

## **EMPLOYER DEMAND SIDE**

### **Initial Paper on evidence base**

#### **Meeting labour demand**

1 Information on employers and the labour market is available from a variety of sources. The primary source for data on who employers recruit, where their new employees come from, and the amount of training they receive is from the Labour Force Survey. In addition, this paper draws upon a one-off surveys of employer recruitment processes, and in particular one from Institute of Employment Studies<sup>1</sup>.

#### ***Recruiting***

2 Employers tend to recruit from existing employees or the inactive pool, and the claimant count. In Spring 2003, 134,000 in employment were inactive in Spring of the previous year, compared to 53,000 who were unemployed. However, the greater number of recruits came from other jobs (230,000). 429,000 had been in their job for less than three months, so those moving to a new post from another job outnumbered those who came from outside work.

3 However, data that looks at the difference between individuals' situations over the course of a year will mask larger flows of people who entered and left the claimant county over the course of the year. Many periods on the claimant count will be short term. The headline figures for the claimant count fell to 103,500 in March 2004 from 107,200 in March 2003. However flows are much greater. 312,700 left the claimant count in that period and a similar number signed on. Only 13,900 claimants had been there for 12 months or more. This indicates that a large proportion of claimants are on the count for a short time. The fact that flows have decreased at a smaller rate than the headline figure itself indicates that claimants are spending less time on the dole. Indeed the median duration for those leaving the count in March 2004 was 8.9 weeks compared to 12 weeks in March 1997

4 That is not to say that employers object to recruiting from the long-term unemployed. In 1995/96 the IES survey of employer beliefs about long-term unemployed showed were not always negative. They tended to realise that potentially good workers might find themselves unemployed. Those without a job were not necessarily the worst. They did not believe that it was necessarily the case that the best available labour would necessarily be in work, and that those unemployed must necessarily be of inferior quality. However, they did express concern about the effects on motivation, reliability and skills that long periods of unemployment might have. It was quite rare that the unemployed were screened out, but they would tend to probe these areas during the recruitment process. They would tend to look sympathetically on activity, such as voluntary work, which showed that a candidate was motivated and keen to stay in a work habit.

5 The fact that, although there are barriers to surmount, employers are not unwilling to recruit unemployed people, should be combined with the duration of unemployment falling. This suggests that, although the stock of unemployed is falling, it is not necessarily the case that the overall employability of those still on the claimant count is falling.

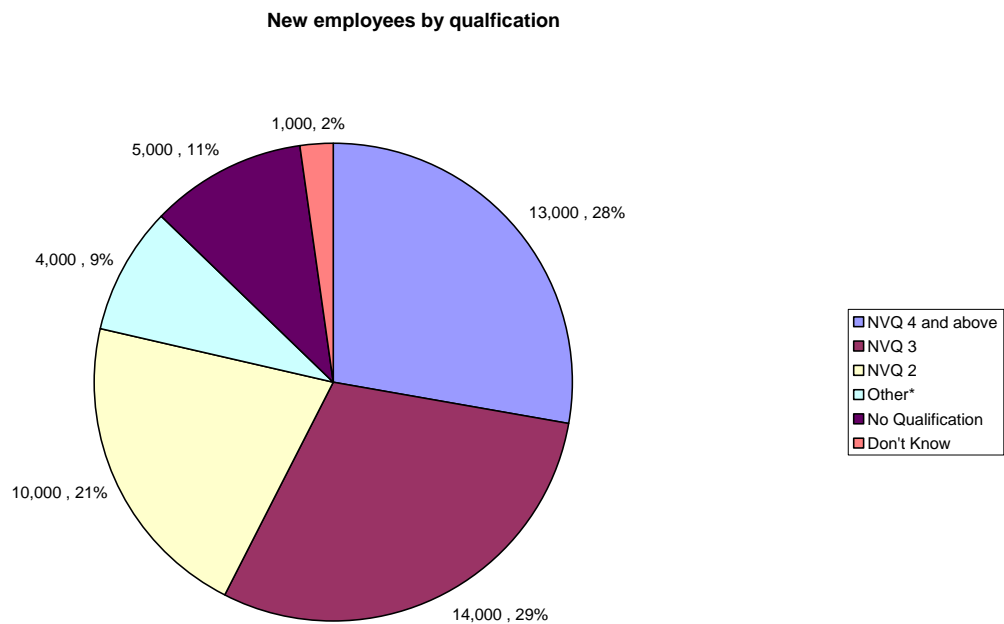
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<sup>1</sup> Atkinson, J., Giles, L. & Meager, N. (1996) *Employers, Recruitment and the Unemployed* IES Brighton

### ***Recruitment by qualification***

6 LFS data (Fig 1) indicates that the majority of recent recruits (57%) hold qualifications of NVQ 3 level or above. Since it is likely that the unemployed are less well qualified on average, employers would tend to be recruiting from a more highly qualified pool.

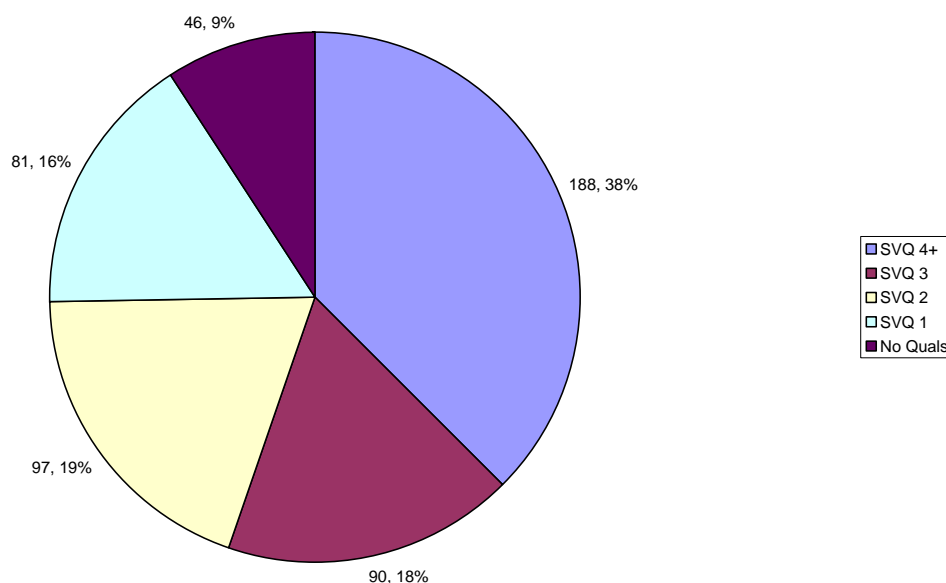
**Fig 1. Qualifications of Employees in post for less than 3 months (2003-04)**



Source: Labour Force Survey (ONS)

7 Futureskills Scotland's 2004 Labour Market projections indicate that that employer demand by qualification over the next five years will follow a similar pattern (Fig 2). Around 56% of posts are projected to be at SVQ-3. However, a greater proportion (38%) are projected to be at SVQ-4 and above level. However, given that new entrants to the labour market tend to hold higher qualifications, this demand is likely to be met.

**Fig 2 Vacancies by qualification level 2003-08 (thousands)**



Source: Futureskills Scotland

### ***Skills Shortages and recruitment***

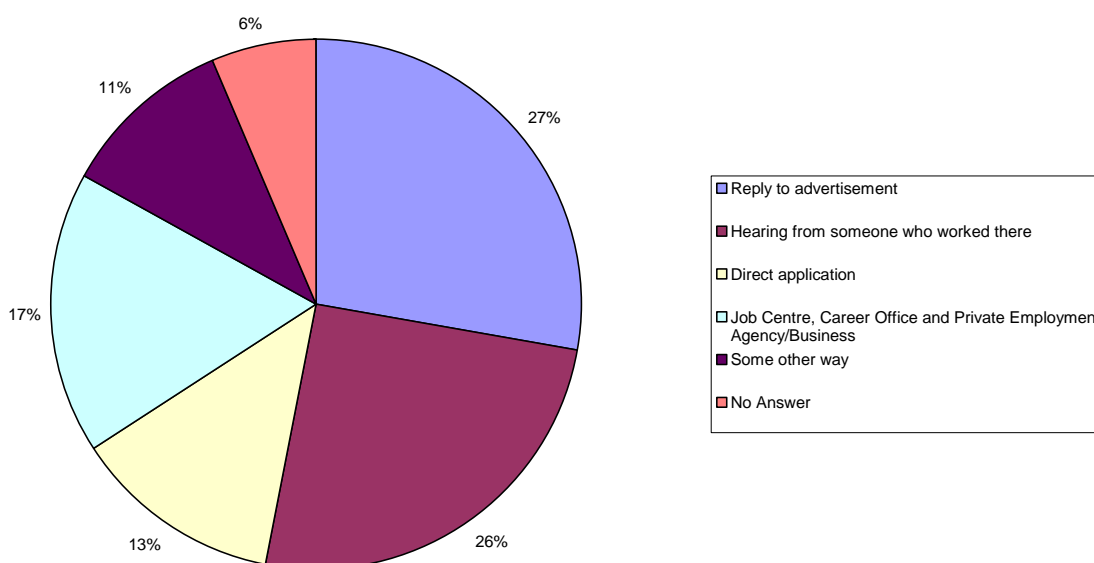
8 The forthcoming 2004 Employers Skills Survey from Futureskills Scotland indicates that the overall vacancy rate in Scotland is 3.4% (up from 3.1% in 2002) at 73,400. Vacancies tend to be higher in sectors with lower skills and lower pay. 50% of these vacancies were reported as “hard to fill” and about half of these were apparently due to skills shortage. In the situation of a “hard to fill” vacancy, the most common response (56%) would be to change recruitment practice to find an appropriate candidate. Only 18% would change the specification, and 13% would take on a less than qualified candidate. Skills lacking were most likely to be “soft” skills with “oral communication” being placed highest. Growing sectors are more likely to face skills shortages.

9 Although employers do not tend to recruit underskilled people for a post, there is a certain expectation that there will be some time before a new employee is up to speed. 21% of employers report at least one “skills gap” (i.e. skills lacking in existing employees). Two-thirds of “skills gaps” are reported as being due to the employee not being long enough in post, or having to complete their training.

### ***Recruitment methods.***

10 Recent LFS data (Fig 3) indicates that vacancies are more likely to be filled by advertising (27%) and word of mouth (26%) than through an employment service. This is likely to disadvantage groups who have either never had, or lost contact with the labour market, so less able to benefit from word-of-mouth.

**Fig 3 Recruitment method of recent employees in Scotland 2003-04**



Source: Labour Force Survey (ONS)

### ***Implications for Employment strategies.***

11 IES concluded that the labour market is best left to deal with the short-term unemployed without much intervention. (This would be borne out by our data that most flows on and off the claimant count are linked to short-term durations). Claimants should be encouraged to get into an effective search strategy early on. Those in longer term unemployment should be given an opportunity to refresh and acquire new skills and should be kept in touch with work, e.g. through the voluntary sector and placements.

12 The New Deal has largely taken on these lessons. After an initial period, claimants are more intensively supported, and after six months, offered the choice of work placements, training, voluntary service and environmental task forces in order to maintain workplace awareness and a working habit.

### **Good practice in employer engagement**

13 In addition to information from the LFS, there are a number of evaluations of government initiatives which provide more detailed information on employer attitudes to particular groups. These are listed in the annex. Employer attitudes to government initiatives vary, often depending on the quality of their own experience. Annex A provides a list of some of the evaluations.

14 Evaluation of New Deal programmes would tend to indicate that there have been gains to individuals from the opportunity to gain skills and develop a work habit. The impact on employers themselves is less clear. While employers might be expected to gain from a more efficient job matching service or being subsidised to take on an extra worker, their

perception of the effect on their performance is limited. There are likely to be deadweight (when the job would have been created anyway), substitution (when a subsidised employee is taken on instead of someone else) and displacement effects (when a supported firm gains competitive advantage over an unsupported firm) which reduce the headline impact of the schemes. In addition, strong employer demand overall, resulting in tighter labour markets, is likely to have a key contextual effect. However, employer engagement with the New Deal is high.

### **How the public sector should set a lead example.**

15 *Dependent on the groups recommendations*

### **Sustaining employment**

16 Hasluck (1999<sup>2</sup>) provides an extensive overview of various employment schemes and their efficacy in the last 30 years. *A steer is required on the how much what kind of evidence the group requires. "Sustainability" should be defined.*

### **Advantages and disadvantages of targeting particular client groups**

17 *Should be drawn from evidence, but in principle – targeting allows tailored strategies, but can miss out cases, also some people have multiple membership of client groups. Also it is likely that initiatives can be extremely resource intensive. Less attention may be paid to overall efficient operation of the labour market. Similarly, a steer is required on what kind of evidence is needed.*

### **Opportunities for and threats to achieving the desired outcomes.**

18 *Clarity is required on the roles relative to the Interventions, NEET and Low Pay workstreams in order to direct the analytical effort.*

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<sup>2</sup> Hasluck, C (1999) *Employers, Young People and the Unemployed: A Review of Research* DWP London

## **DWP projects**

### **Recruiting Long-Term Unemployed People. No. 76**

An analysis of the NIC holiday scheme

<http://www.dwp.gov.uk/asd/asd5/76summ.asp>

### **Review of impact of New Deal on employers**

<http://www.dwp.gov.uk/jad/1999/esr12sum.pdf>

### **Employers and the Employment option of the New Deal for Young Unemployed People**

<http://www.dwp.gov.uk/jad/1999/esr14sum.pdf>

### **The New Deal for Young People, Two Years On (2000)**

**New Deal for Young People and for Long-Term Unemployed: Survey of Employers**

<http://www.dwp.gov.uk/jad/2000/esr58rep.pdf>

## **DfEE**

### **Barriers To Take-Up Of Modern Apprenticeships And National Traineeships By SMEs And Specific Sectors**

Finds demand for MAs often linked to recruitment preferences

[www.dfes.gov.uk/research/data/uploadfiles/ACF303D.doc](http://www.dfes.gov.uk/research/data/uploadfiles/ACF303D.doc)

## **Scottish Executive**

### **Measuring Labour Market Dynamics**

<http://www.scotland.gov.uk/library5/finance/ses04-09.asp>