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## Statistical Discrimination and Employers' Recruitment Practices for Low-Skilled Workers

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## 1. Introduction

Theories of employers' recruitment behaviour emphasise the widespread use of statistical discrimination techniques in order to select job applicants in a situation that is characterised by uncertainty and asymmetric information. Employers tend to use 'signals' to identify potentially problematic employees among prospective candidates.

In this paper, we are interested the recruitment strategies of employers in the low-skilled segment of the labour market. In all developed countries, jobs with low formal skill requirements are on the decline, and have shifted from the agricultural and industrial sectors to parts of the service economy. We focus on low-skilled workers for three reasons. First, they are overrepresented among jobless people and constitute the bulk of the clientele included in various activation and labour market programmes that have mushroomed over the last two decades in Europe. A better understanding of the constraints and opportunities of interventions in this labour market segment may help improve their quality and effectiveness.

Second, in today's Europe, the bulk of actual and prospective workers in the low-skill sector tend to display some of the signals that have traditionally been associated with labour market disadvantage, such as lack of basic skills or command of the language, higher age, immigrant status, or experience of unemployment. Rejecting applicants with these characteristics, as implied by the traditional version of statistical discrimination theory, would dramatically reduce the pool from which employers can choose their employees. As a result, if statistical discrimination techniques are to be applied in this labour market segment, they need to be adapted.

Third, there are reasons to believe that statistical discrimination will play a particular role for this group of jobseekers. They have no certified occupational skills and, normally, no proof of formal qualifications is necessary for a successful application. Depending on the type of job, what matters are individual qualities such as motivation, social competencies, physical fitness, or outside appearance. In addition, given that low-skilled jobs can be performed without much training, employers can easily assess applicants' productivity on the job through tests. The availability of this option, which would not be available for skilled positions that require extensive on-the-job training, suggests that in this segment of the labour market employers may prefer tests to statistical discrimination.

In this paper, we try to shed some light on employers' recruitment strategies concerning workers with low or no formal occupational qualifications. Qualitative evidence is based on 41 semi-structured interviews with employers largely relying on low-skilled workers. The interviews were carried out in 2009 in six European countries (see section 3 for more details). The results are presented in sections four to six. First, we deal with the impact of the signals that are known to play a role in the recruitment process: higher age, immigrant status and being unemployed (section 4). Then, on the basis of the empirical evidence

collected, we identify a number of other signals that our sample of employers use in order to detect motivation, a key quality in this segment of the labour market (section 5). Finally, we turn to alternatives to statistical discrimination, essentially testing and social networks (section 6).

## 2. Literature review

Statistical discrimination as a tool to screen job applicants in the recruitment process has been identified by neoclassical economists in the 1970s (e.g. Akerlof 1970; Spence 1973) though theoretically modelled somewhat earlier (Becker 1971, first 1957). Every hiring entails fixed costs for the enterprise. Among them are the costs of screening applicants, providing some training or giving time to familiarise with the job before the newly recruited worker becomes fully involved in production. Hiring is thus a risky process for employers. The worker may quit before the investment pays off, and whether he or she performs according to the expected productivity will be known to the employer only some time after appointment. Moreover, uncertainty on the part of the employer is permanent due to the indeterminacy of the labour contract: a certain quantity and quality of work to be performed by the employee cannot be completely defined in advance. Rather, to some extent, it remains within the discretion of the workers to determine their output — whether they ‘cooperate’ or somehow show less commitment (‘shirking’) and withhold full effort (Offe and Hinrichs 1985).

In order to minimise risks and costs, employers may decide to avoid applicants belonging to groups of workers who, because of certain average characteristics, are believed to deliver less than the expected job performance or are more likely to create other problems in the firm. Typically, employers may decide to exclude applicants with immigrant background, older workers, long-term unemployed people, women, or persons who combine any of these attributes. Employers’ assessment can be based on various sources, such as previous experience<sup>1</sup> but also societal prejudice<sup>2</sup>. Economists tend to regard statistical discrimination as an efficient tool for screening applicants, at least to the extent that employers’ assessment of group characteristics is roughly accurate. At virtually no cost, statistical discrimination allows employers to limit the number applicants that need to be examined more closely, thus, reducing the cost of the recruitment process.

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<sup>1</sup> ‘To hire someone ... is frequently to purchase a lottery. ... On the basis of previous experience in the market, the employer will have conditional probability assessments over productive capacity given various combinations of signals and indices. At any point of time when confronted with an individual applicant with certain observable attributes, the employer’s subjective assessment of the lottery with which he is confronted is defined by these conditional probability distributions over productivity given the new data’ (Spence 1973: 356-7). Spence distinguishes between ‘indices’ as unalterable attributes (like sex and race) and ‘signals’ which are modifiable attributes as education or outer appearance. Throughout this paper we only use the term *signals*.

<sup>2</sup> Employers’ own individual prejudice, for example a preference for workers from a given ethnic group, refers to a different type of discrimination, known in the literature as ‘taste-based’. Contrary to statistical discrimination, taste-based discrimination is considered inefficient because by hiring according to ‘taste’ employers do not necessarily select the most productive workers available (Becker 1971 [1957]).

Several empirical studies have shown that statistical discrimination techniques are used by employers in many different settings. Most studies are concerned with wage differences that cannot be explained by observable characteristics and systematically put at a disadvantage a given group, e.g. women or immigrants. Statistical discrimination is also used to explain the obstacles that women encounter in reaching top level jobs in organisations.

Studies focusing most specifically on selection procedures have tended to use a technique known as ‘paired resume (or CV) audit’. In this type of studies, pairs of fictional CVs are submitted to employers. The paired CVs are identical and differ only in relation to the feature that is supposed to be used for discriminating against a given group, for instance females, immigrants or older workers. By comparing response rates, it is possible to estimate the impact of the discrimination factor on the likelihood of receiving a positive reply (e.g. an invitation to an interview). In general, as will be seen below, studies of this type find ample evidence of statistical discrimination in the way employers select candidates.

Some studies, like ours, have focused on interviews with employers, who are asked about the criteria they use in screening applicants. It should be noted that although these studies do show evidence of statistical discrimination techniques being applied, they probably underestimate them. This unsurprising result is confirmed at least in one US study which combined the two methodologies (paired CVs and interviews with employers). Six months after a paired CVs audit, the same employers were approached again and asked about their use of statistical discrimination as a selection tool. The extent of discrimination emerging from employers’ interviews was considerably lower than what came out of the paired CVs part of the study (Pager and Quillian 2005). We will keep this result in mind when interpreting the responses in our interviews.

Only a few studies are concerned with the population of interest to us, namely, low-skilled workers. American studies of recruitment processes for ‘entry-level jobs’ have found a clear effect of discrimination against African Americans and, in particular, males (Neckerman and Kirschenman 1991; Pager and Quillian 2005, Zamudio and Lichter 2008, Moss and Tilly 2001). Other studies have identified further features associated with a reduced chance of positive reply to an application. These include former offenders (Pager and Quillian 2005) and older women (Lahey 2008).

These findings must be reconsidered in the context of the low-skilled labour market segment in Europe. Accordingly, we assume statistical discrimination techniques to play an important role, albeit in particular ways.

First, we can expect people who do not display any of the typical negative *signals* to avoid many of the low-skilled jobs that are available in Europe’s labour markets, particularly, when working conditions are harsh, wages low, working hours unfavourable, the job grants low prestige, or any combinations of these characteristics apply. The necessity to match low-skilled low-wage jobs and low-ambition applicants opens up (re-)employment chances for

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workers showing typically negative signals. As the owner of a German industrial laundry service put it: *'If someone doesn't have labour market problems, he or she doesn't want to work in a laundry'* (GE3 LAUNDRY). Thus, some employers can simply not make blanket decisions leading to the avoidance of groups displaying certain negative signals. We therefore expect that firms employing low-skilled personnel will tend to resort to more sophisticated types of statistical discrimination than those mentioned in the literature.

Second, low-skilled jobs, by definition, do not require elaborated occupational skills. What matters instead are 'soft skills'. This is an ill-defined concept which involves a fair degree of subjectivity. However, it is possible to get a better grip on the concept by differentiating two dimensions that are usually implied in the notion of soft skills. The first dimension consists of interpersonal skills. These include abilities to get on with clients, co-workers or supervisors. They are more important for jobs in the service sector although not irrelevant in the industrial one. The second dimension refers to motivation, or commitment, a positive work attitude, and so forth (Moss and Tilly, 2001). Employers will try to ascertain whether features that are connected with these skills can be attributed to the individual applicant. For example, as we will see below, an unsolicited application may be taken as a sign of positive motivation whereas a referral by the public employment service may emit a negative signal (see also Hieming et al. 2005: 122).

Third, statistical discrimination may produce the biggest gains for employers when recruitment concerns positions where the worker's true productivity can only be observed after a relatively long period on the job — for example, because extensive on-the-job or formal training is needed. Under such circumstances, there is no simple way to 'test' candidates, and employers may decide to use statistical discrimination as a selection tool. However, most low-skilled jobs we addressed in our interviews did not require lengthy training periods, as a result of which the alternative of testing is not considerably more costly than applying statistical discrimination techniques although its applicability may be dependent on the rigidity of the labour market (foremost employment protection legislation).

In fact, there are good reasons to assume that testing will be more efficient than statistical discrimination. By making blanket decisions which exclude entire groups of applicants from entering the recruitment process regardless of individual worker's abilities, employers will miss some productive workers who just happen to belong to the wrong group. Testing may be beneficial to the employment chances of workers belonging to groups who are discriminated against. A study of hiring practices in the Chicago area, showed that employers who used tests as a screening device had a slightly higher proportion of blacks in their workforce, after controlling for numerous other factors (Neckerman and Kirschenman 1991).

### 3. Data and methods

In our study we relied on qualitative methods. We interviewed 41 employers based in six different European countries, three of them with rather strict employment protection (Germany, Italy, Slovenia) and three with a lower degree of job protection (Denmark, Hungary, and Switzerland). Within these countries, employers were selected among those who rely largely on low-skilled labour, defined as having completed less than 12 months vocational training. For employers with a more mixed labour force, we focused our questions on this labour market segment. In each country, we made sure that the sample of employers included both industrial and service firms, and that companies of different size were represented. Interviews were carried out during the first semester of 2009 on the basis of semi-structured questionnaires (available from the authors).

Within companies, we interviewed the managing director, the owner or, for larger companies, a manager from the human resources department. Interviews lasted about 60 to 90 minutes. They were recorded, transcribed in full and translated into English.

**Table 1: List of companies interviewed**

Company ID	Country	Type of activity	No of employees
DK1 RETAIL	Denmark	Supermarket	65
DK2 RETAIL	Denmark	Supermarket	210
DK3 CAKE	Denmark	Food Industry	77
DK4 MACHINE	Denmark	Manufacturing machines industry	603
DK5 MEAT	Denmark	Food Industry	350
DK6 CLEAN	Denmark	Cleaning services	33
DK7 CALL	Denmark	Call centre	220
GE1 CLEAN	Germany	Cleaning services	2500
GE2 MEAT	Germany	Food industry	780
GE3 LAUNDRY	Germany	Cleaning services	75
GE4 SUPERLARGE	Germany	Supermarket	89
GE5 SUPERSMALL	Germany	Supermarket	28
GE6 SOUP	Germany	Food industry	350
GE7 VEGETABLE	Germany	Food industry	100
HU1 CLEANING	Hungary	Cleaning Services	8
HU2 SUPERMARKET	Hungary	Supermarket	8
HU3 SECURITY	Hungary	Security Guards and Cleaning	50
HU4 FAST FOOD	Hungary	Food Services	5315

HU5 CONSTRUCTION	Hungary	Construction Industry	15
HU6 ELECTRONICS	Hungary	Electronics Industry	2700
HU7 INDUSTRIAL	Hungary	Tires Industry	1250
IT1 BEVERAGE	Italy	Beverage Industry	386
IT2 CATERING	Italy	Catering services	970
IT3 TYPOGRAPHY	Italy	Typography Industry	620
IT4 AUTOMOTIVE	Italy	Automotive Industry	120
IT5 ELECTRONICS	Italy	Electronics Industry	22
IT6 CLOTHING OUTLET	Italy	Clothing Outlet chain	85
IT7 CALL CENTRE	Italy	Call Centre	1000
SL1 SANITARYMAT	Slovenia	Textile sanitary/hygienic Industry	558
SL2 CLEANING1	Slovenia	Cleaning services	80
SL3 SUPERMARKET	Slovenia	Supermarket	12000
SL4 HOUSEHOLDAPP	Slovenia	Household appliances industry	5000
SL5 CLEANING2	Slovenia	Cleaning services	6
SL6 PLASTIKA	Slovenia	Packaging materials industry	62
CH1 METAL	Switzerland	Metal Industry	85
CH2 CLEAN	Switzerland	Cleaning Services	180
CH3 PAINT	Switzerland	Painting Industry	43
CH4 PACKAGING	Switzerland	Metal manufacturing	2057
CH5 RETAIL	Switzerland	Supermarket chain	7500
CH6 CAFE	Switzerland	Machinery manufacturing	230
CH7 BUILD	Switzerland	Construction Industry	200

#### 4. Age, immigrant status and long-term unemployment as signals in employers' selection process

The first objective of the interviews was to check whether employers relied on the typical traits that are known to be used as statistical discrimination devices: age, immigrant status and (long-term) unemployment.<sup>3</sup> The application of this screening device is considered as an important causal factor for specific *labour market problems* of workers who exhibit those

<sup>3</sup> Regularly, also 'gender' figures as a criterion of statistical discrimination. In the low-skilled segment of the labour market we looked at, however, most jobs tend to be exclusively or predominantly 'male' (metalworking, meat processing, construction etc.) or 'female' (supermarket, cleaning, clothing outlet etc.) occupations and no real competition between applicants of different sex arises. Sometimes gender is mentioned as signal, but in conjunction with age. Younger women are regarded as more 'risky' because in case of maternity they may need to be replaced.

traits: they have an above-average risk of becoming or remaining unemployed, are at risk of leaving the labour market altogether ('discouraged workers', enforced early exit); they have to make more concessions than others in order to be hired (with regard to wages, working conditions – like shift work, dead-end jobs –, or regional mobility) and have fewer chances to utilise once acquired formal skills.

Interviewees were asked whether *a*) being unemployed and older than 50, *b*) being unemployed and of immigrant origin, and *c*) being long term unemployed (for over 12 months) were considered to be signals of a potentially problematic candidate. Unsurprisingly, most employers (between 24 and 30 out of 41) denied using these features for screening candidates. As already mentioned above (section 2), this may simply be a result of the desire to appear politically correct. Such biased answers are particularly frequent when asking about the relevance of the immigrant status (see below, section 4.2).

#### 4.1 *Being of higher age*

Although somewhat varying between EU member states, labour market statistics consistently show higher unemployment rates of workers in the upper age brackets than for those of prime age. Moreover, they face a higher risk of becoming long-term unemployed and, partly as a consequence, people with low formal education (involuntarily) exit the labour market much earlier than their counterparts with higher degrees (OECD 2006: 35-45). The statements of our interviewees, however, largely contradict well-known attitudes of employers towards elderly applicants leading to relatively worse (re-)employment chances, namely, outdated skills, impaired physical condition, not adapting and learning as well and as fast as younger workers (cf. OECD 2006: 63-5, 103-10; Brauer et al. 2009).

Across countries, older workers were generally considered as more reliable and showing a stronger work ethic than their younger colleagues, and those firms which employ workers above age 50 indeed value them as an 'asset' and HR managers develop a more positive image of 'age'.<sup>4</sup> There were few mentions (in 10 out of 41 interviews) of potential risks or problems when hiring older workers. These concerned practical obstacles (hard physical work<sup>5</sup>) but also behavioural ones like those mentioned before. Image problems for companies wishing to appeal to young people were also raised. The director of a chain of cafés in Switzerland summed up the problem for his enterprise:

*'[In our company] the jobs that low-skilled workers can do are mostly contact jobs and appearance can be very important because image counts a lot. Furthermore, they are more likely to be sick. They*

<sup>4</sup> Results from a survey among 1,350 employers in Germany confirm this finding (Stettes 2009).

<sup>5</sup> The HRM of the Hungarian subsidiary of a multinational company frankly admits that he does not hire applicants above age 50: *'We have very few positions that are not physically intensive jobs. The positions for which men are hired represent truly hard physical work. ... The general belief is that a 50 year old is unable to perform these jobs. They cannot keep up with the rhythm; they cannot comply with the performance standards'* (HU7 INDUSTRIAL).

also tend to be less open to change and to learning new ways of doing things. Sometimes they can also have motivation problems, but, of course, there can be exceptions' (CH6 CAFÉ).

Quite the opposite position is held by the manager of a small supermarket, mainly employing women. He even prefers a workforce above age 40. *'Older people have life experience. They know how to deal with other people. That's very important for us in the service sector'* (GE5 SUPERSMALL). As further advantages, he mentioned their work experience, their more intense commitment to work, and the fact that older female employees do not leave their job due to pregnancy. In particular, older workers are considered to be better at getting along with customers than younger employees (e.g. SL3 SUPERMARKET). In addition, their appreciation of having a job is interpreted as a sign of stronger motivation.<sup>6</sup>

Less strict employment protection can be another reason for not discriminating against older applicants, but rather, to prefer them. In Germany, older unemployed people, if hired, are less well protected against dismissal than prime-aged worker. This, according to the manager of a cleaning company, may turn out as an advantage for their reemployment chances:

*'If a 52-year old applicant was unemployed for four months beforehand, I can initially hire this worker for up to five years. Therefore, I don't see any risk in hiring an older worker. If, after hiring, I notice that the employee can't perform physically, has other deficiencies, or something personal occurs, then I can fire him within these five years. In this way, we don't bear any risks by employing older people. Quite the opposite! The opportunity to hire someone according to a fixed-term work contract makes our decision to take on older employees easier'* (GE1 CLEAN).

All in all, it seems that (higher) age only plays a secondary role in recruitment and is not *per se* an excluding attribute although it remains unclear to what extent the employers we interviewed actually do hire older unemployed. Indeed, most of the positive comments referred to older workers who had grown old 'on the' job rather than older unemployed applicants.

#### 4.2 Being an immigrant

Employers' desire to appear politically correct may have played a particularly strong role with regard to immigrants. They are rarely mentioned as a potentially problematic group, associated with higher risks. This may also be due to the fact that in the current European context, the low-skilled segment of the labour market is essentially staffed by immigrants.

Both assumptions find some support in the qualitative analysis. With regard to the impact of the desire to portray an image of political correctness, it may be interesting to compare across countries responses to the question on the significance of being from an ethnic minority. Different countries may have different levels of tolerance for discrimination

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<sup>6</sup> *'Often the older generation has a higher sense of responsibility. They have children, they have a family, they can respect their workplace more than a young person'* (HU3 SECURITY; similarly: CH1 METAL).

based on ethnic origin. In fact, we find that ethnic minority status is most often recognised as a predictor of increased risks and troubles for employers in Eastern Europe. When mentioned, it concerned mainly Roma people (who are not ‘immigrants’ as such). This was the case in four out seven Hungarian companies, and in three out of six in Slovenia. The reasons given vary and include problems with customers, weaker work attitudes and perceived higher risk of theft. According to a Hungarian employer:

*‘[Hiring Roma people] involves a very high risk level in this type of cleaning job because in Hungary in any office or private apartment customers are not happy with this. In addition, nowadays a contract can be very easily terminated due to very small incidents, so the management has to decide whether they are risking to loose a project on the one hand, or not to employ such people’ (HU1 CLEANING).*

Discrimination against Roma people in Eastern Europe is a well-known fact and reflects societal attitudes also outside the field of employment. This may mean that discrimination in recruitment is stronger, but it may also mean that it is more socially acceptable to admit practising discrimination against this group in an interview. Our data do not allow us to decide which of the two hypotheses is more plausible.

With the exception of reference to Roma people in Eastern Europe, very few employers mentioned using immigrant status as a negative signal. Beside political correctness, this result may also be due to the strong reliance of the low-skilled labour market segment on immigrant workers in most EU countries. In several Danish, Swiss and German companies the interviewees pointed out that they employ immigrant workers to a large extent, often over 50% of the workforce. As a result, it would be unreasonable and counterproductive to apply immigrant status as an exclusion criterion in the selection process. However, basic command of the language is often considered an essential requirement to ensure safety at work and being able to follow the instructions of supervisors.

Contrary to common assumptions, in some cases, immigrant status was in fact mentioned as a positive signal. According to the manager of a Danish cleaning company: *‘The few Danes who apply in this industry, are usually people who are unable to find something else, and they usually think that cleaning is trivial, and that all you have to do is empty the bin and give the vacuum cleaner a go, but they don’t think about the fact that it’s a service and someone is paying large sums of money for it. You have to take the time to tell them about it, and sometimes it actually takes two or three chats before they actually get it’ (DK6 CLEAN).*

A different reason for explicitly hiring immigrants is presented by the manager of a large supermarket in Germany, located in an area with a high share of Turkish migrants. He explained that he is developing an ‘Ethno-Marketing’ with products especially for Muslims: *‘For this, I even need employees with a migration background who can pick out this assortment. I can’t judge that at all by myself’ (GE4 SUPERLARGE).* Moreover, he stressed the advantage in customer interaction: *‘So employees with a migration background help us to bridge problems of understanding and for example, to better understand purchasing habits.’*

In some cases, immigrant status is probably used as a proxy for tractability (uncritical acceptance of management's decisions). A U.S. study pointed out that preference is given to Latinos over African Americans in parts of the low-skilled sector, precisely because belonging to the former group is considered to be a signal of tractability (Zamudio and Lichter 2008). We found similar results with regard to some groups of immigrants, such as Asians in Denmark. The manager of a meat processing plant in Denmark found that: *'if we need people to work overtime, they [immigrants of Asian origin] always say yes, and we sometimes get a few remarks about that, but we don't get any problems as a result of it'* (DK5 MEAT).

Finally, belonging to a certain group of immigrants may be an advantage because it is easier to integrate them in an already existing team. The manager of a German food processing firm emphasizes the merits of assembling a homogeneous group: *'If it's a group with Russian women, then I can't integrate a woman of a different origin. [...] It is very important that the group says whether the newcomer fits in with the team or not'* (GE7 VEGETABLE).

Taken together, being a job applicant with immigrant background does not necessarily imply a negative signal to potential employers. Dependent on the actual reliance of employers on this reservoir of workers or on immigrants as customers or as co-workers they may experience no disadvantages or are even be preferred over nationals. This is especially true for certain groups of immigrants whose ethnic background is seen as a signal of tractability.

#### 4.3 *Being (long-term) unemployed*

It is generally assumed that the longer an unemployment spell lasts, the more difficult it will be for the jobless person to find a new job. Unemployment status is thus a self-enhancing negative signal. Although a large majority of interviewed employers (30) denied using long-term unemployed status as a selection criterion, we find more consistency in the reasons given by those interviewees who explicitly acknowledged their reluctance to hire from long term unemployed applicants because of their assumed lack of motivation or other behavioural defects. The director of a Swiss café chain stated: *'... if someone has not found anything for a long period of time there has to be a problem in addition to job loss — most frequently lack of motivation'* (CH6 CAFÉ). And the human resources manager of a Hungarian industrial company ponders about long-term unemployed applicants:

*'The question [is] why the person was unemployed for such a long period of time. ... You start to wonder why other employers have not employed that person. What did the other employer detect that I might have missed to recognise? Naturally, they are in a more difficult situation, and they need to convince us during the interview that they can bring positive results for employment. They have to convince us that there is no specific reason why others have not employed them'* (HU7 INDUSTRIAL; similarly: HU1 CLEANING).

Not only Hungarian managers are prepared to hire long-term unemployed if the applicant can produce an acceptable justification for failing to find a job earlier. However, other interviewees are not very concrete about what would be a ‘good reason’. Interestingly, in a period of rising unemployment the stigma carried by (long-term) unemployed may decline. According to one Swiss employer:

*‘We could hire them ... [long-term unemployed people] ... I don’t have any have prejudice against them. But there are probably more risks because people who are good workers and want to work can find work, though it is going to change with the crisis. ... in a couple of years there is going to be loads of unemployed people, but not through their own fault. Because there is no work’ (CH1 METAL).*

Our findings confirm the commonly held assumption that being out of work for a longer period increasingly impedes re-employment, unless the unemployed person is able to bring forward a convincing justification for not finding a job earlier, or the state of the labour market is such that there is a substantial excess of labour supply.

## **5. Statistical discrimination as a tool to spot motivation**

We hypothesised that in the low-skilled segment of the labour market, soft skills and in particular motivation is likely to be the key feature employers are going to look for when examining candidates. These jobs tend to be badly paid, offer few opportunities for advancement and might have a negative image. As a result, finding highly motivated candidates can be difficult. In our overview of the role played by the key features that are known to be used to discriminate against certain applicants, we have already seen that these are interpreted as signals of motivation or lack of it. In fact, the employers we spoke to have developed more sophisticated strategies to spot motivation.

### *5.1 Being ‘pushed’ as a negative signal*

It came out in a number of interviews and across countries, that the very fact of being sent by the public employment service (PES) is considered to be a negative signal. Employers tended to regard candidates coming from the PES as persons who apply in order to comply with the job search requirements imposed by unemployment benefit rules. Not taking the initiative themselves to get back to a job qualifies them as less motivated candidates. According to the manager of a Danish meat-processing firm:

*[Q: ‘Why do you not recruit more often people from the public employment service?’] ‘Personally I don’t believe that it’s a seal of approval, to have gone through that route. Yes, if you’re interested in working, you’d come here and apply, if you’ve already been to the public employment office, it’s almost as if you’ve been forced down here, so we don’t use that (DK 5 MEAT).*

Quite similar is the assessment of a Hungarian manager:

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*'We made negative experiences, not with the public agency itself, but the people sent by the agency. They do not really want to work. They are satisfied with their unemployment benefits'* (HU7 INDUSTRIAL).

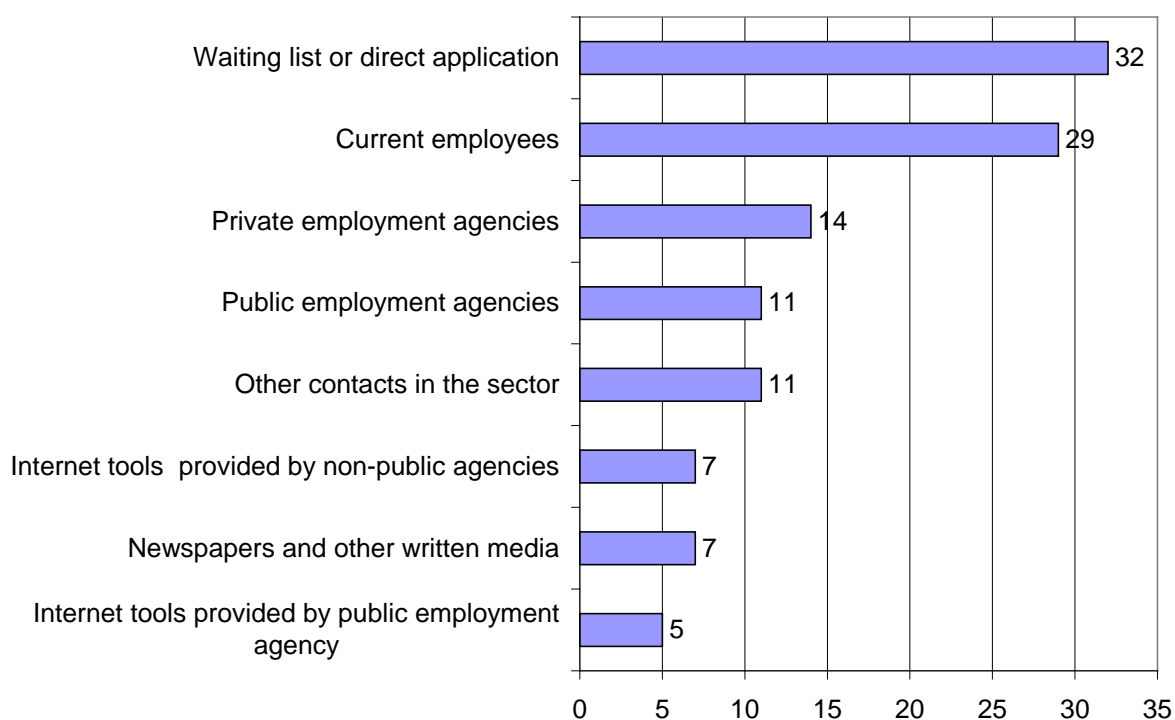
Along the same lines, the manager of a Slovenian supermarket clearly states: *'We found that people who were registered at the Employment Office did not want to work or were contentious persons. We had the workshop in which we presented our Supermarket chain and possible jobs. There were 25 people and we could give jobs to all of them. But they came to the workshop because they felt it as an obligation for them and not because they wanted to find a job. They listened to the presentation and afterwards only four of them applied and among them there was a person who said that he/she came to the interview because he/she thought that it was compulsory'* (SL3 SUPERMARKET).

The owner of a German laundry also takes a reserved stance towards registered unemployed: *'I have the impression that most people who register with the public employment agency are looking for work, but maybe don't want to work or even can't work'* (GE3 LAUNDRY). However, she cannot be very 'choosy':

*'People who don't have any "problems" don't want to work in a laundry. (...) The task is not very rewarding and has a bad image. Employees with problems and difficulties, or people with migration background, they don't mind working in a laundry. It's hard to hire other people. You can really only resort to people with employment problems'* (GE3 LAUNDRY).

The negative attitude towards the unemployed who apply at the instigation of the PES and the actual experience that they *'were not so reliable'* (GE2 MEAT) is also reflected in Figure 1. The recruitment channels an employer uses – regularly more than one – are determined by past experiences with the various channels, the (sectoral) labour market situation and the type of labour looked for. Different channels mobilise varying numbers of applicants and certain categories of jobseekers (Behrenz 2001: 263). Recruitments for low-skilled jobs via the PES channel rank only fourth, far behind direct applications and the informal route of utilising recommendations from already employed workers.

**Figure 1:** Preferred recruitment channels. Number of employers relying often or very often on various channels (N = 38, more than one option was possible)



## 5.2 Unsolicited applications as a positive signal

Figure 1 shows that the preferred recruitment channel by the employers we spoke to is unsolicited applications. Employers are keen to obtain signals which demonstrate motivation and social skills. The fact of making the effort to apply is taken as a signal of motivation. Several employers suggested this line of reasoning.

A German employer is quite convinced that the commitment a person puts in the job search process is a good indicator of his or her subsequent job performance:

*‘We really have good experiences with direct applications. Those people search for work. They want to work. The motivation and the interest of the person play a big role’* (GE7 VEGETABLES).

Likewise, a Danish cleaning company prefers applicants who come forward unsolicited:

*‘because they have actually made the effort to get up in the morning, dress nicely and come in here in order to make a good impression, so why not choose from the ones who have actually gone through the trouble’* (DK6 CLEAN).

Direct and unsolicited applications are widely perceived as a signal of ‘true’ interest in getting a job and of motivation. However, it has been pointed out that the multiplication of such unsolicited applications as a result of public authorities’ intensified activation efforts may reduce the usefulness of such activity as a positive signal (cf. Hieming et al. 2005: 220) because the employers can hardly distinguish between ‘genuine’ and ‘fake’ applications, foremost sent to comply with the rules of benefit receipt.

### 5.3 *Participation in labour market programmes*

Participation in a labour market programme may also demonstrate the motivation to find a job. A majority of employers (29 out of 40) considers this as a positive signal, though sometimes without much enthusiasm, just believing that it is better than inactivity. A German study dealing with recruitment for low-skilled jobs in the service sector found that employers prefer applicants with certified formal training (although not needed for the job) because it signals traits such as staying power, punctuality and reliability as well as the transferability of certain pertinent skills and social competencies in particular (Hieming et al. 2005: 225).

## 6. **Testing and networks as alternatives to statistical discrimination**

At first sight, statistical discrimination may appear as an efficient technique to single out among candidates, essentially because it allows employers at no cost to reduce the number of applicants who need to be screened more accurately. The tool, however, is likely to lack precision, as blanket judgements will exclude highly productive individuals who just happen to display the ‘wrong’ signals. For this reason, we may expect employers to be interested in alternatives to statistical discrimination when selecting candidates.

We assume two alternative strategies to play a particularly important role: testing and relying on networks. As hypothesised above, testing can be particularly attractive in this labour market segment, because the productivity of prospective employees can be assessed rapidly, without providing extensive initial training, as may instead be the case in higher skilled jobs. Alternatively, networks are known to be extremely important in job matching, and constitute a source of reliable information on applicants’ productivity (Granovetter 1995). The employers we interviewed like both techniques. Finally, employers have also a third alternative to statistical discrimination, consisting simply in outsourcing the selection process to a private recruitment company. This alternative, however, comes at considerable costs.

### 6.1 *Temporary work as a test*

The information provided in Figure 1 shows that the employers in our sample tend to prefer private employment agencies to the PES. These agencies are used in two different ways. First, in some cases, the complete selection process is simply outsourced to a private employment company, which knows well the employer’s needs and, accordingly, proposes suitable candidates. This option is used only by larger employers whose human resources requirements make them interesting clients for private employment agencies who, in turn, can provide an adequate service. Possibly, their pool of job seekers comprises a higher share of candidates with less negative traits. Second, many employers use private employment firms to recruit temporary workers. The use of ‘temp agencies’ provides employers the opportunity to ‘test’ several workers. When a vacancy arises, they can recruit the worker from a pool of

temporary workers they already know well. On the other hand, workers who do not fulfil expectations can very easily be refused and sent back to the agency. Moreover, making use of temp agencies facilitates a 'low risk' strategy due to a double selection process, first by the agency hiring the worker and, then, by testing him or her in the firm exactly on the job that is going to be filled.

Unsurprisingly, employers having utilised this recruitment channel look upon it positively:

*'We like to use private placement firms for an interim contract at the beginning especially for low skilled workers, and then if the person shows good qualities and if we need him or her, then we hire him or her'* (CH4 PACKAGING). *'We use a two months trial period through a private placement agency before hiring someone. It makes it easier to fire him, if the test is not conclusive'* (CH7 BUILD).

A similar positive statement on the 'try and hire' strategy is given by the HR manager of a German food-processing company which, due to rationalisation of production, has not recruited new workers for a while:

*'We have also previously worked together with temporary employment agencies. That's how unskilled employees worked in our establishment and when they were here for a while and were good, we hired them'* (GE6 SOUP).

However, using this recruitment strategy is associated with considerable expenses for the service of the private agencies:

*'Obviously, the recourse to employment agencies is more expensive and therefore it can be made only when the company enjoys a situation of economic stability'* (IT1 BEVERAGES).

*'We only use private placement agencies when we need qualified employees and we were not able to find them through newspaper announcements and other methods... if I were to do it [also for low-skilled employees] through private placement agencies this would raise the costs too much'* (CH5 CAFÉ).

While this recruitment channel reduces the risks for the hiring company, it is questionable whether the low-skilled workers displaying negative signals benefit to the same extent. Their problem in finding a job is shifted from employers to the temp agency that decides about the engagement in the first place. The agency, most likely, applies similar selection criteria in order to reduce the risk that the worker it leases is refused due to poor performance and has to be replaced. If this happens too often, the employer may quit the cooperation with the agency. Therefore, the group of job seekers we focus on have to go through the needle eye of the recruitment process in any case.

## 6.2 *Subsidised trial periods*

In many countries employers, willing to hire hard-to-employ jobless people, are offered wage subsidies, limited to a certain time. From the point of view of employers, these programmes

provide an opportunity to test a (long-term) unemployed person for an extended period (typically, a few months) at a reduced wage costs.

Overall, the employers we interviewed appreciate those subsidies, although with some reservations. A subsidised internship and/or a ‘trial period’ is seen as an incentive to give people with labour market problems a better chance in the recruitment process as they reduce employers’ costs and risks. For example, it can improve the job prospects of older unemployed applicants: *‘We have also hired employees over the age of 50. There’s public support for that’* (GE2 MEAT).

During such a ‘trial’ or ‘probation period’ employers have the opportunity to observe whether the former unemployed performs well on the job and proves his/her reliability. In the end, initially emitted negative signals may not play a significant role anymore if the employee shows positive properties (like punctuality, politeness, productivity, reliability). According to an Italian manager:

*‘[wage subsidies] would probably help, since companies would try for free workers that they might not otherwise choose to hire and after the trial period it is highly probable they will hire such persons if they proved to be suitable for the job’* (IT5 ELECTRONICS).

Some employers, however, are less enthusiastic about financial support. They wonder why someone is eligible for a subsidy and fear that this may indeed represent another negative signal. In addition, to make use of this instrument, employers must cooperate with the public employment services, and many are reluctant to do so.

Other employers have expressed the view that productive workers do not need subsidies, and since employers are after productive workers it makes no sense to rely on subsidies: *‘Either a person is ok and works ok, and I hire him, or he is not ok, and I don’t hire him’* (CH7 BUILD). Danish and German managers express a similar attitude:

*‘Business is more important. [...] If we can serve our customers, I am willing to pay for that [...]’* (DK5 MEAT). *‘If an employee can’t perform, then I expect that the money wouldn’t help me. For an employee who shows motivation and renders a service, then I’d rather spend all the money there’* (GE6 SUPERLARGE).

Taken together, our evidence on the role of subsidised trial periods is mixed. Future research should identify under what conditions this instrument can be most effective in opening access to employment for hard-to-employ jobless people.

### 6.3 *The role of social networks*

As shown in Figure 1 above, numerous employers tend to use informal contacts as a recruitment channel, either utilising recommendations from their current employees (29 out of 38 employers) or other contacts in the sector (11 out of 38). This finding is consistent with previous research on the important role played by social networks (e.g. Granovetter 1995; Korpi 2001; Larsen 2008).

There are several reasons why many employers like this way of identifying potential candidates. Applications recommended by already employed workers reduce firms' search and selection costs and show a high probability to deliver the desired results if the 'sponsor' provides trustworthy information to both the employer and the applicant. Hiring a person who is acquainted with an already employed worker (a friend, relative, neighbour) is likely to result in better job performance and work discipline as well as a lower fluctuation rate. The new employee, in fact, is probably better informed about job demands and practices, shop morale and so forth. No less important, the employee who recommends an applicant for a position, to some extent, also takes responsibility for his/her aptitude, motivation and smooth integration into the company. Virtually, the employee vouches for the person who is recommended. His or her own reputation may be at stake in the event of discontent with the newly hired worker, which may result in some pressure being exerted on the newcomer so as to ensure good performance (Windolf and Hohn 1984: 139-47; Hieming et al. 2005: 121, 220-1). For that reason also applicants displaying negative signals and who would not be selected otherwise may get a chance.

These deliberations clearly come out in three statements which all relate to trust, either in the employee who recommends someone else or the person who is recommended:

*'.. for me it's like a guarantee. If a worker who has been here for 20 years tells me that someone is good, we tend to trust him'* (CH1 METAL). *'When someone recommends somebody else, then they vouch for that person. That's very important'* (GE3 LAUNDRY). *'You cannot hire a complete stranger, only somebody by recommendation. The job itself requires that'* (HU2 SUPERMARKET).

Other employers are less explicit with regard to the precise motivation beside using networks, but clearly as much satisfied: *'When we are looking for staff, we find someone relatively fast through word of mouth. We've had the best experiences this way'* (GE1 CLEAN).

A large quantitative study carried out in Germany (Rebien 2010) confirms that social networks are a key recruitment channel particularly for small firms, when jobs with low (or very high) skill demands have to be filled and when working conditions are rather unfavourable (shift work, noise). In our interviews we also found that employees with a migration background often learn about vacancies from already employed relatives or friends who bring them along or encourage them to apply for the job. If they are appointed then the 'sponsor' assists them in getting used to the new work environment (GE2 MEAT).

This extension of an internal labour market (Manwaring 1984) is beneficial for hard-to-employ people who otherwise would be hardly taken into consideration by an employer. To learn about a vacancy this way and to have an intercessor supporting an application, however, is a matter of social capital. Unemployed people regularly dispose of less social capital, and with increasing length of unemployment the (shrinking) social network counts fewer and fewer people holding a job themselves and, thus, are able to inform a friend,

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relative, neighbour about a vacancy (cf. Korpi 2001). Moreover, when firms can rely on this informal channel to fill a vacancy for low-skilled jobs, they will not report the vacancies to the public employment service or use other formal channels (announcements in newspapers or in the internet), among others, to limit the number of applications they have to deal with. Then, the transparency of the labour market declines further, and unemployed people have less chances to learn about vacancies as such. For these two reasons only a limited number of hard-to-employ jobseekers may actually benefit from social networks as a device for finding a job.

## 7. Conclusion

The evidence presented above shows that employers in the low-skilled segment of the labour market do use statistical discrimination techniques. However, as suggested in our first hypothesis, the signals that are used most frequently differ from those that are typically found in the literature. Immigrant status, older age and unemployment do not seem to systematically disadvantage applicants. Due to the often unpleasant working conditions, in the low-skilled segment, employers cannot be too 'choosy' with regard to their selection criteria. Very often, those signals which are generally assumed to be the cause of discrimination turn out to be assets of the applicants. Being older or having an immigrant status can be an advantage when it comes to certain jobs. For example, older applicants may be preferred because of their assumed or experienced reliability, or certain immigrant groups are regarded as more tractable, provide an advantage for the employer due to their acquaintance with customers, or are easier to integrate in an already existing team of immigrant workers. Long-term unemployment, however, clearly remains a negative signal.

Second, we hypothesised that in this segment of the labour market, formal qualifications count less, but soft skills (social competencies, willingness to perform) are more important. Therefore, employers are keen to spot among applicants, who almost all exhibit certain negative signals, those who are most promising to possess the desired soft skills. The issue of motivation was indeed often highlighted by employers. Interestingly, we found that the channel through which the applicant establishes the first contact constitutes a positive or negative signal. Unsolicited applications are taken as an indicator for strong motivation, and recommendations from already employed workers are seen as a sort of guarantee for a low-risk candidate. In contrast, in all six countries the fact of being referred by the public employment service is considered as a signal of weak motivation. More in general, PES have a poor reputation and, reinforced by negative experience, are rarely used.

According to the third hypotheses, 'testing' is a more effective strategy to spot the least risky applicants than relying on statistical discrimination, and in this segment of the labour market it is more feasible than in those for high-skilled jobs. The recourse to private employment (temporary work) agencies is indeed a widely used attempt to gain information

on applicants' future job performance. Hiring the 'good' ones after they showed their qualities in the work process (and 'returning' the others) is a reliable strategy also because these workers have passed through a 'double selection process'. The 'try and hire' strategy is also possible without the intermediation of a private employment agency. A German study (Hieming et al. 2005) reports that, wherever possible, firms test low-skilled applicants from a few hours up to two days in order to ascertain their competencies for the concrete job (power of concentration, exact handling of tasks, working speed, sleight of hand etc.).

Our study, given the small number of employers contacted and interviewed in each country, does not allow us to interpret cross-national differences. It is nonetheless striking that we found very little cross-country variation in the statements made. Differences, if any, are mainly due to the size of the company, the sector they are operating in, or working conditions (harsh or not). Little variation also means that the market for low-skilled work is a special one, very different from recruitments for (highly) qualified workers. The absence of cross-national variation and the fact that our results are broadly in line with those of similar studies carried out in the USA suggest that recruitment practices are mostly governed by incentives and less by institutions. For example, we were surprised to find out that large cross-national differences in terms of employment protection legislation do not seem to impact on recruitment practices. Everywhere, employers dislike dismissals – meaning 'problems' of various kind – and are eager to use all available alternatives that minimise the risk of hiring the 'wrong person', regardless of how difficult it is to lay him or her off.<sup>7</sup>

These findings have policy relevance. In particular, the fact that employers tend to regard a referral by an employment office as a negative signal may be a consequence of the 'activation' turn adopted in most of the countries we covered. PES put increasing pressure on jobless people to be actively involved in job search. As a result, many applications are motivated by the wish to avoid a sanction and not by the desire to work in a given workplace. Rather paradoxically, this reinforces the negative image employers have of the PES, and makes the placement of jobless people more difficult.

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<sup>7</sup> A Swiss employer in the building industry on the problems to fire a worker: 'It is quite easy, but it can be costly in terms on money and time' (CH7 CONSTRUCTION).

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