

EFFECT OF THE CANDIDATES' LEVEL OF EDUCATION ON FIRMS' HIRING STRATEGIES

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INTRODUCTION

- Matching frictions in Spanish labor market (UR: 20'9%, Vacancies: 58.868)
- Maladjustment between the managerial and educational world
- Assumptions in the demand side regarding productivity and quitting rates according to levels of education of the candidates
- Overqualification higher in temporary vacancies (+12'5% probability of being overqualified)

OBJECTIVES

- Do firms' hiring strategies contribute to the overqualification in the Spanish labor market for vacancies that do not require a high or specific level of education?
- How does the candidate's level of education influence the hiring decisions?
- Is the length of the contract a relevant factor in the hiring decisions?

FIELD EXPERIMENT

(5th January 2016 to 9th April 2016)

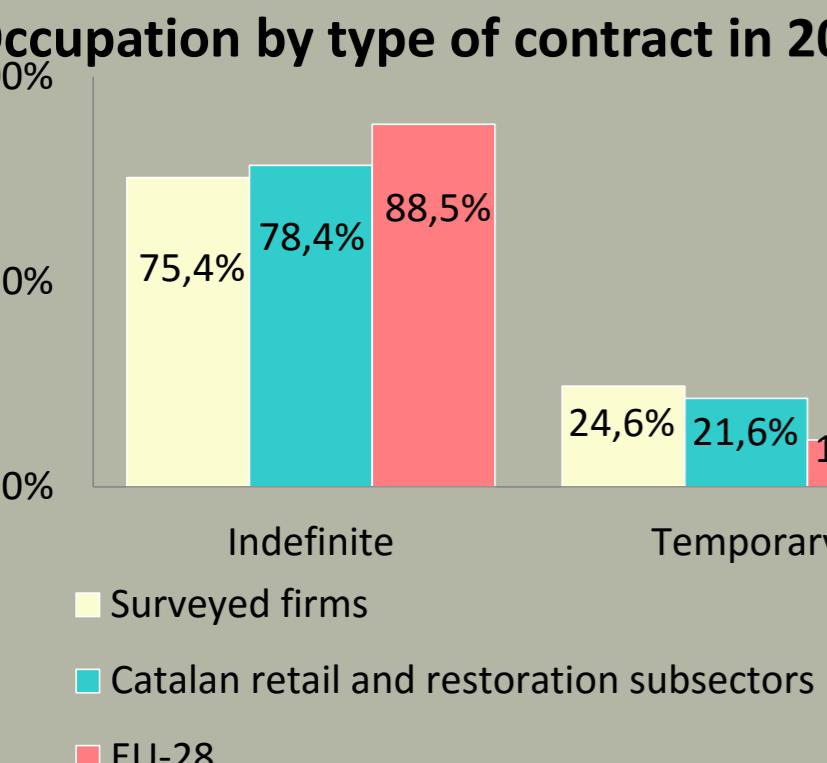
RETAIL AND RESTAURATION FIRMS WITH POINTS OF SALE IN CATALUNYA

Contacted: 114 Surveyed: 20

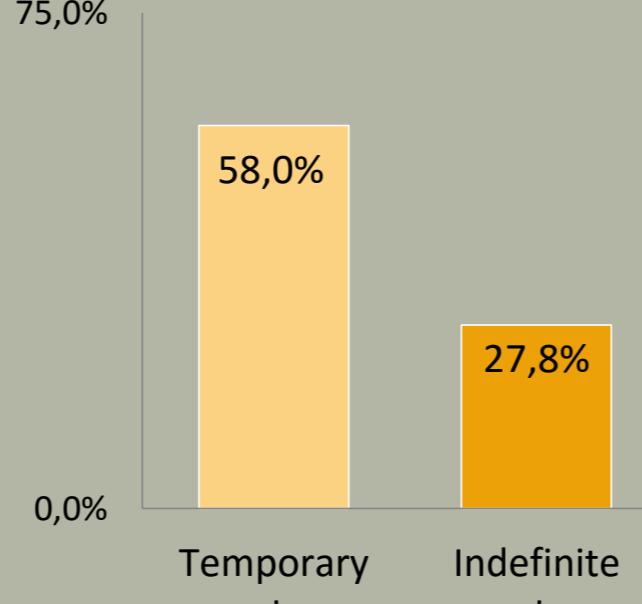
Education is in the 3 or 4 most valuable characteristics in a candidate **35%**

Education is a signal for the capacities and productivity of the candidate **70%**

Negative aspects of overqualified workers: early quitting **85%** demotivation **40%**



Overqualified workers by type of contract in the points of sale of the surveyed firms



TEMPORARY EMPLOYMENT AGENCIES IN CATALUNYA

Contacted: 25 Surveyed: 5

Retail and restoration firms' decision criteria when using the services of temporary employment agencies:

High level of education candidate (h)

fast learning
but early quitting and demotivation

Temporary vacancies

Vacancies with probability to be converted into indefinite positions

Indefinite vacancies

reaching high productivity in the long run with on-the-job training

Low level of education candidate (l)

POSITIVE THEORY

Partial equilibrium

Problem of the firm: max. $\{J_i, J_h\}$ $J_i = y_i^t - \bar{w} + \beta[\alpha[(1 - \lambda_i)J_i^I]]$

$$J_i = y_i^1 - \bar{w} + \beta[\alpha[(1 - \lambda_i)(y_i^2 - \bar{w})]]$$

- Temporary vacancies: $\max J_i = y_i^t - \bar{w} \rightarrow h$ candidate
- Indefinite vacancies: $\max J_i = y_i^1 - \bar{w} + \beta[\alpha[(1 - \lambda_i)(y_i^2 - \bar{w})]] \rightarrow l$ candidate
- Temporary vacancies that have some probability to be converted into indefinite vacancies \rightarrow tradeoff between productivity and quitting rates

i = type of worker: "l" or "h"

y = productivity of a worker. Assumption: $y_h > y_l$

λ = quitting rate of the worker. Assumption: $\lambda_h > \lambda_l$

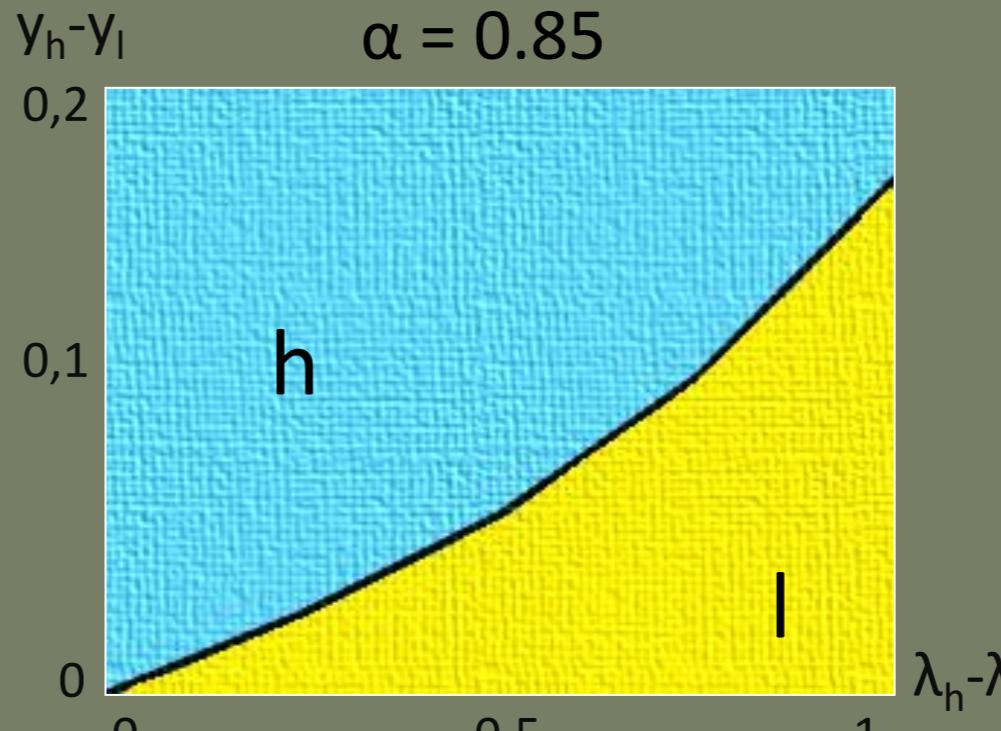
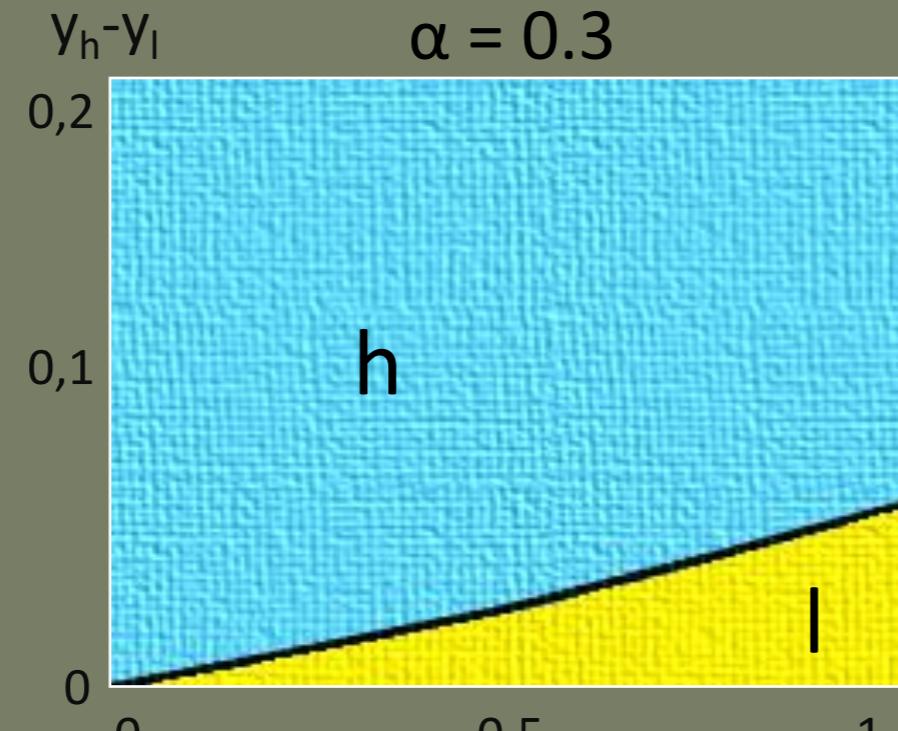
α = probability of a temporary position to be converted into an indefinite one

J_i = the firm's future profit if the position is indefinite $J_i^I = y_i^2 - \bar{w}$

\bar{w} = exogenous wage

β = discount factor

Comparative statics of the firms' tradeoff with different α



$\beta = 1$
 $\bar{w} = 0.8$
 $\lambda_l = 0.05$
 $y_l = 1$
 $y_i^1 = y_i^2 = y_i$

CONCLUSIONS

- The surveyed firms' hiring strategies encourage and deepen the overqualification problem in vacancies that do not require a high or specific level of education because of the existent assumptions and prejudices
- Temporary positions have a higher probability of suffering from qualification mismatches, resulting from the combination of both positive and negative expectations of hiring overqualified workers to cover vacancies that do not require a high or specific level of education. The high levels of overqualification in temporary workers is a relevant problem in Spain because of the high proportion of temporary contracts.
- For the 70% of the surveyed firms the level of education acts as a proxy for the expected productivity. Firms prefer to choose an overqualified candidate only for temporary positions and choose a candidate that is not overqualified for indefinite positions or for temporary positions that have a high probability of being converted into indefinite ones