The effect of labour regulation on recruitment

While labour regulation, such as dismissals protection, protects workers with jobs, it may lead to stricter hiring standards which screen out less qualified workers, so reducing their job opportunities. The UK has less labour regulation than other EU countries. Taking multi-national companies with plants producing the same product in both the UK and another EU country, Stanley Siebert of Birmingham University considers the effects of different regulatory regimes on hiring standards. His study tracks hiring standards between 1975-1994, using personnel record data from three UK-continental European comparisons, involving plants in the UK, Belgium, the Netherlands, and Italy. He found:

- **The UK study plants are more like each other in many respects than their continental European counterparts. In particular, the proportion of inexperienced new recruits is around twice as high in the UK plants, and labour turnover is two or three times higher.**

- **The UK study plants are tending to become more like their continental European counterparts: there are strong upward trends in the educational qualifications of new recruits and in the proportion of temporary workers. There are also signs that the levels of experience required of new recruits are increasing.**

- **The evidence that the UK plants are increasing their hiring standards in the same way as their continental counterparts suggests that the lower degree of UK labour regulation is not assisting recruitment of less qualified workers.**

- **On the other hand, high trade union membership in the study countries is also linked to stricter hiring standards, perhaps because periods of high membership reflect periods of more intense labour regulation.**

- **In all the study plants, new recruits' educational qualifications are treated as a close substitute for their previous experience. This finding underlines the importance of education policy in assisting young or inexperienced workers to get jobs.**

Introduction

Labour market regulation might act as a double-edged sword: helping protect workers from unfair practices but hurting unqualified workers because hiring standards rise in response to regulation. This research focuses on the effects which labour regulation has on standards for hiring production workers. Does a less regulated economy - such as prevails in the UK more than in other EU states - allow adaptation to change and promote employment, especially of the less qualified? The research shows that the answer to this question is not straightforward.

The six study plants

The study used personnel records to analyse trends in hiring standards (the experience and educational levels of new recruits), and job stability (for example, temporary versus permanent job offers, worker turnover rates) in three large manufacturing companies. Each company has a pair of matched plants producing the same product, one in the UK and one in continental Europe, providing data in most cases over the period 1975-1994. They also tend to be highly unionised, as is common among large organisations. The plants therefore are best thought of as representative of large-firm manufacturing.

Table 1 summarises the workforce characteristics in the three pairs of matched plants used for the study. The worker quit (or resignation) rate is higher in the UK plants, as is worker turnover in general (the sum of quits, dismissals and retirement rates). Pay levels appear broadly similar, but labour costs are markedly lower in the UK plants, largely due to the lower level of UK National Insurance taxes.

Labour productivity is higher in the continental European plants in two of the three pairs - counter-balancing their high labour costs. Several factors could explain higher labour productivity, including higher levels of supervision, lower worker turnover, and stricter hiring standards. As regards this last factor, the proportion of very inexperienced new recruits (with less than one year's experience), tends to be lower in the continental plants (see Table 3). A further factor could be superior capital equipment in the continental European plants, but as the plants are making the same product, this should be a minor influence.

The regulatory environment

Table 2 shows the different environments within which the plants operate. Three aspects are shown: dismissals protection laws, the extent of trade union membership, and tax rates. The UK has had weaker dismissals laws than the other three countries. Weaker UK dismissals regulation should be matched by easier hiring standards in the UK plants, other things equal.

The UK has also seen a greater decline in trade union power and in tax rates. Such declines are further factors placing UK personnel managers under less pressure to increase labour productivity - and hence hiring standards - than their continental counterparts.

Recruitment in the study plants

The top rows of Table 3 show characteristics of new (permanent male) recruits in the six study plants averaged over the period 1975-95. The proportion of very inexperienced workers (under one year of experience) is higher in the UK study plants than in their continental European counterparts. At the same time, the average level of previous experience is greater in the UK plants, due to higher proportions of experienced new recruits. In other words, there is more variability in new recruits among the UK study plants. This chimes in with the notion of more experimentation in hiring in the UK, particularly given the higher turnover of workers in the UK plants (see Table 1).

The bottom panel of Table 3 presents data on temporary recruitment in the six plants. With strict dismissals regulation, the continental plants might be expected to be under pressure to resort to temporary contracts. However, this is only borne out in two of the three comparisons, the exception being the food processing pair. Nevertheless, here the Dutch plant has

Table 1: The study plants, mid-1990s

	Food processing		*Pharmaceuticals*		*Distillers*	
	UK	*Netherlands*	*UK*	*Belgium*	*UK*	*Italy*
World-wide company employment	**304,000**		**54,000**		**17,000**	
Study plant (production workers)	**385**	**359**	**861**	**305**	**314**	**146**
Turnover, permanent workers (% per yr.)	**7.7**	**3.5**	**5.3**	**2.2**	**12.5**	**5.1**
Quit rate, permanent workers (% per yr.)	**3.8**	**1.2**	**1.6**	**0.3**	**7.8**	**3.0**
Pay	**£22,100**	**£22,900**	**£17,623**	**£29,000**	**£17,092**	**£14,089**
Labour cost per production worker	**£25,620**	**£34,868**	**£19,516**	**£44,556**	**£19,405**	**£28,964**
Labour productivity per production worker	**792 (tons)**	**717 (tons)**	**£0.11 (sales)**	**£0.31 (sales)**	**601,179 (litres)**	**621,083 (litres)**
Levels of trade union membership	**100%**	**40%**	**90%**	**90%**	**95%**	**50%**

Table 2: The institutional framework nationally

		Belgium	Italy	Netherlands	UK
Dismissals protection laws, late 1980s (individual dismissals, average for manual and non-manual)	*Notice period for no-fault individual dismissal after 4 years service (months)*	3.6	1.1	1	0.7
	Severance pay (months pay)	0	3.5	0	0.9
	Procedures (scale 0 - 3)[a]	1	1.5	3	1
	Overall protection ranking within EU15 plus Switzerland[b]	5	14	7	2
National levels of trade union membership (% of working population)	*1970*	46	36	38	45
	1980	56	49	35	50
	1990	51	39	26	39
Marginal tax rates for the average production worker (%)[c]	*1971*	61	56	67	52
	1991/2	66	62	71	50

Notes: a Procedures scored: 0 = none; 1 = written statement of reasons; 2 = notification to a third party, such as works council or employment exchange; 3 = permission from third party.
b Rankings increase with strictness of protection.
c Taxes include employer and employee National Insurance contributions, income and consumption taxes.

temporary workers with longer contracts (9.9 months) than the norm of around three months, suggesting that temporary workers are important in this plant too. Furthermore, it should be borne in mind that all the continental plants have been subject to laws imposing a maximum of one renewal on temporary contracts. While this limit is flexibly interpreted, it does presumably limit the use of temporary contracts in these plants.

Table 4 shows the evolution over time of variables relating to recruitment. The distillers pair of plants stands out as having the most change in hiring standards. In both plants, the previous experience of new recruits has fallen by several years, but this is counterbalanced by a large rise in educational levels. Another noticeable feature is the increase in educational levels of new recruits in all the study plants. As regards the temporary worker proportion, the pattern is for a larger increase in the UK plants than their continental counterparts. There is a convergent trend here, therefore.

Table 4 prompts the conclusion that there has been rather similar evolution of hiring standards and temporary worker variables in both the UK and continental plants. The similarity is surprising given the wide differences in the plants' environment (Table 2). In particular, there is little evidence of the easing in hiring standards in the UK plants which might be expected given the fall in UK trade union power (though the study plants themselves remained highly unionised) and in taxation since 1980.

Factors affecting the hiring process

To allow for several factors simultaneously influencing hiring standards, the report uses a time-series statistical model. The model suggests that:

- The underlying recruitment constraints and criteria

Table 3: Characteristics of new recruits, averages 1975-1995

(Men in permanent posts)

Variable		*Food processing*		*Pharmaceuticals*		*Distillers*	
		UK	*Neth.*	*UK*	*Belgium*	*UK*	*Italy*
Prior experience of new recruits	*Average (years)*	11.5	8.3	16.2	12.9	12.6	9.3
	% under 1 year	11.9	11.1	5.0	1.3	50.8	8.4
Education of new recruits (years)		11.2	10.9	10.8	10.3	12.0	9.7
Temporary workers	*Proportion in workforce (%)*	6.5	3.6	3.5	21.6	6.5	11.0
	Average length of contract (months)	3.9	9.9	2.6	-	3.0	2.5

Table 4: Changes in recruitment

Variable		Food-processing		Pharmaceuticals		Distillers	
		UK	Neth.	UK	Belgium	UK	Italy
New recruits, change 1975/9 to 1990/95 (men in permanent posts)	Previous experience (years)	+ 0.4	+ 3.5	-3.9	+ 1.4	-5.9	-2.5
	Education (years)	+ 0.6	+ 1.5	+ 1.1	+ 0.8	+ 2.0	+ 3.9
Proportion of temporary workers: change 1980/85 to 1990/95 (% points)		+ 11.0	+ 9.5	+ 5.3	+ 1.0	+ 7.4	+ 4.0

are similar in all six plants, despite the less restrictive regulatory environment in the UK.

- Holding constant other factors, such as the improvement in recruits' education, requirements for previous experience have increased over time in all the study plants. This increased similarity in time trend could reflect factors such as third world competition or technical progress, which are common to all the plants.
- Recruits with better education need less experience, other things being equal. This trade-off is an important result, and shows that better education helps inexperienced workers to get jobs.
- Increases in levels of trade union membership are associated with increases in recruits' previous experience, other things being equal. This link may be because increases in union membership decrease wage flexibility and also signal more labour regulation - both of which reduce the hiring of less qualified workers.

Conclusions

The main policy issue is whether labour market regulation improves or damages the prospects of unqualified workers. In many ways, the approaches to human resources in the three UK plants were more similar to each other than they were to the approaches adopted by their twins on the continent. Thus, the characteristics of both existing workers and new recruits were more variable in the three UK plants than they were in any of the other three. These findings are broadly consistent with the view that the UK labour market offers more opportunities for less qualified workers, and protects incumbent workers ('insiders') less. The findings in turn lend support to the view that regulations are damaging to the job prospects of less qualified workers.

However, this static picture could also be misleading; practice in the UK plants is moving towards that seen in their continental twins. Although there were variations between plants in the existing levels of education and previous experience of new recruits, these levels were tending upwards in all plants. Similarly, the UK plants showed growth in the proportion of temporary workers and a reduction in labour turnover. Life appears, therefore, to be becoming more difficult for young and inexperienced workers and those with low levels of education in all the study plants.

Two main findings bear on whether the regulatory environment is an important source of the 'up-skilling' of production work. First, as regards increases in hiring standards, the UK plants display similar trends over time to their continental counterparts. A lower trend might have been expected, given the generally less regulated environment in which the UK study plants have operated. Second, on the other hand, UK plant hiring standards - in terms of both educational and experience requirements - rise in periods when trade union membership increases nationally. This finding might be picking up the link between trade unions and labour regulation, since unions both promote labour regulation and (via wage inflexibility) may worsen its employment impact on less qualified workers. These findings point in different directions, so further research is needed.

An important finding is that, in all the study plants, there appears to be a strong trade-off between education and experience standards. The policy implication here is the conventional one that improvements in education assist young workers. The size of the reaction is surprisingly large, however, and underlines the importance of education policy.

About the study

The plants in the study are subsidiaries of large multinationals. Each company has a pair of matched plants producing the same product, one in the UK and one in continental Europe. The countries involved in the study are the UK, Belgium, the Netherlands and Italy. The matched-pair methodology allows the researcher to hold constant the product, and thus technology, when contrasting the time trends in hiring standards and job stability among the plants in these four countries.

How to get further information

The full report, **Company recruitment policies: Implications for production workers** by Stanley Siebert, is published for the Foundation by YPS (ISBN 1 899987 82 7, price £12.95 plus £2 p&p).