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1. INTRODUCTION

K. was the owner of an average-sized shop in household ware. His business had actually been flourishing lately and there were no signs of upcoming sluggishness. Therefore, K. had decided to search for a qualified warehouseman to take care of his increased stock. K. already employed several shop-assistants who had helped him in taking care of his stockroom, but now business was outgrowing them. K. had received several letters of application in response to the ad he placed in a local newspaper. A friend of one of the shop-assistants had applied, too, and the Public Employment Service had provided him with two more applicants.

K. had decided to invite all the applicants for an interview. It had taken him a whole day to talk to all of them and now he was sitting at his desk, trying to put some sense into the information which lay in front of him. Some were young, others were older, some were experienced, others not, two were female, three had an ethnic background, most were qualified and some of them would be more expensive than others. Who would he pick?

The case of K. is fictitious, but serves to illustrate the essence of this study. The chances of applicants are in the hands of employers. How do they weigh the various qualities that job-seekers bring with them and is there any pattern in their selection behavior? There are job-seekers who get rejected by and again, but why? Are they too old, or maybe too expensive? Are they over- or undereducated, or do they have the wrong working experience? Have they been out of work for too long, or are they perhaps too foreign or too female? We can add many more possibly important characteristics to this list, but what are the ones that really matter to employers?

These questions lie at the heart of this study; they are asked for two reasons. The first motivation for this study is of a practical nature. The employment rate in the Netherlands is exceptionally low. Employment rates when measured in person years are above the

Dutch level in all OECD-countries except Spain. Increasing the employment rate will be top priority on the labor market agenda for the coming years. To that end, employers are needed to hire large numbers of people who by current standards may be regarded as unemployable. This means that we need some understanding of why these people are not demanded and what can be done to increase their potential on the labor market. Therefore, it is necessary to gain more insight in the criteria employers find important when selecting personnel.
The second reason is that economic theory does not provide us with unique answers to these questions. On the one hand, marginal productivity theory predicts employers to hire personnel in line with a profit maximizing strategy. On the other hand, there are several theories describing employer behavior, which deviates from the profit maximizing path. Economic theories of discrimination, for example, try to explain why employers in certain situations may make the 'wrong' choices with respect to their profit function. Which theory should prevail in which occasions seems as yet to be an unresolved issue.

The ideal way to discover employer preferences with respect to a heterogeneous supply of workers would be a shopping situation, where workers are directly comparable to each other and where employers order the supplied workers according to desirability. It is obvious that such a situation does not exist in real life. Real labor supply will be influenced by self-selection processes and in analyzing observed selection behavior of employers it will be hard to distinguish between systematic and erratic selection variables. Therefore, in this study the selection process is simulated by means of an experimental method developed in market research. In view of the specific policy oriented framework of this study, it is restricted to jobs that do not require a high level of education and to suppliers of labor who currently do not hold a job.

Chapter 2 will briefly sketch the empirical setting for this study; the incidence of non-participation in the Netherlands, institutional arrangements and the way Dutch labor market policies deal with people who have a hard time finding a job. Chapter 3 discusses the prevailing thoughts in economic theory on the criteria employers use when selecting personnel and the mechanisms behind their selection behavior. Chapter 4 gives a description of the experimental method that was used here to study selection behavior of employers and of the survey among employers which forms the basis for this study. In

chapter 5 the results on preferences of employers revealed in the survey are analyzed. Chapter 6 extends the preference model of chapter 5 to a hiring model. Chapter 7 concludes.

This study may be seen as the completion of a research project which has also resulted in several other publications. Earlier versions of the material presented in chapters 4 and 5 may be found in Van Beek and Van Praag (1992) and Van Beek, Koopmans and Van Praag (1992). A more popular attempt to interpret the results of the survey towards an audience of employers may be found in Van Beek (1992). Finally, chapters 3, 6 and 7 elaborate on Van Beek, Koopmans and Van Praag (1993).