



# Labour market trends and information needs: their impact on personnel policies

## Recruitment and selection

Three elements of employer selection systems can be distinguished: selection criteria, recruitment channels and selection techniques. Changes in the labour market have influenced the selection criteria identified by firms. Employers have coped with the changing requirements by altering the recruitment channels used to attract individuals with the right skills. Selection techniques have also undergone important changes, as new ways to identify required competences have emerged.

One common feature across the European Union is the rising level of educational attainment and qualifications of young labour market entrants. In the United Kingdom this has been especially dramatic in relation to higher education, where the proportion of the age group graduating from universities has doubled in less than ten years. This has perhaps inevitably led some employers to assume that there has been some slippage in standards. It has certainly increased the number of potential job applicants in many fields and has thus led to the use of more sophisticated screening of graduate entrants: interviews, extra testing and attendance at presentations and selection centres are becoming more common (Industry in Education, 1997). Employers are using multi-tiering, embarking on "second-tier recruiting by snapping up graduates who, until the expansion of higher education, would probably have been recruited directly from school" (Merrick, 1996, p.9). There are also major concerns across Europe about educational provision being too academic to match employers' requirements, and neglecting managerial and supervisory skills (Euro-

pean Commission Study Group on Education and Training, 1997, p. 70). As a result, selection criteria have undergone modification. The importance attached to requirements other than academic qualifications, such as work experience, illustrates this trend.

On the other hand, demographic changes are also affecting recruitment practices, particularly in the service sector. Historically, most interest has concentrated on initial entry to the labour market. However, the proportion of young people in the population is falling across Europe (ibid. pp. 38-9). Rising educational participation means economic activity rates for the younger age groups are also falling (Ellison et al, 1996). To offset the effects of the demographic downturn, more firms are implementing practices aimed at recruiting from other groups, such as mature workers, women returners, and perhaps ethnic minorities which have previously been discriminated against. Such targeted recruitment has been stimulated by equal opportunities policies in a number of countries. These policies typically allow employers positively to encourage applications from groups under-represented in their workforces (Paddison, 1990).

Other developments have influenced employers' requirements. Recent technological advances have created a need for conceptual knowledge, systematic thinking, 'intellectual skills' (eg. abstraction) and teamwork rather than repetitive manual manipulation (Frenkel et al, 1995). In addition, the share of the 'knowledge occupations' - managerial, professional and technical occupations - has increased considerably. In the UK, for example, such jobs are expected to represent almost 40%



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**Employers are seeking different types of skills and competences from those in the past. In particular they are seeking evidence of personal characteristics which are not easily assessed. The selection criteria used by firms has been influenced by changes in the labour market, in response employers have changed recruitment channels and selection techniques.**



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of employment by 2006. Furthermore, skill demands within occupations, in response to new technological and organisational structures, are also said to have increased. The 1996 Skill Needs in Britain survey revealed that 74% of employers thought the need for skills in the average employee was increasing (Department for Education and Employment, 1997).

The numbers of sales and clerical workers have also increased, and this in turn has created a premium on some specific skills in the labour market. The current emphasis on quality as a competitive advantage has led to the greater importance of customer service. As a result, interpersonal skills have become one of the major requirements when selecting to all types of jobs, but particularly those in the growing services industries. Globalisation, however, has not caused as many changes in skills requirements as some might have thought - with the partial exception of language skills (Keenan, 1991).

### **Skills and competences requirements**

Variations in the skill requirements of employers are to be expected across industries, occupations and organisations. However, it is generally agreed that employers are placing more importance on candidates' personal qualities and attitudes than in narrower skills and qualifications (Grootings, 1994). This is creating increasing information difficulties for firms, as the key characteristics they seek are the most difficult to measure objectively. Meanwhile the 'hardest' data - academic certificates awarded and qualifications achieved - are available for those achievements rated as being of less immediate relevance. Work has been conducted across the European Union in trying to measure and certificate vocational competence directly, but the results have not been very impressive (Wolf, 1994). One problem is the conflict of interest between employees who want the transferable competences they achieve at work recorded and certificated, and employers who fear this will make workers more mobile and lead to loss of expensively trained staff.

Employers are increasingly selecting candidates who show initiative, motivation, persistence, social skills and willingness

to learn. Changes in the selection criteria have contributed to changing employer perceptions of the education system. Even in those occupations where academic qualifications are regarded as very important, they have become more of a screening device. They are viewed as signalling personal qualities rather than acquired knowledge. Although employers doubt that personal qualities such as initiative, motivation or communication skills are fully developed through formal education, qualifications have become a more important indicator of *learning capability* and *motivation to learn*. This is illustrated by the importance attached to degree class or grade-point average by many recruiters, and the rather lesser importance given to degree subject. In a recent survey of UK graduate recruiters (Performance Indicator Project, 1996), degree class was found to be the most relevant selection criterion, being chosen by 84% of employers. In contrast, course content was chosen by less than three quarters of employers. This is not to deny that degree subject is still considered as very important in a limited number of areas such as engineering, technology and computing. In these fields, technical skills are of course still very highly considered, and they are likely to remain paramount in the future.

Results from the Employment in Britain survey show that there has been a considerable increase in tasks requiring 'people skills' - good interpersonal communication, empathy with others and a pleasant manner. More than half of employees now deal with customers or clients, one in five are in caring positions and more than a third hold jobs with some degree of responsibility for other people, be it co-ordinating or supervising (Gallie and White, 1993). As a result, employers and employees are becoming more aware of the importance of these social skills.

One of the results of this shift in emphasis is the importance attached to work experience, which allows employers to judge whether individuals possess skills other than those attested to by formal qualifications. This may be one factor lying behind the rise in the proportion of temporary contracts and other means by which employers can offer 'trials' to potential employees. It led the recent Dearing Committee on higher education



in the United Kingdom to recommend that all university students should be offered some element of work experience during the course of their studies (National Committee of Inquiry into Higher Education, 1997).

### Recruitment channels

European labour markets have typically displayed higher average job tenure, and lower turnover, than that of the United States (Adnett, 1996). However, recent years have seen a fall in job tenure (at least for men) and a higher degree of labour turnover and mobility. There has therefore been an increase in recruitment activity, which some have also seen as an indication of the decline of internal labour markets, where employees are recruited at an early age for lifetime employment, progressing through internal promotion (Manwaring, 1989). In turn this may be a consequence of the decline in monolithic state industries and the increase in the relative importance of small and medium enterprises with a shorter average lifespan. It also reflects the fall in unionisation and union influence which has occurred in most European countries (OECD, 1997): unions have typically sought to impose hiring and firing rules which favour internal labour markets.

Recruitment involves search by employers and potential employees. Such search relies on both formal and informal information networks. The former include recruitment channels such as the press and other mass media (including such recent developments as the Internet), the public employment services and private employment agencies. Use of these different channels varies from country to country. For instance use of newspaper advertisements seems a more fruitful source of employment in the UK, Finland and Holland than in Italy (OECD, 1995, Russo et al, 1996), while the use of private employment agencies - particularly for higher-level jobs - is much more developed in the UK than in France and Spain, where the public employment service was until recently an effective monopolist. Employment legislation, geographical factors and media ownership and regulation may be significant factors in determining the mix of formal recruitment channels, as well as more obvious influ-

ences such as the industrial and occupational structure of employment.

An interesting common feature of recruitment in Europe's labour markets, too often unremarked, is the continuing high level of dependence on informal methods of recruitment. Such informal recruitment channels involve recommendations by families and friends, and direct approaches to or from employers. For example, the UK Labour Force Survey shows that in Spring of 1995 31% of newly-recruited employees found their jobs through someone who already worked with the employer (our own calculations). A roughly comparable figure for Finland in 1993 was 19%; for Italy in 1992 a staggering 63% (OECD, 1995, p. 122).

Evidence from Holland indicates that there is a cyclical pattern in the use of informal recruitment methods, with greater reliance being placed on them during periods of high unemployment (Russo et al, 1996). But there does not seem to be any marked tendency for reliance on such methods to decline over time. This might be considered surprising, given the increased sophistication and professionalisation of human resource management techniques. However, it is compatible with the growing importance of personal qualities and interpersonal skills noted earlier. Potential employees whose qualities are known personally to the employer clearly have an advantage over those whose only known characteristics are on paper. Employers may quite rationally prefer recommendations from existing employees rather than relying, for example, on referrals from the public employment service. Such services will understandably often be more concerned with reducing their caseloads than in providing the best possible applicants to employers.

Employers may indeed enjoy several advantages when using these informal recruitment channels. It is claimed that they reduce the uncertainty of recruitment; reduce recruitment costs and production costs during the hiring process (the duration of vacancies is lower); and provide a comprehensive profile of the potential employee. In other words, employers get more information, more cheaply. A sur-

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vey of UK employers' recruitment needs showed that, particularly when recruiting young people, employers were beginning to favour informal recruitment channels to an increasing extent, because they “offered clearer indications of the enterprise and determination of the type of candidates they were seeking” (Industry In Education, 1996, p.8). Another advantage of these informal recruitment channels for both the employer and the individual is that they provide more information about the firm to the potential employee. This is central to another mechanism used by firms to overcome the increasing difficulties of getting good applicants: providing ‘signals’ to recruits about the organisation. Candidates equipped with more useful information are better able to choose the right organisation for themselves - in other words, the organisation where they are most likely to fit in. In this view, the screening effect is present on both sides of the employment equation.

The use of formal or informal recruitment channels is associated with particular organisations and market structures. Small firms, with no specialist interviewers and recruiters, and less able to spread recruitment costs, rely more on informal channels than large firms, with specialist personnel staff and economies of scale in recruitment. However, the greater costs and difficulties of carrying out formal recruitment procedures are not the only reason why small firms choose informal channels. The use of informal channels also reflects variations in the selection criteria depending on firm size.

In particular, personality characteristics - such as honesty and integrity - and interest in the job are given relatively greater importance in small and medium-size firms. They are often considered as important as ability, aptitude or attainment (Bartram, 1995). Informal recruitment and selection procedures are seen as the most effective means to identify these criteria. Informal channels are more widely used in the private sector than in the public sector, where public concern for equal opportunities policies, as well as traditional bureaucratic rules, has encouraged the use of more formal procedures.

There are also differences depending on the type of jobs required. Informal chan-

nels are very important in the recruitment of manual and white-collar workers. It has been claimed that the “major adaptation to the local labour market will be through channels of recruitment, and not criteria and procedures” (Wood, 1986). There seems to be a greater use of informal channels in high unemployment areas. This partly explains the importance given to informal channels in countries such as Spain, where “personal relationship is the main job search method used by those who are not on unemployment benefits on the one hand, and by blue collar workers, on the other hand” (Molto et al, 1994). This is often seen as a way to improve industrial relations within firms. Friends and relatives are particularly important when entering the labour market. This is illustrated by the fact that unemployed people in Spain in search of their first job are more likely to use personal relationships than unemployed with previous work experience.

However, the downside of this is that such procedures clearly favour ‘insiders’ at the expense of ‘outsiders’ and may thus perpetuate inequalities between, for example, men and women or ethnic majorities and minorities. Apart from the injustice involved, this may be costly to firms in the long run if whole groups of productive workers cannot compete on an equal basis for jobs.

### **Selection techniques**

Study of medium and large scale organisations in the UK shows that while application forms and face-to-face interviews are still the most frequently used selection techniques, there has been an increase in the use of other methods (Bartram 1995). Literacy and numeracy tests and psychological and aptitude tests are becoming more common, particularly amongst larger firms. There has been a marked increase in the use of tests of all descriptions over the last decade. This is particularly the case in management selection. Ability and aptitude tests are used at all levels, whereas personality tests are more common in management selection.

Firms of all sizes continue to rely heavily on interviews. Over 90% of employers in small firms, for example, interview applicants. In contrast to large firms, em-



ployers in small firms take up references most often by phone. Another distinctive feature is the use of work trials. About half of firms use some form of work trial, lasting from a few days to a few weeks. This is used as a probationary period with final selection only at the end of the period. Work trials are more likely to be used by those employers not making intensive use of interviews, as they represent an alternative screening device. They are seen as providing a mix of information about personality, motivation, interest and ability. Although the use of tests by small firms is still well below the average for large firms, their use of work samples, literacy/numeracy tests and ability tests is nevertheless considerable (ibid).

## Promotion and career development

Changes in the business environment and in work organisation, including downsizing and de-layering, have affected not only the criteria for promotion, but also the number of promotion opportunities. Among those affecting the requirements for promotion are the increasing competitiveness of the business environment and need for organisational change. These pressures have caused a move from length of service and attitudinal criteria towards performance and behavioural criteria. Firms have reacted to these new information needs and tried to produce performance indicators. New appraisal systems have been designed. Unsurprisingly, performance has proved a great deal more difficult to measure than length of service.

Rationalisation, low voluntary wastage and flatter organisational structures have all affected the nature of promotion and career development. De-layering, facilitated by advances in information technology, has not occurred to the same extent in the public sector and in the private sector. In the public sector across Europe, strong hierarchical structures still prevail. Nevertheless, despite variations across sectors and industries in the impact of these changes, there has been a general move from narrow upward mobility towards lateral mobility, staff development and performance-related pay. In this

sense, some authors have claimed that rewards systems have been designed as a trade-off for promotion. These trends have led to new information requirements by firms for the implementation or improvement of policies. However, not all commentators agree with the claim that opportunities for career progression have decreased. It is claimed that between 1983 and 1989 the number of managers in the USA grew at twice the rate of the workforce and the average number of employees supervised by a manager fell from 8.4 to 6.9 (Benson, 1995). This supports the earlier observation about the increased share of managerial jobs, which should tend to increase the number of higher status opportunities, even if less are offered as internal promotions.

In this context, employee appraisal systems (often euphemistically described as staff development reviews in order to minimise hostility), have an important function to serve. They have been defined as formal processes for observing, collecting, recording and using information about performance of staff for decision-making purposes. Decisions about promotion and career advancement are increasingly taken on the basis of performance, as commented earlier. The organisational need to obtain speedy performance change has also affected rewards systems. There has been a move away from rigid systems linked to job evaluation procedures and grading (typical of large, heavily-unionised firms - and, as observed earlier, unionisation has been falling throughout Europe) towards more flexible ones, indicated by the popularity of incentives, bonuses, merit, profit-sharing and share options. Employers need more accurate information on performance at the individual and company level. A survey by the Institute of Personnel Management showed that 82% of companies in the UK had appraisal schemes in 1986 (Randell, 1989). Around 40% of the companies were using them for performance-related pay purposes. Among other trends identified were the increasing application of the schemes to non-managerial employees, and a greater emphasis on measuring current rather than future predicted performance. A different survey, carried out in 1995, showed that 32% of firms were using appraisal systems for salary increases, while 25% were using

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***“Changes in the business environment and in work organisation, (...) have affected not only the criteria for promotion, but also the number of promotion opportunities. (...) These pressures have caused a move from length of service and attitudinal criteria towards performance and behavioural criteria. (...) Unsurprisingly, performance has proved a great deal more difficult to measure than length of service. The changing nature of work organisation and job content has led to a greater emphasis on the knowledge of people rather than jobs. This coupled with the increasing focus on performance, has facilitated the emergence of competence-based systems (...).”***



them for one-off bonus payments (Thatcher, 1996).

Given that performance has become a crucial criterion, we need to comment on firms' efforts to measure it. The first aspect concerns *what* is being identified. There has been a trend away from quantitative target-setting procedures (after evidence showing the reduced applicability of techniques such as management by objectives and goal-setting) towards more qualitative, behavioural objectives, emphasising development over control. A second element refers to *who* is measuring. In order to improve the accuracy of measurements, there has been a move towards 360-degree and upward appraisal away from the traditional system of managers appraising subordinates. 360-degree appraisals are being implemented mainly in large organisations appraising a selected group of managers. This system incorporates input from everybody within the organisation, such as peers, subordinates and internal customers.

The changing nature of work organisation and job content has led to a greater emphasis on the knowledge of people rather than jobs (Iles, 1993). This coupled with the increasing focus on performance, has facilitated the emergence of *competence*-based systems (CEDEFOP, 1994). Competences are defined as either observable skills and abilities (UK) or underlying characteristics of an individual (US) related to effective performance. 'Competence frameworks' or 'competence profiles' are lists of skills that employers wish to reward, because of their perceived association with high performance levels. They are used for different purposes, such as selection, performance management, rewards systems (competence-based pay), assessment of potential and so on. Although equal opportunities legislation across Europe partly explains the introduction of competence-based systems, there have been claims that they remain open to bias. It is claimed, for example, that women are less likely to be perceived as displaying leadership (Strebler et al, 1997). There have also been criticisms about the subjectivity of assessments of potential based on competence profiles, via for example assessment centres

(Wallum, 1993). These are all indications of how difficult is the measurement of competences in a satisfactory manner.

Several methods have been used to identify competences and, in effect, those who are more likely to be high performers. The focus in the US is on the behavioural competence method. In contrast, in the UK, the measurement efforts have been more concentrated on tasks and objective outcomes. We can place in this context the Management Charter Initiative (MCI) and the NVQ (National Vocational Qualifications) movement (Jubb and Robotham, 1997). MCI and American models have been criticised for their generic and static nature. It has been claimed that current rates of change in the workplace require more organisation-specific and future-oriented models. A number of specific techniques have been designed to measure competences: behavioural activities and exercises, psychometric testing and competence questionnaires. However, problems with measurement and identification remain acute.

## Summary

We have argued that today's European employers are seeking different types of skills and competences from those sought in the past. In particular, firms are seeking evidence of personal characteristics which are not easily assessed. Formal academic qualifications are necessary for labour market entrants, but they are by no means sufficient as employers adopt various strategies to increase their supply of relevant information about potential recruits. Job applicants need to bear this in mind in determining their own search behaviour, taking all opportunities to 'network' and to acquire work experience.

Once employees have been recruited, today's employers need to find effective ways of measuring performance in order to reward and encourage behaviour which is consonant with the firm's goals in a dynamic and unstable environment.

These themes are explored in greater detail in the other contributions to this issue.



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