry some weight in the hiring decision, research with employers commonly finds an underlying intent to find '*the right person for the job*'. The right person for the job can mean different things depending upon the type of job and the circumstances in which it was created (Nickson *et al*, 2003; Devins *et al*, 2004), leading Keep and James (2010) to suggest that while there might be a right person for a particular job there is unlikely to be a single universal right recruit.

Snape (1998) suggested that some employers, especially large organisations with a degree of market power, look for recruits who fit in with the organisation's culture and ways of working. Shared values or an ability to 'get on' with existing staff are more important than specific skills which organisations are often willing to allow recruits to pick up on the job. Other organisations, especially small businesses in competitive environments with low margins, are looking for recruits who can 'hit the ground running' and have the ability to do the job right from the start (Clarke and Patrickson, 2008; Hendrick and Raspiller, 2011, Leonhardt, 2011). For these employers, job specific competences are at a premium (as they minimise productivity losses and training needs) together with attributes indicating that a low level of early supervision would be required, such as the 'right' attitude, flexibility, self-motivation, reliability, location, attitude to work. These were precisely the attributes sought in the 'ideal' candidate for small and medium

sized enterprises (Davidson, 2011) and which Martin and Chapman (2006) identified as presenting a barrier to the first-time employment when lacking in marketing graduates applying for jobs in small and medium sized enterprises.

While some of the attributes that employers want are readily observable (e.g. qualifications, previous experience) others are less amenable to direct observation (e.g. motivation, flexibility, ability to learn) and even the observable attributes may not perfectly measure the qualities being sought. In such circumstances, there is a risk that a mistake will be made and an employer will hire the 'wrong person' rather than the 'right person'. That mistake is likely to involve a cost to the business. As one micro business employer put it:

*“an employee is, at least initially, a burden on the business. It takes a while to convert their work into growth for the firm”* (BCC, 2011).

The aim is therefore to hire someone who will be a burden on the business for the shortest time and to minimise the risk of hiring someone who will be a longer-term burden.

Employers can seek to minimise the risk of hiring errors in a number of ways. Where the employment relationship is expected to be short-term (for instance, because of historically high turnover rates), a low cost approach to selection, such as statistical discrimination, may be used (Bonoli and Hinrichs, 2010). Statistical discrimination involves selection on the basis of some personal characteristic such as age, gender or even place of residence in the belief that certain groups of job seekers are, on average, more productive than other groups. If based on real differences in productivity, such an approach would, on average and over the long-term, result in the recruitment of more productive workers even if it was unjust for specific individuals. This simple type of selection process is often found in low skill, high turnover occupations since it is a simple low cost method capable of dealing with high levels of recruitment activity. Some forms of discrimination are illegal but even where this is not so (or is practiced surreptitiously) such an approach to minimising risk will be inefficient if the perception of the link between productivity and characteristic is erroneous. Employer perceptions thus play an important role in recruitment through this selection process.

Where the employment relationship is likely to be longer-term, and the consequences of a mistake are more costly to the employer, statistical discrimination may be too crude a method and additional methods may be used to select the right person (Bonoli and Hinrichs, 2010). Tests relating to specific skills or aptitudes may be administered as part of the application process (Jenkins, 2001; Jenkins and Wolf, 2005). Large organisations tend to be more formal in their recruitment and selection procedures and have been found to prioritise interviews with candidates and performance and competency tests

above qualifications and personality tests (LSC, 2008). Further methods to reduce the risk from a wrong appointment include work trial periods, probationary periods or even temporary and casual contracts that allow the employment of the new recruit to be terminated should it become apparent that they are not right for the job.

### **3.4 How do employers find potential recruits?**

It is important to see the recruitment process in terms of both the external labour market within which recruitment takes place and in terms of the organisational procedures and practices which influence the nature of the employer's contact with the external market. For instance, Manwaring (1988) developed the notion of an 'extended internal labour market' (EILM) that consisted not just of the existing employees of an enterprise but also of the social network of friends, relatives, community and ethnic groups to which those employees belong. This type of perspective was developed more explicitly by Atkinson *et al* (1994) who presented a four-fold typology of 'recruitment orientations' based upon two characteristics of the enterprise: the degree of labour market (or monopsony) power held by an employer and the existence or otherwise of an explicit human resource management (HRM) policy.

According to Atkinson *et al*, prominent and powerful employers primarily face a problem of selection rather than the attraction of recruits and therefore use formal HRM policies to select people who meet organisational aims such as 'quality', flexibility or ability to be up-skilled as well as objectives such as equal opportunities. Not all dominant employers have formal HRM policies but, instead, use informal processes involving the existing workforce in order to replicate existing patterns of employment within the organisation. Enterprises without labour market power face a problem of attraction or recruitment rather than selection and tend to use a wide range of recruitment methods in order to attract as large a number and variety of applicants as possible. These enterprises are characterised by flexibility in recruiting, often engaging in speculative or opportunistic recruitment and adapting job specifications to suit good candidates. The residual category identified by Atkinson *et al* was described as 'muddling through' which is a fairly self-explanatory label for those employers who lacked any kind of coherent HRM policy or practices.

There are many different methods by which employers' can find potential recruits. These include formal methods such as use of Jobcentres, private employment agencies, advertising in professional journals and newspapers as well as informal methods such as seeking personal recommendations from existing employees, direct approaches to potential recruits, word-of-mouth and so forth. A survey of employers in Greater Manchester (Hasluck and Hogarth, 2008) found the following patterns of usage amongst

employers<sup>1</sup>:

- informal methods, such as word-of-mouth (used by three quarters of employers);
- the Jobcentre (just under a half of employers);
- the local and regional press (just under a half of employers);
- employers' own websites (just under a third of employers);
- recruitment websites (just under a quarter of employers).

The recent *UK Employer Perspectives Survey 2010* (EPS2010) found that the most commonly used recruitment channel in the UK was the Jobcentre, used by two fifths (39 per cent) of employers trying to fill a vacancy. Local newspapers and word of mouth were also used by a significant proportion of employers, 28 per cent and 24 per cent respectively (Shury *et al*, 2011). Employers often use a combination of recruitment channels (Hasluck and Hogarth, 2008), for instance in 2010 around 24 per cent used the Jobcentre in combination with some other method (Shury *et al*, 2011).

EPS2010 found that the use of the Jobcentre was more common amongst large employers than small. Whereas 53 per cent of those employing 250 employees or more used the Jobcentre, the proportion fell with size to just 32 per cent of businesses employing 2-4 employees. Similarly, word of mouth and personal recommendations was most common (31 per cent) amongst those employing 2-4 employees, decreased with size until just 11 per cent of the largest employers (250 employees or more) used such methods (Shury *et al*, 2011). A recent survey of micro businesses found that just over half of businesses employing less than 10 people used word of mouth or personal recommendations (BCC, 2011). More strikingly, 92 per cent of employers recruiting to entry level jobs and surveyed by the *Centre for Social Justice*<sup>2</sup> were reported to have recruited at least a portion of their staff through word of mouth and informal networks (CSJ, 2011). These differences reflect the more professional human resource practices of larger organisations and the more intimate and close working relationships that exist within microbusinesses (BCC, 2011).

Each recruitment channel in turn has its own associated costs and benefits in terms of its coverage of potential recruits and its effectiveness in identifying and selecting suitable recruits each of which will translate into direct costs of recruitment and indirect cost in terms of delays and errors in recruitment. Differences in the use of recruitment channels can be attributed to differences in the potential benefits to search (the consequences of making a wrong appointment; the extent of the variation in the distribution of worker

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<sup>1</sup> The survey covered 600 employers with 10 or more employees in Greater Manchester area.

<sup>2</sup> The Centre for Social Justice (CSJ) was founded by Iain Duncan Smith in 2004. It campaigns on issues relating to British social problems and works with prominent academics, practitioners and policy makers who have expertise in the relevant fields.



productivity), differences in the costs of different methods and the scale on which recruitment is required.

A recent study of recruitment, using detailed information about employers' recruitment practices in Great Britain, showed that more intensive recruitment led to matches of better quality that paid higher wages, lasted longer and made employers more satisfied with the person taken on (Pellizzari, 2011). Unskilled workers in low productivity jobs typically experienced higher labour turnover because employers found it less profitable to invest in search and screening activities when recruiting for low-productivity jobs, making such jobs more prone to separation. Where this was the case, informal methods may be more effective for employers than formal methods. Barrick (2009), for instance, found that job applicants who knew current employees were less likely to quit and had higher performance within six months of being hired.

## 4 Recruiting unemployed people

### 4.1 Introduction

The Equal Employment Opportunity Commission (EEOC) in the USA recently launched an inquiry into the emerging practice in the US job market of excluding unemployed people from applicant pools. Evidence submitted by the National Employment Law Project (NELP) said:

*“There is a disturbing and growing trend amongst employers and staffing firms to refuse to even consider the unemployed for available job openings, regardless of their qualifications.”* (Christine Owns, Director of NELP)

An example of such an advert was a listing for a warehouse job at a company called McDonough. The listing read:

*“Minimum three years experience. Ability to lift 75 pounds. Reliable transportation. If you have not worked since 2009, do not apply”* (cited in the Atlanta Business News, 4th October 2010)

This trend has been so marked that the State of New Jersey introduced legislation in 2011 to ban such adverts (employers who disregard the ban face fine)<sup>3</sup>, while similar legislation is pending in New York<sup>4</sup>. In July 2011 the ‘*Fair Employment Opportunity Act of 2011*’ was introduced in Congress which aimed to prohibit employers and employment agencies from refusing to consider job applicants solely because they are unemployed.

While there is no evidence of such overt discrimination in the UK, the disadvantaged position of unemployed job seekers has been recognised for many decades. Their situation in the UK job market, just as in the USA, has been weakened by the recent recession. The *Chartered Institute of Personnel and Development* (CIPD) recently reported that UK employers have become more selective and, while they do not explicitly discriminate against unemployed people, they tend to specify more precisely the skills and qualifications required along with other desirable personal qualities, both of which indirectly disadvantage unemployed job seekers. Not surprisingly, faced with the prospect of employers becoming more selective, British politicians have urged employers to do their bit. Ian Duncan Smith, for instance, has urged UK employers to recruit unemployed people saying “*Government cannot do it all. As we work hard to break welfare dependency and get young people ready for the labour market, we need businesses to give them a chance and not just fall back on labour from abroad*”.<sup>5</sup>

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<sup>3</sup> New Jersey Statutes, Title 34, Chap. 8B, §§1-2-C.348B-1 to 34:8B-2 (A.3359/S.2388, approved March 29, 2011).

<sup>4</sup> New York Senate Bill 5151.

<sup>5</sup> Reported in the Guardian, 1st July 2011.

Why then would employers reduce the potential supply of labour from which they could consider applicants for jobs? In part it is a reflection of a particular view of unemployed people that emphasises an individual's capacity, irrespective of employment context and employment practices. It is a perspective that has been reinforced by emphasis in public policy on the individual's employability rather than on seeking to change employer perceptions and recruitment practices. This chapter considers the evidence relating to the role that employers have played, in the past and currently, in restricting the employment opportunities facing unemployed people and the extent to which changes in employer practices could help unemployed people back to work.

## **4.2 Unemployed people, recruitment and the economic cycle**

The recession that commenced in the UK during mid-2008 has led to large increases in the number of unemployed people and a lengthening of unemployment durations (a growing number of people who have been unemployed for a long time). One consequence of this growth in unemployment is that competition has increased for a diminishing number of jobs (ONS, 2009; OECD, 2010). Clearly when the volume of recruitment diminishes the probability of any unemployed person obtaining employment is diminished. That reduction in the probability of entering employment is, however, unlikely to be evenly spread across all job seekers. In particular, longer-term unemployed people, young people and jobseekers with other disadvantages are likely to be disproportionately affected (Berthoud and Blekesaune, 2007; Berthoud, 2009; Stafford and Duffy, 2009; Muriel and Sibieta, 2009; Hogarth *et al*, 2010). Examination of business decisions regarding recruitment as set out in Chapter 3 suggests several reasons for this disproportionate impact.

First, unemployed people, especially those with characteristics or work histories that are not attractive to employers will face increased competition for job opportunities that arise from job seekers with more recent work experience, who are considered more skilled for the job and who have been displaced from a previous job by redundancy. This can even be the case where the jobs in question are low skill, entry level jobs. Hasluck (2011a) demonstrated that a large proportion of people working in elementary occupations in 2010 in the UK (for which little more than basic schooling was normally required) held intermediate and even higher level qualifications. Almost half (47 per cent) of people working in elementary occupations were qualified to NQF Level 2 or above. Employers raising their hiring standards in slack labour markets was recognised a long time ago (Reder, 1955; Thurow, 1975; Holzer, Raphael and Stoll, 2006). In the recent recession and its aftermath, employers may well be selecting recruits on the basis of levels of qualifications and experience that they would not previously have sought. Raised hiring standards may also apply to work experience. Bell and Blanchflower (2010) suggest many young unemployed people find themselves caught in 'an experience trap' in which

employers select recruits on the basis of previous work experience and, as a result, young entrants to the job market who lack experience cannot obtain the job that would allow them to gain that experience. The same 'trap' may be just as true of adults who have been unemployed for a long time.

Second, a general tightening of the job market tends to increase competition for entry level jobs to a greater extent than jobs requiring more experience or higher skills. This is because the lack of job opportunities for unemployed people in jobs towards the upper and middle parts of the job hierarchy forces job seekers in those occupations to look for employment at lower level occupations than they would ordinarily not consider. In effect, the general decline in demand for labour is 'displaced' downwards until there are disproportionately large numbers of job seekers in competition for the least desirable or entry level jobs (People 1<sup>st</sup>, 2007; Keep and James, 2010). Employers who continue to recruit will tend to be those in sectors where high levels of staff turnover are common, sometimes because of low pay or unsocial hours (such as hospitality or retail sectors<sup>6</sup>).

The displacement of intermediate and lower skilled workers into the lower end of the jobs market in a recession means that not only are the most disadvantaged (non-qualified, least skilled, least experienced) facing the greatest risk of remaining unemployed but, even if they are recruited, they will be recruited to a sector or occupation with poor pay and conditions and high turnover with the consequential risk of acquiring a problematic work history with frequent job changes and, possibly, disillusionment with work. These sectors also have a poor record of training and workforce development so recruits may be unable to 'up-skill' in their job. Longhi and Taylor (2010), using combined data from the LFS with the British Household Panel Survey from 1993 to 2007, found that even after controlling for a range of factors there were substantial differences between the work histories of employed and unemployed job seekers. Their findings are consistent with some people becoming locked in a sequence of unemployment and bad jobs, a 'low-pay, no-pay' cycle in which 'bad jobs' are taken from which to look for 'good jobs, but where the probability of entering a good job is low and the probability of losing the bad job and returning to unemployment is high. This can result long-term, even lifetime, consequences for earnings and other aspects of economic wellbeing (Arulampalam, 2001; Berthoud and Blekesaune, 2007; Barnes et al, 2009; Bell and Blanchflower, 2010; Kahn, 2010).

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<sup>6</sup> Two-thirds of employees in the hotels & restaurants sector earned less than £7 per hour in 2010 while half of all employees in the retail & wholesale sector earned less than £7 per hour. Together, these sectors account for around two-fifths of all those earning less than £7 per hour

An additional factor in the recent recession is competition for entry level jobs from EU migrants. Clancy (2008) showed that migrants from the new EU accession states were concentrated in certain occupations, the largest number being in distribution, hotels & restaurants, followed by elementary occupations and process, plant & machinery operatives. As already noted, these are areas of the job market where they would be in competition with young people. Compared with UK school and college leavers, many migrants have a competitive advantage as they work in occupations ranked lower in terms of skill content and wages than UK born workers with the same level of education (Dustmann, Frattini, and Preston, 2007). Nonetheless, there is little evidence that such migration has had an impact on wages (Lemos and Portes, 2008; Blanchflower and Lawton, 2009), although Blanchflower and Shadforth (2009) provided evidence of a negative impact on the employment of the least skilled young people, although this impact was small.

The overall conclusion from this consideration of the impact of recession is that the pattern of recruitment of unemployed people is likely to vary over the cycle. Not only will unemployment rise and fall along with changes in macroeconomic activity but the patterns of recruitment will vary, with job seekers with the greatest disadvantage being 'squeezed' between falling demand for labour and the displacement of more skills, better qualified and more experienced job seekers from other occupational groups. Nonetheless, while the recruitment of unemployed people is cyclically sensitive, the 'base probabilities' of recruitment are determined by additional structural and institutional factors such as employers perception and recruitment practices and these are considered below.

### **4.3 Employers' perceptions of unemployed people**

If an employer decides to go to the external job market to recruit labour, there are a number of alternative groups from which recruitment can take place. Unemployed job seekers are in competition for jobs with people already in employment who are looking for a new job, new entrants to the labour market (mainly students from the education system), people returning to the job market (e.g. people who take time out to care for children or other dependents, people who take a 'gap year' to travel abroad or do voluntary work) and international migrants. Employers' perceptions of the qualities of these groups can play a significant role in determining the opportunities open to job seekers, especially if current employment status is used as a basis for statistical discrimination.

Faced with a choice between a person who is currently unemployed and one who is currently in employment, why would an employer select the latter over the former? Some of the reasons suggested by employers are that:

- employed workers are more skilled and valued;
- hiring a top performer is a way of accessing a competitor's strategies;
- people who were made redundant were laid off because of performance or other problems;
- the skills and contacts of unemployed people may be out of date;
- unemployed people are often frustrated, bitter and angry – characteristics not welcomed in new work environments;
- weeding out the “unemployed” just helps as a screening tool for overworked human resources departments.

There is little evidence that being unemployed *per se* has a negative impact on being successful in a job application. A classic study by Atkinson, Giles and Meager (1996) found that UK employers held generally benign views about the unemployed cohort and relatively few believed that an unemployed person was intrinsically less worthwhile than an employed applicant. In part, they argued, this was a consequence of the steady growth of unemployment numbers over recent decades which meant that many employers or managers had experienced unemployment as a societal, communal and perhaps personal event. Snape (1998) found that employers were often sensitive to the reason for unemployment so, for instance, a redundancy arising from recession or because of business closure was not seen as the ‘fault’ of the job seeker.

Evidence of employers' attitudes to the unemployed cohort often contains a ‘sting in the tail’. While generally sanguine about unemployment, employers are wary of applicants who have been unemployed for a long time, whom they regard as a serious risk, both in terms of additional cost, poor performance and a risk of leaving the job at short notice. A survey of 1,000 managers in 2009 for the *Institute of Leadership and Management* found that redundant workers had a ‘six month window’ within which to get back to work before employer attitudes to their re-employment began to harden (ILM, 2009). Around 83 per cent of managers interviewed said that the employment status of applicants was irrelevant as it was not an indicator of ability, however this dropped to just 28 per cent if the applicant had been unemployed for six months or more.

Employers' perceptions of the long-term unemployed are intertwined with their perception of other employment issues. The risk of unemployment is strongly related to issues such as physical and mental health and disability and basic skills such as literacy and numeracy. Job seekers with disabilities or who had recovered from serious illness posed a dilemma for employers as they were sympathetic but concerned that the applicant's disability or illness might pose a costly problem in the future (Danson and Gilmore, 2009). For instance, Biggs *et al* (2010) found that while employment agencies would consider putting forward individuals with previous mental health needs, employers had a high level of concern around employing such individuals. Employers reported concerns about the need for supervision, a perceived inability to use initiative or to deal with the public.

As with a current long spell of unemployment, employers are also averse to job applicants who have a problematic work history. Spells of previous unemployment and the number of previous job changes, any history of dismissals or disputes with previous employers all appear to be given a high, negative weight by employers, even if the applicant's current unemployment spell is of short duration (Bills, 1990). Generally, it is not the episodes in the work history as such that are seen as a problem but what they may signal about the unemployed person's attitudes and motivation.

#### **4.4 The impact of employers' recruitment practices**

##### **4.4.1 Recruitment methods**

A critical factor in the recruitment process that conditions whether or not an unemployed person is a potential recruit is whether or not a job seeker is aware of job opportunities as they arise. Chapter 3 described the variety of recruitment channels that employers can use. Formal methods of recruitment include advertising in newspapers (national and local) and professional or trade journals, radio and similar media, private sector employment agencies, the Jobcentre and, increasingly, the internet. Informal methods include internal vacancy newsletters and noticeboards, word of mouth, waiting lists and so on. Some employers outsource recruitment to employment agencies. While employment agencies can help obtain and sift applications the cost of using such agencies is often high and while this is cost-effective when recruiting high level and professional staff it can be less so in regard to low skill, entry level jobs. Some employment agencies do, however, specialise in providing staff for entry level jobs, sometimes on a 'temporary' basis so that an employer can see how they perform before taking them on permanently.

The choice of recruitment channel used by an employer can impact upon the likelihood of an unemployed person being aware of a job vacancy. The Jobcentre might seem like the obvious channel through which jobs would come to the attention of unemployed people but many employers do not use the Jobcentre, even for entry level jobs. The *UK Employer Perspectives Survey 2010* (Shury *et al*, 2011) found that Jobcentre Plus (or the Jobs & Benefits Office in Northern Ireland) was the single most common channel that employers used when seeking to fill a vacancy. Around 39 per cent of recruiting employers used Jobcentre plus at some time during the previous 12 months, although this only amounted to 17 per cent of all employers since many were not recruiting at all. Where employers used Jobcentre Plus, most tended to do so in combination with other recruitment channels, although 15 per cent of all recruiting employers only used Jobcentre Plus (equating to 6 per cent of all employers).

Employers tend to use the Jobcentre differently for different occupations. Low level jobs tend to be notified to the Jobcentre and Table 4.1 lists the top ten occupations (at two-digit level) that were most frequently notified to Jobcentre Plus in August 2011.

**Table 4.1: Top five occupations with notified vacancies, August 2011**

<b>Occupation</b>	<b>Number</b>	<b>Percentage of all notified vacancies</b>
Sales Assistants and Retail Cashiers	22,214	7.5
Healthcare and related Personal Services	24,131	8.2
Elementary Cleaning Occupations	16,313	5.5
Transport Drivers And Operatives	16,270	5.5
Sales Related Occupations	15,074	5.1
Customer Service Occupations	14,862	5.0
Elementary Personal Services Occupations	13,614	4.6
Elementary Construction Occupations	9,383	3.2
Food Preparation Trades	7,624	2.6
Elementary Process Plant Occupations	6,453	2.1

Source: DWP Vacancy Series via NOMIS

The list is dominated by vacancies for sales assistants, cleaners, personal service workers and elementary jobs in process plants and construction. It is notable that these 10 occupations accounted for 78 per cent of vacancies notified to the Jobcentre. Nonetheless, even in regard to those occupations where vacancies are notified to Jobcentre Plus, employers tend to divide into those who notify all such jobs and those who notify none at all (Bunt *et al*, 2005). A larger proportion of employers notify elementary and semi-skilled job vacancies to the Jobcentre.



For instance, Hasluck and Hogarth (2007) found that the following percentages of employers notified the Jobcentre of job vacancies at the less skilled end of the occupational spectrum:

- 65 per cent of those advertising elementary jobs;
- 51 per cent of those advertising operative jobs;
- 54 per cent of those offering sales jobs;
- 72 per cent of those offering personal service jobs.

As was seen in Chapter 2 and Table 4.1, these are the occupational areas in which unemployed people, especially those claiming JSA, are predominantly seeking employment. These are types of jobs where employers often report high levels of turnover and it is interesting to note that where employers use the Jobcentre, the most commonly cited reasons are that the service is provided at no cost and provides a large number of applicants (UKCES (2010)).

Nonetheless, while many employers do use the Jobcentre, a significant minority still chose not to notify even these low level jobs to the job centre. Employers critical of the Jobcentre point to several perceived problems (CSJ, 2011):

- response time - too slow in dealing with vacancies and delivering job applicants when needed;
- quality- poor screening leading to submission of unsuitable applicants;
- volume – too many applicants submitted so that the employer is overwhelmed;
- lack of post recruitment support – leading to early drop out.

Use of the Jobcentre is greater amongst large organisations than small businesses (Shury, 2010; CSJ, 2011). There is some evidence that the proportion of employers who do not use the Jobcentre is counter-cyclical. When the economy is in recession and unemployment is high, some employers fear being inundated with applicants and prefer to use other, often informal methods to fill such vacancies as may arise in that context (Atfield *et al*, 2011).

Many other recruitment channels are available to employers seeking to recruit, including newspaper advertising, company websites and other internal notices, recruitment agencies of various types and informal methods such as 'word of mouth and personal recommendations. The UK Employer Perspectives Survey 2010 (Shury *et al*, 2011) indicates that local newspaper advertising and word of mouth/personal recommendation are the second and third most commonly used recruitment methods after the Jobcentre (used by 28 per cent and 24 per cent of recruiting employers, respectively). There is a

long tail in the distribution of recruitment channel usage covering methods such as own website (14 per cent), internal notices (13 per cent), on-line recruitment sites (12 per cent), high street agencies (9 per cent), professional agencies (7 per cent), and noticeboards and shop windows (7 per cent).

These findings from the UK Employer Perspectives Survey relate to all employers who recruited anyone in the previous 12 months and it is not possible to ascertain from the survey whether employers who tend to recruit unemployed people use recruitment channels (other than the Jobcentre) to a different extent when compared with other employers. The Survey does indicate, however, that sectors such as hotels & restaurants where recruitment of unemployed is known to be above average make greater use of the Jobcentre in combination with newspaper advertising and informal methods such as word of mouth/recommendations (Shury *et al*, 2011). Evidence from France concluded that institutional intermediaries, such as private and public employment agencies, were the most effective channels for firms. Those intermediaries were, however, quite specialized, in that private agencies were more efficient at filling skilled vacancies, whereas public agencies are more efficient at filling non-skilled vacancies (Sabatier, 2010).

It was widely predicted in the 1990s that recruitment by 2000s would have come to be dominated by the use of internet based recruitment websites. Progress in that direction has taken place but at a much slower rate than many had predicted. Parry and Tyson (2008), for instance, found that even by 2008 only a third of organisations covered by a large survey of employers used their corporate website for recruiting employees while only a quarter used specialist web-based recruitment sites. The proportion using on-line methods was even smaller as reported by the UK Employers Perspective Survey 2010. Only 14 per cent of recruiting employers were using their own website and just 12 per cent were using on-line recruitment websites (these percentages should not be added together as some employers used both).

While internet based recruiting remains comparatively small relative to other methods, a majority of employers responding to the Parry and Tyson (2008) survey and not using internet recruiting said that they were considering doing so in the future. The use of this recruitment channel can, therefore, be expected to increase. One concern regarding the growth of internet recruiting is that its use requires access to a computer and the ability to use one and this may work to the disadvantage of unemployed and other disadvantaged people. Green *et al* (2011) found evidence of increasing use of the internet as a means of job search but noted that the use of this channel decreased with age with older people increasingly less likely to use it. Unemployed people claiming Jobseekers Allowance were more likely to use the internet to search for jobs than other workless jobseekers, presumably reflecting the access to the internet provided at Jobcentres.

The use by employers of informal methods to seek recruits has frequently been cited as disadvantaging unemployed job seekers. Such methods include vacancy boards within or outside the workplace, internal newsletters and vacancy lists, lists of previous applicants, contacts with ex-employees, word of mouth and recommendations from existing employees. Of these methods, general word of mouth and employee recommendation are, by far, the most common. The principal reasons cited by employers for the use of such methods are two-fold: these methods cost little and the employer regards the applicant as low risk because they come with a recommendation or are already known to them (Hasluck and Hogarth, 2008; Barrick, 2009).

Atfield *et al* (2011) have suggested that the use of word of mouth recommendations from existing employees has been increasing in recent years, especially during the recession. A survey of employers offering entry level jobs found that 92 per cent of them recruit a portion of the staff through word of mouth and other informal methods (CSJ, 2011). Similarly, a survey of 'micro businesses' by the British Chambers of Commerce found that more than half of the businesses surveyed used networking, recommendations and word of mouth (BCC, 2011).

It is important to note that there is a significant disjunction between the methods used by jobseekers to search for jobs and the methods by which they obtain their job. Evidence from the Labour Force Survey suggests that unemployed people are very reliant on using formal recruitment channels (Atfield *et al*, 2011). This is not surprising as such job seekers are, by definition, out of employment and may have little contact even with their previous workplace (and that diminishes over time) let alone other workplaces. In the case of young people entering the job market for the first time they will have no previous work contacts to use and may only have an awareness of formal methods such as use of the Jobcentre, careers services or newspaper job adverts (and the internet). However, when asked how they obtained their job, a large proportion of unemployed people will cite informal methods such as word of mouth and social networks (Green *et al*, 2011). This apparently contradictory finding arises from the fact that for a successful match (a hire) to occur, an unemployed person must obtain access to a job via the recruitment channel chosen by the employer (Sanders and Welters, 2009). Hasluck and Hogarth (2008) found, for instance very high level usage of internet recruitment sites by job seekers but comparatively few recruits were obtained by employers from those sources.

The key concern about the extensive use of informal recruitment channels is that access to job opportunities will depend very much on the social networks to which unemployed people belong (Devins and Hogarth, 2007). White and Green (2011) found that the social networks and attachment to place amongst young people in three deprived communities constrained their geographical and social horizons and therefore limited the available opportunities in employment and training that young people perceived to be open to

them. These constraints are even greater for young people brought up in workless households where other household members are also out of work and cut off from these informal workplace based networks (Gregg and Wadsworth, 2011).

Devins and Hogarth (2007) suggest that the use of informal recruitment methods result in a replication of the existing workforce and excludes people who are outside of the circle of employees, their friends and relatives and any wider circle of contacts. The job opportunities open to unemployed people will then be a function of whichever social networks they are a part. Atfield *et al* (2011) found evidence that unemployed, low skilled job seekers were more reliant on more formal job seeking methods as a consequence even though this reduced the scope of the opportunities communicated to them. Canny (2004) suggests that the use of informal recruitment methods contributed to a lack of diversity in many organisations.

#### **4.4.2 Selection procedures**

The second hurdle that an unemployed person must overcome in order to enter employment is that of selection. Methods and practice vary greatly, particularly in respect of skill level. Snape (1998) found that for the least skilled jobs the most common selection process was a written or telephone application followed by an interview for all applicants. While this remains broadly true, it is increasingly the case that applications are made on-line at the employer's website. Interviews remain the most commonly used method of sifting and selecting recruits (Devins *et al*, 2004; CIPD, 2011). Much depends on the level at which recruitment is made. For instance, graduate recruitment and selection in the UK has become more person-related than job-oriented because many employers are more interested in the attitudes, personality and transferable skills of applicants than the type or level of qualification acquired. Although some of the usual methods such as interviewing remain popular, there is a greater variety of ways by which graduates are attracted to and selected for their first jobs (Branine, 2008; Connor and Shaw, 2008).

There is much evidence (Devins *et al*, 2004; Jenkins and Wolf, 2005; Roe *et al*, 2006; Shury *et al*, 2008) that qualifications play only a limited role in employers' selection decisions regarding applicants for low skilled occupations of the type for which the majority of unemployed people would be applying. Keep and James (2010) found that employers may disregard formal educational requirements if an applicant has other desirable qualities. Specific qualifications may not even be stipulated or required in many instances. Nonetheless, a lack of qualifications is often seen by employers as a negative factor, indicating lack of application or motivation at school or signalling a potential doubt about the applicant's ability to learn (Berthoud, 2003; Keep and James, 2010). This is an important barrier for the 43 per cent of unemployed people of working age in the UK at

the end of 2010 who had either no qualifications or only a qualification at NQF Level 2. While people at all levels of skill experienced an increase in unemployment rates during the period 2008-2009 (albeit slackening somewhat in 2009-2010), the unemployment rate of people qualified only at NQF Level 1 increased sharply, reflecting the processes of displacement referred to in Section 4.2 above.

Much greater weight appears to be given to selecting applicants who possess the right generic and soft skills: attitudes, motivation, flexibility (Newton *et al*, 2005). Employers offering entry level jobs tend to look for a number of attributes in applicants:

- an attitude that demonstrates a positive work ethic;
- an awareness of what the role entails;
- an aptitude for the basic requirements of the job;
- 'likeability' and individual 'fit within the organisation.

The exception to this is possession of a driving licence which many employers regard as an important job requirement and necessary to ensure the ability to get to work.

Where employers are looking for applicants with generic or soft skills, a number of indicators may be used, either at the shortlisting stage or after an interview. It is at this point that perceptions and statistical discrimination may affect decisions. Negative perceptions of unemployed peoples' motivation or attitude, exaggerated fears over the amount of supervision and training required or even the general stereotyping of job seekers by the place where they live may result in an initial screening out or rejection at interview (Nunn *et al*, 2010; White and Green, 2011).

Part of the reason for employers' negative attitude towards the longer-term unemployed is that they use the duration of unemployment as an indicator of motivation, with long spells unemployed being seen as a sign that the applicant lacks drive or the desire to work and may also lack the self-discipline required to be relied upon to keep good time and low absence (Devins and Hogarth, 2005). Long spells may also be associated with a perception that the applicant's skills will be out of date and would not be fully competent from the outset. In part, the latter perception can be offset if the applicant could demonstrate positive activities (such as community work, volunteering or learning) while out of work.

A number of additional characteristics may also be given a negative weight by employers. Unfortunately, those characteristics are often also associated with unemployment thus indirectly affecting unemployed job applicants. A lack of qualifications is often taken as a signal of underlying employability issues (Berthoud, 2003) while a person with a disability is often perceived as a major risk, involving lower productivity and greater cost (Roberts

*et al*, 2004; Hasluck, 2006) although prior experience of employing disabled people often lessens this concern (Meager, 2006). Older people are often viewed positively by employers (in terms of loyalty, experience etc.) but older unemployed people may be seen as set in their ways, lacking up to date skills and requiring more time (and greater cost) to bring up to full productive capacity (with less time to recoup any investment in training). A criminal record is a further barrier to recruitment with many employers requesting information on applicants' criminal records, sometimes in breach of the Rehabilitation of Offenders Act 1947 (NACRO, 2006).

In sharp contrast to the older unemployed cohort, young unemployed people, especially 16-17 year old school leavers are seen by employers as low-achieving, or below average in terms of personal qualities such as application and perseverance, a perception that, perhaps, results of the ever-greater proportion of young people who remain in full-time education until age 18 (Wolf, 2011). Bell and Blanchflower (2010) have highlighted a number of employer related reasons why young are vulnerable to unemployment and why, once unemployed they may remain unemployed. Employers have less specific human capital invested in young employees than other employees while young workers may be cheaper to make redundant. Once unemployed, young people may face an 'experience trap' where employers recruit workers with more experience and young job seekers remain unemployed and inexperienced.

It has been suggested that employers discriminate between job applicants who live in localities with long-standing, poor reputations (Lupton, 2003; Robertson *et al*, 2008). As these are often social housing estates where unemployed people are disproportionately concentrated this would, if true, screen out many unemployed people. McGregor (1977) first suggested address discrimination in regard to recruitment in Paisley. White and Green (2011) argue that this discrimination may be a rational response by employers if areas have poor public transport, throwing into question the ability of recruits from those areas to travel to work reliably (especially if shift working or anti-social hours are involved). It is worth noting that Devins *et al* (2004) found little evidence of address discrimination amongst employers in Newcastle and London. Indeed, employers located in deprived parts of those cities were favourably inclined towards the employment of local people

## **5 Encouraging the recruitment of unemployed people**

### **5.1 Why should employers recruit unemployed people?**

Many of the recruitment practices discussed above have the effect of disadvantaging unemployed job seekers. It could be argued that is a consequence of allowing employers the unrestricted flexibility to hire whomever they wish to meet their business needs. Such a view, however, implies that all employer recruitment decisions are optimal. On the contrary, by limiting the pool of job opportunities open to unemployed job seekers and by using selection practices that discriminate against unemployed applicants directly or indirectly, the outcome is likely to be inefficient both for employers and for the economy and society as a whole (Bonoli and Hinrichs, 2010). An efficient job market is one that provides a good match between job seeker and job and a market where employers select – for whatever reason – from a limited pool of job seekers is unlikely to provide such optimal outcome as some job seekers who could match the requirements of employers are not even considered.

Atkinson and Williams (2003) argue that unprofessional recruitment and selection methods by employers result in inefficient recruiting and have an impact on the sustainability of employment. They argue that this arises because such methods fail to obtain the best matches between people seeking employment and the jobs on offer. Consequently, either the employer or recruit quickly become disillusioned and the spell of employment may come to a premature end. The proposition that poor recruitment practices result in high turnover has been supported by more recent evidence (Barrick, 2009; Pellizzari, 2011), Atkinson and Williams (2003) call for a more professional approach to recruitment as a means to equalise employment opportunities, not just to unemployed people but for other disadvantaged groups. This view gains support from Nunn *et al* (2010) who found that employers' use of 'information shortcuts' (another term for statistical discrimination) and address discrimination in particular was less likely where recruitment and human resource management was 'professionalised'.

### **5.2 Is there a business case for recruiting unemployed people?**

While the overall consequence for the economy of disadvantaging unemployed people, especially long-term unemployed are negative, it must be acknowledged that for individual employers that is not always going to be the case. There is a balance to be struck between the disadvantages that many employers recognise and the benefits that fewer appear to consider. Table 5.1 sets out the 'balance sheet' of advantages and disadvantages of employing long-term unemployed people as perceived by employers.

**Table 5.1 Advantages and disadvantages of recruiting unemployed people**

Advantages	Disadvantages
<p><i>Intrinsic rewards</i></p> <ul style="list-style-type: none"> <li>• The feel good factor from helping</li> <li>• A sense of being social responsible</li> <li>• Enhances the business brand</li> </ul>	<p><i>Attitudes</i></p> <ul style="list-style-type: none"> <li>• May not want to work and going through the motions</li> <li>• May not be reliable/ may leave without notice</li> </ul>
<p><i>Financial benefits</i></p> <ul style="list-style-type: none"> <li>• Unemployed people accept lower pay than recently employed people</li> </ul>	<p><i>Associated personal difficulties</i></p> <ul style="list-style-type: none"> <li>• Debts/lack of savings</li> <li>• Lack of personal transport</li> <li>• Lack of self confidence</li> <li>• Ill health/disabilities</li> <li>• Difficulty making decisions</li> <li>• Out of touch with the world of work</li> </ul>
<p><i>Worker productivity</i></p> <p>Because they are grateful for the work, they may be</p> <ul style="list-style-type: none"> <li>• More flexible/adaptable</li> <li>• More committed /loyal to employer</li> <li>• More keen to do the work</li> </ul> <p>Because they have been out of work and involved in other activities they may:</p> <ul style="list-style-type: none"> <li>• Bring a different perspective and fresh ideas</li> <li>• More easily accept training and advice</li> </ul>	<p><i>Disadvantages in doing the work</i></p> <p>Require more effort and resources from the employer because of:</p> <ul style="list-style-type: none"> <li>• Loss of skills</li> <li>• Loss of work routines/ difficulty in adapting to work routine</li> <li>• Difficulty accepting training</li> </ul>

*Source: Adapted from Snape (1998)*

The table draws attention to the fact that while the recruitment of unemployed people is often perceived by employers as likely to impose additional costs on the employer, there are potential financial benefits. There is a substantial body of evidence that indicates that unemployed recruits are offered lower wages than recruits from employment (Arulampalam W., 2001; Gregory and Jukes, 2001; Tudela 2004, Bell and Blanchflower, 2010, Kahn, 2010). In part this may result because unemployed people are less experienced than their employed counterparts and employers have adjusted their wages offers accordingly. There are other explanations, however, that emphasise the use of an employer's labour market power to discriminate between identically productive and experienced workers on the basis of their employment status (Mortenson, 2003; Tudela, 2004). While this may be unfair to the individuals concerned, it is clearly a financial gain for employers although any sense of injustice engendered may be counterproductive.

In addition to the direct financial advantage of lower wage costs for a given level of productivity, it has been argued that there are other gains from the employment of unemployed people. There may be a gain in overall productivity if those recruited from unemployment feel especially grateful to their employer for giving them an opportunity to get back to work and a loyalty that may lead to a reduced risk of staff turnover. There may also be indirect benefits to the business in terms of fulfilling aims relating to



corporate responsibility and enhancing the business brand. A Director of a Belfast construction company has been quoted as saying in regard to recruiting unemployed young people through the New Deal:

*"... it contributes to employee loyalty, ensures long-term stability for the company and cuts recruitment costs." (DELNI, 2007)*

A similar, if more recent example, is provided by Firstsource Solutions, a major UK contact centre operator that proactively recruits long-term unemployed people. Firstsource have recruited over 200 unemployed people to their call centres in Belfast and Londonderry. Their Operations Director is quoted as saying:

*"This scheme is delivering value to the business across a whole host of areas. Once they are part of the Firstsource family these new recruits are hardworking and very loyal to the business. There is also a diversity benefit in that our workforce now better reflects that of our local community." (Business in the Community, 2011)*

It is worth noting that there were additional financial benefits to Firstsource in the form of reduced recruitment costs. Unemployed recruits were £300-600 less expensive to recruit than their employed colleagues, equating to an overall saving of £60,000-120,000 for the 200 unemployed people recruited.

None of this is to deny that there are also potential additional costs associated with employing formerly unemployed people but it suggests that there is a balance to be struck between costs and benefits and that balance may be struck differently depending upon the type of organisation and the context within which it operates. Snape (1998) suggested a four-fold typology of employers ranked by the disposition towards the unemployed cohort:

- *Socially motivated organisations*: these are most disposed to recruit the unemployed cohort and are likely to be 'not for profit' organisations driven by social rather than commercial considerations, perhaps championing employment as a form of empowerment;
- *Commercially motivated but socially responsible organisations*: these organisations believe that the right person for the job is not incompatible with hiring unemployed people and often seek to do so. They are usually large organisations, such as public sector and national and international private sector organisations. They feel the need to demonstrate their social responsibility and have the resources to support the unemployed cohort without major disruption to their business;
- *Purely commercially motivated organisations*: these organisations view the unemployed cohort as a major risk and hesitate to recruit them. If they need to recruit unemployed people they use careful vetting and selection to minimise the perceived risks. These organisations are found across the private sector and are usually small

and medium sized organisations.

Of course it would be unrealistic to expect that all employers could or should recruit unemployed people. Snape (1998) suggests that there is a fourth group of organisations where their resources and context preclude the recruitment of unemployed job seekers. Organisations that would be unlikely to recruit them, especially the long-term unemployed are:

- small firms operating with small margins who require recruits to be fully competent on arrival;
- small firms with few resources for training and support of unemployed recruits during the early period of employment;
- firms offering jobs that require very up-to-date skills or require specialist expertise;
- Firms in financial difficulty (as they are unlikely to be recruiting at all).

While it is tempting to regard the propensity of an organisation to recruit an unemployed person as fixed, this is misleading. Even in the normal course of the economic cycle employers will often be prepared to adapt their recruitment practices and hiring standards in the light of circumstances (Holzer, Raphael and Stoll, 2006). In a tight labour market where recruitment difficulties are being experienced, employers may respond by lowering their hiring standards, for instance taking on people with lower skills or qualifications than would normally be the case (Devins *et al*, 2004). They may also widen their search for recruits and consider applicants that they might not have otherwise. The reverse is likely during recession and periods of low economic growth when employers reduce their level of recruitment and can afford to be 'more selective'. The scope of search for recruits may also be reduced and there is considerable evidence that many employers seeking applications for low skill, entry level jobs cease to use the Jobcentre and use other methods to communicate their vacancies to job seekers. Employers who are dissatisfied with the vacancy service in Jobcentre Plus cite quality of candidates as the main reason with skill level and interest in the work among the other main concerns raised by employers<sup>7</sup>.

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<sup>7</sup> UKCES (2010) Employer Perspective Survey

### **5.3 How to improve employment opportunities for the unemployed**

The preceding review of evidence has suggested that there is a range of processes and factors that directly or indirectly operate to place unemployed job seekers at a disadvantage when compared with employed job seekers. This section considers what might be done to improve the employment opportunities open to unemployed people, and particularly the longer-term unemployed who face the greatest difficulties in returning to work.

From the employer-led perspective, there are a number of approaches that could be taken. These are:

- Increase the regulation of recruitment;
- Engage with employers;
- Provide incentives.

#### **5.3.1 Regulation**

Recruitment is subject to employment law and regulation, including the law on equal opportunities, disability discrimination and so forth. Unemployment is not directly covered by such legislation, although it may be indirectly if the unemployed job applicant is a member of a group covered by equal opportunity legislation. The recent experience of the USA has led the Federal government to introduce legislation that would make it illegal for employers to state in job adverts that the unemployed need not apply. There is, however, no evidence that such overtly discriminatory practices are prevalent amongst employers in the UK and, indeed, the evidence reviewed above is that most employers do not discriminate between unemployed and employed job seekers purely on the basis of economic status, although there may be discrimination in more subtle and, perhaps, unrealised ways and there is certainly a reticence to recruit the long-term unemployed, again not because they are unemployed but because of perceptions that there is something problematic about an individual who has been out of work for many months.

While there seems little basis for increased regulation of recruitment in regard to unemployed people, some commentators have argued that business regulation should be relaxed in order to reduce the cost to employers of recruiting to the entry level jobs most relevant to unemployed job seekers. The Centre for Social Justice (CSJ, 2011) has, for instance, argued that reducing some aspects of business regulation would reduce the cost to employers of taking on unemployed people. They mention a range of regulations, including health and safety, the National Minimum Wage (see Section 5.3.3 below) together with benefit rules that make recruitment to part-time or temporary low level jobs unattractive. This disincentive arises because people taking on part-time jobs may have their welfare benefits reduced or face delays in reclaiming their benefits when short-term

jobs come to an end.

### **5.3.2 Engagement with employers**

The evidence reviewed earlier in this report suggests that employers offering entry level jobs of the type that the majority of unemployed people would be seeking often regard such recruits as a serious risk and likely to impose additional costs on their business. Such perceptions may be based on little more than prejudice or may be based on an unfortunate prior experience. Whatever the reason, it is conceivable that employers can learn from a broader contact with unemployed job seekers and that such experience can lead to a reduction in perceptions of risk and cost. Hales *et al* (2000) found that around 60 per cent of employers who had recruited young unemployed people to the Subsidised Employment Option of the New Deal for Young People had retained their recruit after the employment subsidy had run out and many had revised their view of the risks associated with such an engagement. Similarly, Meager (2006) found evidence that employers who had hired people with disabilities in the past were more likely to hire such recruits currently than those who had no history of such recruitment.

While experience of recruiting and working with unemployed people may change perceptions of risk and cost, the dilemma is how to persuade employers to take on unemployed people in the first place when their perceptions of risk remain high. While it is possible to exhort employers to recruit more unemployed people and to tell them that there are benefits from such recruitment, the success of such an approach is likely to be limited. Employers need to be convinced of the business case for recruiting unemployed people, although, as already seen in Section 5.2 above, some organisations may be more socially oriented than others and thus more amenable to responding to such exhortation.

The answer may be for organisations that work with unemployed people to help and support them into work to engage with businesses and expose employers to unemployed job seekers in a way that involves no significant commitment on the part of the business concerned but which might help overcome their reticence to recruit. There are a number of ways by which such increased engagement could be facilitated including:

- Increased employer representation in organisations supporting unemployed people;
- Employer involvement in support (e.g. advice and guidance) for unemployed people;
- Encouraging employers to provide work experience placements for unemployed people;
- Encouraging the practice of offering a work trial before a job is made 'permanent'.

Many of these forms of engagement take place already but not necessarily on the scale

required. Jobcentre Plus has sought to engage employers in this way but there is evidence that public employment service advisers are not especially proficient at engaging with employers (Black *et al*, 2003; Lechner and Smith, 2006). Evidence from the evaluation of Employment Zones (EZs) suggested that a factor in the improved job placement of the EZs was the dedicated 'employer engagement' teams found in them (Joyce and Pettigrew, 2002; Hasluck *et al*, 2003) while Behncke, Froelich and Lechner (2007) found that advisers (or case workers) who maintain direct contact with employers achieved higher rates of re-entry to employment for their unemployed clients.

A more indirect method of encouraging employers to recruit unemployed people would be to promote professional human resource management practices in organisations. It has already been observed that many of the more discriminatory practices that disadvantage unemployed job seekers are a consequence of informal and *ad hoc* recruitment practices. Promoting appropriate human resource standards and accreditation by organisations such as *Investors in People* may bring about changes in recruitment practice that not only make the organisation more professional and efficient but indirectly redress many of the indirectly discriminatory practices that exclude and disadvantage unemployed people.

A recent development aimed at increasing the propensity of employers to recruit disadvantaged people, especially young unemployed people, is that of *Local Employment Partnerships* (LEPs). Introduced in 2007 they were part of a broader effort to connect workless individuals with employers who had vacancies. Although Local Employment Partnerships are now gone one of the main advantages of LEPs was that they promoted longer-term relationships between Jobcentre Plus and employers, which allowed a much better understanding of their respective needs. Recent research by Bellis, Sigala and Dewson (2011) found that where employers engaged with LEPs the primary reason was their need to fill vacancies and the assistance they could receive from Jobcentre Plus: free advertising, help with matching and screening candidates, sifting applications and arranging interviews. Some employers, and particularly large employers, were also motivated to engage with LEPs because of their corporate social responsibility.

Where employers have engaged with LEPs they were using work trials, work placements, pre-employment training and guaranteed interviews as methods to prepare and recruit disadvantaged people. Many employers were involved in designing pre-employment courses. Despite generally positive views about employer-LEP engagement there were mixed views about candidates supplied by LEPs. Some employers were positive and thought that Jobcentre Plus had referred job-ready candidates but others were concerned about the variable quality of candidates, believing some Jobcentre Plus staff were referring the wrong people for interviews. There are echoes here of previous criticisms by employers of Jobcentre Plus practice. The principles that worked for LEPs have now been taken forward through the National Account Management System in Jobcentre Plus

whereby an account manager works closely with businesses to define and implement recruitment strategies.

Support for the longer-term unemployed, or job seekers at greatest disadvantage, was changed radically with the introduction of the Coalition Government's *Work Programme* (WP) in 2011. Under this programme a range of public, private and voluntary sector providers are contracted to help the unemployed cohort into sustained employment. Each prime contractor will in turn contract with a range of local providers to deliver whatever support is deemed necessary to help customers enter employment. It remains to be seen how the WP operates in practice but the messages from this evidence review is that the WP will be more successful if WP providers engage with employers and address the concerns often expressed by employers in connection with the recruitment of long-term unemployed people.

One concern regarding the WP is the emphasis in the WP contracts on payments by results. Providers will only receive their Job Outcome Payment if a customer remains in employment for 26 weeks and then further payments after that for a further 52 weeks. This could mean that WP providers would be reluctant to consider job vacancies from employers that are part-time or temporary unless such job offers are guaranteed to lead to a longer-term employment offer. One particular instance of this concern was expressed by the London Assembly in connection with jobs created by the 2012 Olympic Games. The Assembly's Economy, Culture and Sport Committee said that London's Mayor and the host boroughs should ensure the Work Programme does not overlook short-term Games-time roles and called on Jobcentre Plus to do more to ensure the benefits system does not discourage people from taking on Games-time roles, which may only last up to three months.

### **5.3.3 Financial incentives**

While initiatives to engage employers through work trials and placements are of low risk because they are not committing to take on the unemployed person at the end of the placement, there are still likely to be some costs for the business. Larger or more socially responsible organisations may be happy to bear such costs but organisations at the other end of the spectrum may require some financial inducement to take on unemployed recruits, even on a trial basis.

CSJ (2011) suggested that the National Minimum Wage (NMW), to be £6.08 from October 2011, could be reduced to cut the cost of employment in entry level jobs and thus encourage recruitment. It is uncertain how effective this would be, as there is a substantial body of evidence that suggests that the introduction of the NMW has not had a negative impact on employment, casting doubt on whether a reduction would lead to an

increase in employment. Another concern is that to reduce the NMW could be seen as exploiting the weak labour market position of the unemployed. Evidence reviewed earlier suggests that employers pay unemployed recruits less than employed recruits (Arulampalam, 2001; Gregory and Jukes, 2001; Tudela 2004, Bell and Blanchflower, 2010, Kahn, 2010

Another approach used in the past was for the State to offer a financial reward to employers when they recruit an unemployed person. There is a long history of such financial incentives in the UK. For instance, *Workstart* pilots offered employers a weekly subsidy of £60 for six months and £30 for the following six months for taking on a long-term unemployed person. The pilots were found to have influenced nearly half of employers in their recruitment decisions, and that over four-fifths were planning to continue to employ the Workstart recruit after the subsidy ran out (Atkinson and Meager, 1994). Later, in 1996, a National Insurance Contributions (NIC) Holiday was introduced that allowed employers to claim back their share of NIC for up to a year if they recruited someone who had been unemployed for at least two years. Snape (1998) reported that the NIC Holiday encouraged employers to invite long-term unemployed applicants to job interviews when they might otherwise have been omitted from the recruitment process, and, for some employers, it tipped the balance in favour of the unemployed person (but only if they were otherwise suitable for the job).

A later example of financial incentives relates to the New Deal for Young People (NDYP). Introduced in 1998, NDYP offered employers taking on a young unemployed person under the Employment Option (after around 10 months unemployed) a subsidy of £60 per week for six months plus an allowance of £750 towards the cost of training. Hales *et al* (2000) found that the majority of employers retained their subsidised recruit after the subsidy had expired. In January 2009 the UK Government announced a 'golden hello' scheme that would pay employers £2,500 to recruit and train people who had been out of work for six months or more. Not long afterwards (January 2010) the Department for Work and Pensions launched the *Care First Careers* initiative aimed at young unemployed people. Under that initiative employers could claim a £1,000 subsidy for each young unemployed person they recruit while young people also received pre-employment training packages before going into new jobs as part of the initiative.

Many other countries have used employment subsidies or incentives to encourage employers to recruit unemployed people. Examples include the Netherlands and the Republic of Ireland. Financial incentives have recently been introduced in the USA on a temporary basis. The *Hiring Incentives to Restore Employment (HIRE) Act* of 2010 offered a cut in payroll tax for employers (\$1,000 or 6.2 per cent of the wage paid) if they recruited a person who had been unemployed for at least 60 days. Eligibility for the tax break under the HIRE Act was temporary and related to recruitment after 3<sup>rd</sup> February

2010 and before 1<sup>st</sup> January 2011 and there is pressure to introduce a similar tax break in late 2011 onwards.

A similar proposal to that of the HIRE Act was made by the present Prime Minister when in opposition. He proposed that employers who recruited someone who has been unemployed for at least three months should not have to pay employers' National Insurance up to £2,500. He said:

*"You've got a choice as a Government - you can either stand back and just watch unemployment go up, and do nothing about it, or you can have a scheme like this, which says to businesses 'if you take someone off the unemployment register, who's been unemployed for three months, you get a rebate on your national insurance because you're saving the country £8,000."*  
(David Cameron, quoted in *The Telegraph*, 11th Nov 2008)

Despite the Prime Minister's support for a recruitment subsidy, serious concerns persist about the cost effectiveness of such initiatives. For instance, the Recruitment Subsidy Scheme was part of the six-month offer introduced as a temporary recession measure the last Labour Government. It ran from April 2009 to March 2011. In a written reply to the House of Commons, the Secretary of State for Work and Pensions reported that:

*"The subsidy was not popular and was poor value for money. From April 2009 until April 2010 only around 34,000 subsidies were claimed yet during this time some 700,000 jobseekers that would have been eligible left jobseekers allowance. Even where the subsidies had been claimed, feedback from employers suggests they have not influenced employer decisions about who to recruit"* (House of Commons, Written Answers to Questions, 16th September 2010).

The Recruitment subsidy referred to above exemplifies a general problem with employment subsidies, namely deadweight. Deadweight refers to situations where an employer receives a subsidy for doing something they would have done in any event. . To minimise deadweight, initiatives often have eligibility rules to ensure that the subsidy is paid only in situations where a new engagement has come about. In practice it is difficult to establish whether this is so and the administration of such schemes tend to be complex and bureaucratic and a deterrent to employers because of the cost of claiming.

Currently, there would appear to be no single Government initiative providing financial incentives for employers to recruit unemployed people. What is possible, however, is that Work Programme providers may use the flexibility they have to deliver tailored support to customers to offer financial incentives to employers to take on long-term unemployed people, paid for out of the Job Outcome Payment and subsequent payments for sustained employment. The extent to which providers are willing or able to do so remain to be seen.



## 6 Conclusion

This review has examined a wide range of issues relating to the recruitment of unemployed people. It has done so primarily from the employer's perspective. It must be acknowledged that not all employers have jobs that are suitable for many unemployed people since the jobs they have to offer require levels of skill and or experience that some unemployed jobseeker lacks. It would be unreasonable and inefficient to expect employers will hire unemployed people for whom they have no use. Nonetheless, even where employers have suitable jobs, they may use negative perceptions of unemployed people as a reason to exclude them from job opportunities, either directly through their selection procedures or indirectly through the recruitment channels used to contact potential job applicants. The cost of this exclusion from work, to the individual and society, are widely acknowledged but it also needs to be recognised that such recruitment practices can also have a cost to the employer and their business. Excluding large numbers of people simply on the ground of their current unemployment status can mean that employers fail to make the best job matches, often leading to high turnover and additional costs. Unprofessional recruitment practices can give space for prejudice and discrimination to operate or simply for bad recruitment decisions to be made.

The evidence reviewed in this report suggests that there may be more scope to recruit unemployed people than some employers would credit. While there is undoubtedly a real basis for some concerns about unemployed recruits, such as the deterioration of their skills and experience or poor attitudes and motivation resulting from periods of worklessness, it is also the case that many businesses could benefit by recruiting unemployed people. They can bring a range of benefits compared with recruiting people already in employment, such as being immediately available, having lower recruitment costs, lower wage costs and they may be more productive and less prone to leave the business as a consequence of loyalty to an employer that has given them a chance. In the case of young unemployed people there may be additional benefits relating to their willingness and capacity to learn quickly (and nothing to be unlearned), imbuing new employees with culture and values of the business and bringing a 'youth perspective' into the business.

It is important not to overstate the case for businesses to recruit unemployed people not to blame employers for unemployment. Unemployment results from a range of factors, not least the prevailing macroeconomic conditions and the level of economic activity in businesses. While there are many actions that employers could take that would improve the job market position for unemployed people, it should be borne in mind that helping people into employment is not the sole responsibility of employers but is shared with the individual job seekers and the State. There are many actions (not discussed here) that

individuals can take to increase their employability by addressing the concerns that many employers have about recruiting unemployed people. Where an individual cannot address those issues themselves they may need additional support.

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Authored by Chris Hasluck,  
Hasluck Employment Research  
for the UK Commission for  
Employment and Skills.

**UKCES**

Renaissance House  
Adwick Park  
Wath-upon-Deerne  
Rotherham  
S63 5NB

**T** +44 (0)1709 774 800

**F** +44 (0)1709 774 801

**UKCES**

28-30 Grosvenor Gardens  
London  
SW1W 0TT

**T** +44 (0)20 7881 8900

**F** +44 (0)20 7881 8999

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