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European Economic Review 52 (2008) 283–314
EUROPEAN ECONOMIC REVIEW
www.elsevier.com/locate/eer

The labor market effects of employer recruitment choice

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Received 25 August 2004; accepted 19 November 2007
Available online 3 December 2007

Abstract

I analyze employer recruitment decisions using a dynamic, discrete-choice structural model that I estimate on a sample of clerical workers from the MCSUI, a large cross section of establishments in four metropolitan areas of the US. In the model, employers choose either informal recruitment methods (which generate a small but select applicant pool from which the employer can hire quickly) or formal methods (which create a large but less select applicant pool which the employer must screen intensively, delaying hiring times). I study the effects of three counterfactual simulations on recruitment strategies, starting wages, and vacancy durations: A wage subsidy, a policy designed to improve information about prospective matches, and an increase in the heterogeneity of prospective matches. I show that the effects of exogenous policy or environmental changes can be decomposed into "pure wage effects" that affect the wage offers employers post, holding constant their recruitment strategies, and "recruitment-wage effects" that involve changes in recruitment methods. The results show that changes in recruitment strategies represent an important channel through which changes in the economic environment affect the starting wages and vacancy duration for new hires.

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JEL classification: M51

Keywords: Recruitment; Screening; Work opportunity tax credit; Welfare-to-work tax credit; Workforce investment act of 1998; Dynamic structural model

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doi:10.1016/j.euroecorev.2007.11.001

1. Introduction

Employers and job seekers are brought together for potential matches through recruitment and job search activities that help both parties acquire information about the other. The better the information they obtain prior to entering an employment relationship the higher the likelihood of a good match. The crucial role of information in the labor market has been recognized since Stigler (1962), but despite a voluminous literature on job matching and organizational behavior in labor markets, we know far less about employers' recruitment strategies than about job seekers' search strategies. As Granovetter (1995, p. 155) notes, "while people are finding jobs, employers are finding people to fill them, and their behaviors, strategies, and purposes play a central but often neglected role in the process of matching people to jobs". A dearth of good data describing recruitment decisions likely explains the imbalance in research effort. In this paper I analyze employer recruitment strategies using a unique dataset, the Multi-City Study of Urban Inequality (MCSUI), a cross-sectional telephone survey of 3510 establishments in LA, Boston, Detroit and Atlanta, conducted during 1992–1995. Employers in the survey were asked questions about the most recently hired worker, including how long it took to hire this worker, the recruitment methods that were used and the one that generated the hire, the worker's starting wage, and the screening methods typically used for hiring workers into that job.[1]

My broad objective in this paper is to provide a framework for analyzing the labor market effects of employer recruitment choice. I propose a dynamic, discrete-choice, structural model in which employers choose recruitment strategies and post wage offers over time in an effort to fill a job vacancy, solving it numerically and estimating its parameters. To my knowledge, this paper is the first to estimate a dynamic structural model of recruitment choice.[2] The typical approach taken in previous work is to estimate regressions of some labor market outcome, such as wages or vacancy duration, on a set of explanatory variables including indicators for various recruitment methods, which are assumed exogenous. A structural representation of the employer's recruitment problem is of interest for the usual reasons. In particular, it permits analysis of how labor market outcomes are affected by changes in the economic environment, accounting for the behavioral responses of employers through their recruitment and wage-offer decisions.

Following the tradition since Rees (1966), Rees and Schultz (1970), and the first edition of Granovetter (1995) in 1974, throughout the analysis I distinguish two main recruitment strategies. "Informal methods" involve word-of-mouth referrals from current employees

[1]Telephone screening was used in an effort to identify a respondent who hired the most recently hired worker. The respondent was the owner in 14.5% of the cases, the manager or supervisor in 42%, a personnel department official in 31.5%, and someone else in 12%. The survey instrument took 30–45 minutes to administer on the telephone, with a response rate of 67% for screened interviews. Sampling weights were constructed to correct for the complexities of the sampling scheme, and weighted observations are a representative sample of establishments, such as would occur if a random sample of employed people were drawn from each city. See Holzer (1996) for more information about the data. Descriptive analysis of recruitment methods, starting wages, vacancy duration, and skill levels using these data is found in DeVaro (2005).

[2]Two theoretical papers are worthy of note. In a job search model focusing on jobseekers' search strategies, Mortensen and Vishwanath (1994) considers two distributions of wages, one corresponding to job offers obtained when jobseekers use indirect referrals from an employed friend, and the other from direct application to an employer. Montgomery (1991) imbeds social networks in an adverse selection model to analyze the effects of social networks on labor market outcomes.

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