

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 RESTORATION FIRMS WITH POINTS OF SALE IN CATALONIA

Contacted: 114 Surveyed: 20

TEMPORARY EMPLOYMENT AGENCIES IN CATALONIA

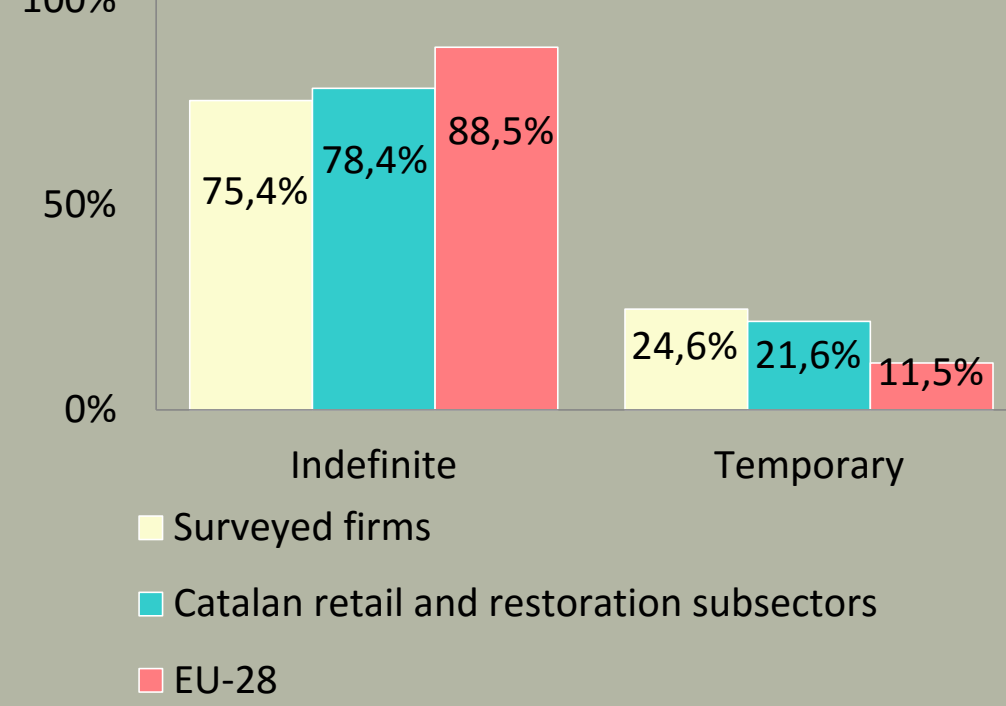
Contacted: 25 Surveyed: 5

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

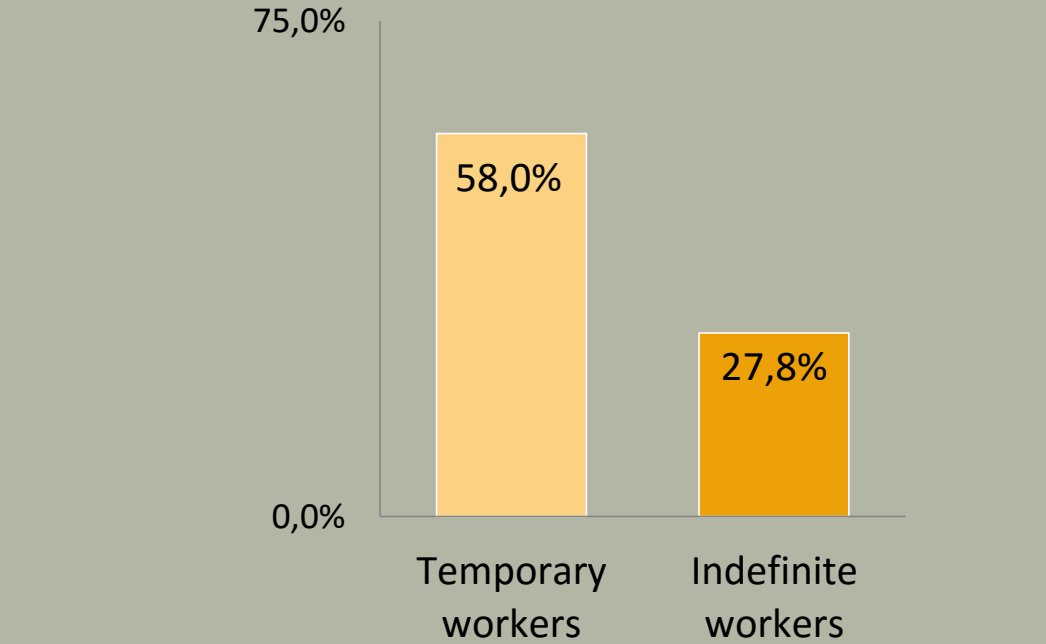
Education is a signal for the capacities and productivity of the candidate **70%**

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

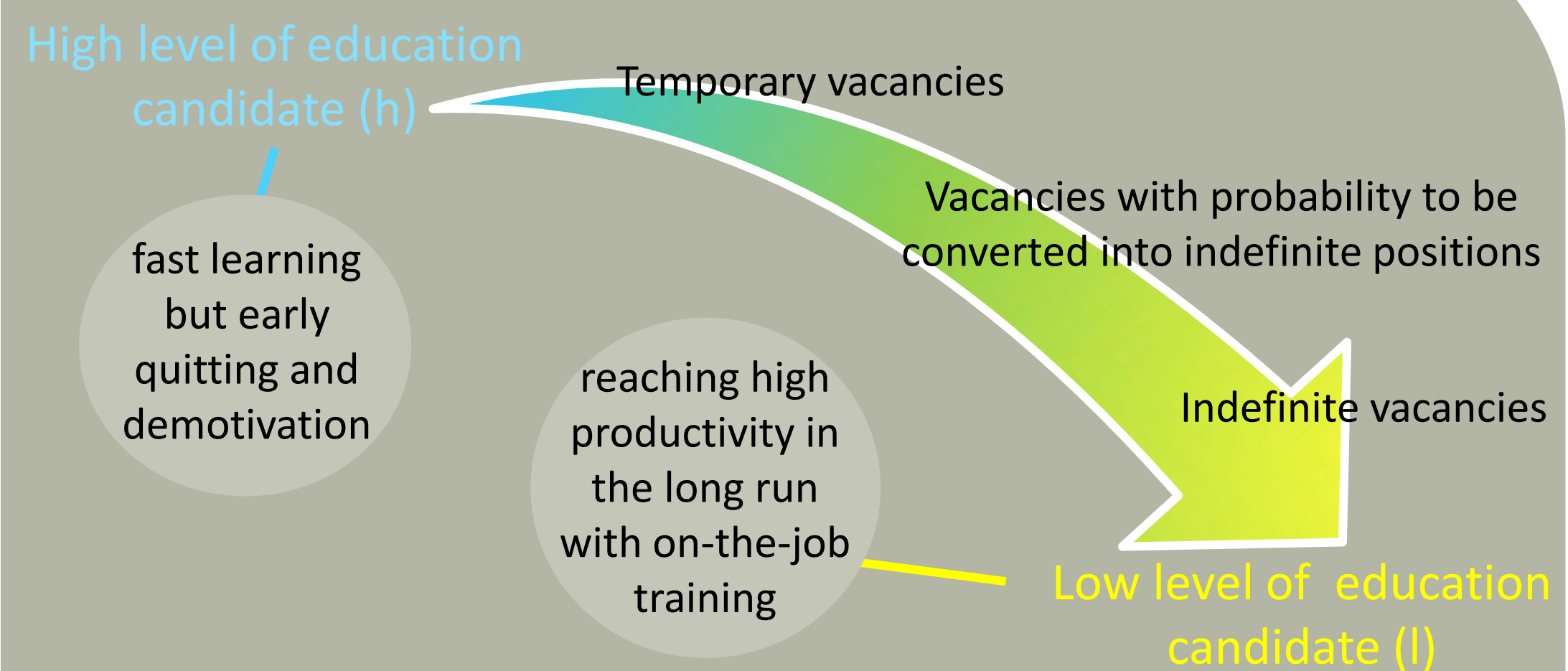
Occupation by type of contract in 2016:



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



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



POSITIVE THEORY

Partial equilibrium

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

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

- 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: $\lambda_h > \lambda_l$

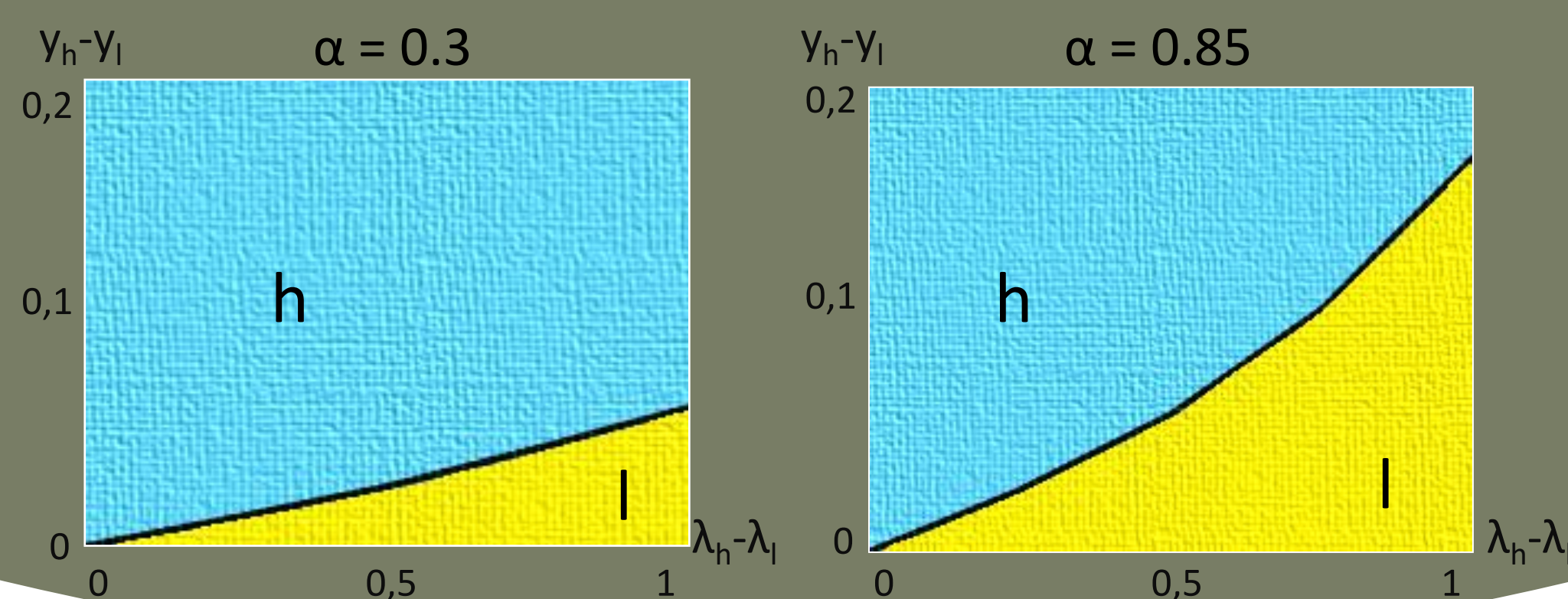
α = probability of a temporary position to be converted into an indefinite one

J_i = the firm's future profit if the position is indefinite $J_i^1 = y_i^2 - \bar{w}$

\bar{w} = exogenous wage

β = discount factor

Comparative statics of the firms' tradeoff with different α



$\beta = 1$

$\bar{w} = 0.8$

$\lambda_l = 0.05$

$y_l = 1$

$y_l^1 = y_l^2 = y_l$

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